Neoliberalism and Bottom-Line Morality

With Notes
on Greenspan,
Rubin and the
Party of Davos

EDWARD S. HERMAN

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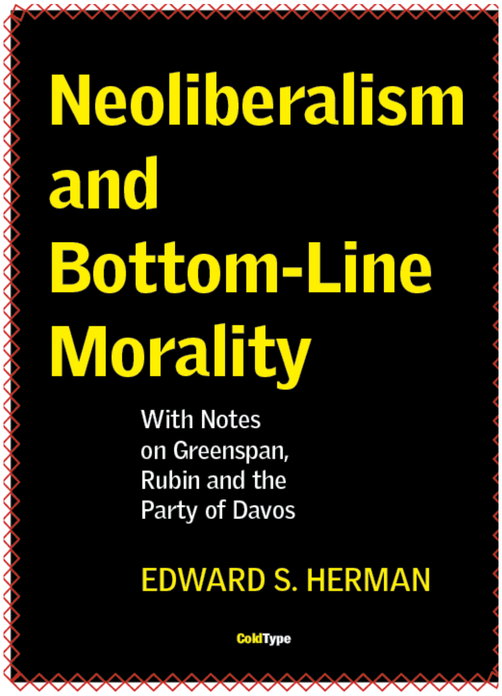

THE AUTHOR

Edward S. Herman is Professor Emeritus of Finance at the Wharton School, University of Pennsylvania, and has written extensively on economics, political economy and the media. Among his books are Corporate Control, Corporate Power, The Real Terror Network, Triumph of the Market, Manufacturing Consent (with Noam Chomsky) and Imperial Alibis (South End Press).

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NEOLIBERALISM AND BOTTOM-LINE MORALITY

From the Reagan era onward I have been impressed with how regularly liberal and left-leaning economists I knew, who went to work in industry and finance, very soon became pro-business, anti-labor, and politically rightwing. I think that what got to them was not only the impact of association with businesspeople, but the fact that business profitability became central to their own performance. As business economists, wage increases would seem bad as encroaching on that profitability and threatening inflation and business growth (and stock prices). Tough environmental rules would also hamper profitability; their relaxation by law or friendly (non-)enforcement would enhance it. It was therefore easy to slide into what we may call "bottom-line morality," with positions on key issues dictated by prospective bottom line effects, but of course rationalized with an ideology that made this all benevolent--in the long run--and made these bottom-line moralists into Good Samaritans as they collected their fat salaries and bonuses while the vast majority waited for trickle-down. (On the fraudulence of this ideology, see David Harvey, A Brief History of Neoliberalism, and Ha-Joon Chang, Bad Samaritans).

With the steady increase in business's economic and political power over the past 30 years, and the parallel decline of organized labor, neoliberal (market-can-do-it-all) ideology has become even more firmly entrenched in establishment thought and practice. The novelist Ayn Rand, most famously the author of Atlas Shrugged, was an extreme proponent of individualist, free enterprise, anti-government ideology, and it is no coincidence that one of her cult admirers and associates, Alan Greenspan, became a leading member of the policy-making elite in the 1980s and into 2006.

Greenspan's "Superlatively Moral System"

Greenspan contributed three chapters to Rand's 1966 book Capitalism: The Unknown Ideal, all of them reflecting her--and Greenspan's--ultra laissez-faire ideology. In one, Greenspan castigates antitrust law and practice as not merely harmful, but with the "hidden intent" of injuring the "productive and efficient members of our society." In another, he claims that all government regulation represented "force and fraud" as the means of consumer protection, whereas it is "profit-seeking which is the unexcelled protector of the consumer." He argues that the market system itself is a "superlatively moral system that the welfare statists propose to improve upon by means of preventive law, snooping bureaucrats, and the chronic goad of fear."

Greenspan contributed to the workings of this "superlatively moral system" at the micro-level back in 1985, writing to the savings and loan authorities on behalf of Charles Keating, head of Lincoln Savings and Loan. In that letter the authorities were urged to exempt Keating from restrictions on risky loans, given his exceptional character and soundness of his operation, with "no foreseeable risk to the Federal Savings and Loan Corporation." Greenspan was a paid consultant to Lincoln, which failed in 1989 at enormous expense to the FSLIC and taxpayer. Keating ended up in prison. This is the same Charles Keating with whom John McCain had a close relationship and on whose behalf McCain also did some lobbying. Neither Greenspan nor McCain suffered significant damage from this relationship, and despite his extremist ideology Greenspan became a powerful figure in the U.S. political economy, leading the Fed for many years (1987-2006) and through two major bubbles that he did nothing to constrain.

One important manifestation of Greenspan's worldview can be seen in his congressional testimony of July 22, 1997, where he explained that inflation was not increasing despite the lowering unemployment rate because of "a heightened sense of job insecurity," which he described elsewhere as reflecting the "traumatized worker," helpful in keeping wages down. He didn't suggest that job insecurity and the traumatization of workers involved any immoral "goad of fear" or had any negative implications for welfare.

Actually, in this regard Greenspan's view wasn't much different from that of a great many mainstream economists, who were slow to recognize greater job insecurity as a key factor altering the unemployment/inflation relationship, and who were not troubled when they did recognize it. Liberal economist Janet Yellen, co-author with Alan Blinder of a book on the 1990s entitled The Fabulous Decade, told the Federal Reserve Open Market Committee in 1996 that "while the labor market is tight, job insecurity is alive and well. Real wage aspirations seem modest, and the bargaining power of workers is surprisingly low." (Quoted in Robert Pollin, Contours of Descent, p. 53.) Robert Pollin points out that Yellen and Blinder didn't let this interfere with their conclusion that the 1990s were "fabulous." Apparently these economists, like Clinton, don't really "feel pain" as long as only workers suffer.

In fact, they are all a throwback to 17th and 18th century mercantilists who, according to historian Edgar S. Furniss, argued that "high wages would prove destructive of national well-being because they would reduce England's competing power by raising production costs. The prevalent doctrine held that wages should be kept at the level of the cost of physical subsistence. Hence the apparent anomaly of the laborer's position: whereas his theoretical social importance was large, his actual economic reward was miserably small....[Under mercantilism] the dominant class will attempt to bind the burdens upon the shoulders of those groups whose political power is too slight to defend them from exploitation and will find justification for its policies in the plea of national necessity" (Furniss, Position of the Laborer in a System of Nationalism, 1920, pp. 201, 203). Does this ancient view on how burdens should be distributed have some possible application to the bailouts now being put in place to deal with the current financial crisis?

Getting back to Greenspan morality, it is clear from both his Ayn Rand contributions and his writings and public pronouncements of the past 20 years that he views untrammeled capitalism as a "suoerlatively moral system" not because of businesspeople's benevolence but because market operations in business's self-interest will protect consumers; business will not take on undue risk because that would eventually harm their own welfare. Regulation is thus unnecessary and positively damaging by its arbitrariness and bureaucratic bungling. Greenspan fought long and strenuously for across-the-board deregulation, and against the regulation of derivatives as they grew rapidly in the 1990s, even arguing in 2004 that the innovations like derivatives had contributed to a new stability in the financial system: "Not only have individual financial actors become less vulnerable to shocks from underlying risk factors, but also the financial system as a whole has become more resilient." Such a misunderstanding of reality by a man with great experience and access to the research resources of the Fed can only be understood as a result of the intellectual-ideological bubble within which he worked.

Now that the financial system has collapsed and its leaders have demanded and gotten a huge bailout, what does Greenspan say? Apart from an admitted bafflement, he has stated that business has been too greedy and behaved dishonorably! He is "distressed at how far we [sic] have let concerns for reputation slip in recent years." But this is hogwash. It was rational profit-making that was supposed to control risk, not honorable behavior. Also, if the actual behavior was systemic, and greed can overcome honorable behavior, the Greenspan model has failed on its own terms. But beyond that it was idiotic, as it has long been known that the force of competition, the pressure (and fiduciary obligation) for profits, and regular business myopia in buoyant markets, have repeatedly produced unsustainable excesses. Greenspan's moral model reflects straightforward ideology and bottom line morality. It is also part of a class war perspective where, as noted, labor (and the majority) are viewed in the mercantilist tradition—as a cost to be contained, not as a very large group whose welfare we are trying to maximize. It also helped cause him to misperceive economic reality and make a major and disastrous economic forecasting error.

Greenspan, Rubin, Summers and the Party of Davos

Both the New York Times and Washington Post had substantial articles on Greenspan's heavy responsibility for the ongoing crisis, in a way beating a dead horse after both papers had treated him with great deference as "the Oracle" for many years (Peter Goodman, "The Reckoning: Taking a Closer Look at a Greenspan Legacy," NYT, Oct. 9, 2008; Anthony Faiola, Ellen Nakashima and Jill Drew," What Went Wrong," WP, Oct. 15, 2008). The articles feature the struggle for and against derivatives regulation in the 1990s, with Brooksley E. Born, the head of the Commodity Futures Trading Commission (CFTC) as the pro-regulation protagonist and heroine, and Greenspan as principal villain.

But both articles also call attention to the support given Greenspan in his anti-regulation fight with Born by the leading financial officials of the Clinton administration: Robert Rubin, Larry Summers, and Arthur Levitt, Jr., the first two heading the U.S. Treasury, Levitt the SEC. Rubin looks particularly disingenuous in these articles, claiming to have favored regulating derivatives back in 1998, but believing that this was politically unfeasible because of industry opposition and because "there was no potential for mobilizing public opinion." The Times article immediately paraphrases a former CFTC official that "the political climate would have been different had Mr. Rubin called for regulation."

It should also be recognized that Rubin and Summers are no slouches when it comes to supporting the bailout of fat-cat investors. In his superb book The Global Class War, Jeff Faux features the fact that the corporate establishment which dominates both U.S. political parties is part of the "Party of Davos," that gets together periodically at lush facilities in Davos, Switzerland to party, hob-nob and plan in the interest of the global business elite. The book focuses heavily on the character and passage of the North American Free Trade Agreement (NAFTA), and then the immediately following Mexican crisis and bailout. The NAFTA was a corporate project, strongly opposed by a great majority of Democratic Party voters and by a majority of Democratic legislators. But with Robert Rubin's urging, Clinton put passage of this legislation ahead of health care reform, put a huge political effort into getting it passed, and thereby set the stage for both the failure of health care reform and the Democratic Party's political debacle in 1994. Of course the business community appreciated Clinton's service and here and elsewhere he justified their earlier vetting of his candidacy, organized by Rubin himself.

Rubin had a serious conflict of interest in pushing NAFTA and the subsequent bailout of investors in Mexican securities. He had been a high-ranking official of Goldman Sachs, which did substantial Mexican business, and he had--and even continued to maintain--a number of Mexican clients. The NAFTA served only the Party of Davos in the United States and a tiny elite of wealthy men who dominated a famously corrupt political system in Mexico. It was opposed by a U.S. majority and by aware and uncorrupted Mexicans; in Mexico the majority would eventually be seriously damaged by this instrument of the global class war. Its central feature was privileging foreign investors in Mexico, providing also for the gradual elimination of tariffs on agricultural goods and therefore for economic disaster for several million Mexican farmers and their families. (One of Clinton's most notable lies was his claim that NAFTA would serve to slow down Mexican immigration into the United States by spurring investment and development in Mexico.)

The analogy with the current U.S. crisis and bailout is more dramatic when we consider the Mexican crisis of 1994-1995. Shortly after the enactment of NAFTA in 1994, the Mexican government, which for political reasons had tried to peg the peso, suffered a crisis of investor confidence, and an unsustainable drain on its foreign reserves. As economist David Felix described it, in the Fall of 1994 "Mexican tesobono holders began cashing in and exiting to dollars [this bond was payable in pesos but with pesos indexed to the dollar], followed belatedly by foreign holders, who were still stuck with $29 billion worth of tesobonos when in December 1994 the Mexican central bank, its dollar reserves nearly exhausted, let the exchange rate float and helplessly watched it sink. The U.S. Treasury and IMF hastily cobbled together a $51 billion bailout fund, and required the Mexican government to use over half to pay off the $29 billion tesobonos with dollars. Since the government's contractual obligation to tesobono holders was merely to pay them more pesos when the peso price of dollars rose, the bailout obligation amounted to a forced ex post rewriting of the contract with tesobono holders to save them from taking a bath." ("Why International Capital Mobility Should be Curbed, and How It Could Be Done," ICTFU, Dec. 2001)

In his chapter "Alan, Larry, and Bob Save the Privileged," Jeff Faux describes how in 1994 Greenspan, Summers and Rubin helped create a climate of fear, telling congress that "the entire world was now at risk." Governor George W. Bush of Texas was lauded by Rubin, for "instinctively grasping what was at stake" and giving public support to the bailout, and Rubin even "called Gingrich, who called Greenspan who called Rush Limbaugh to promote the bailout to the rightwing listeners of his radio show." In fact, the sales claims for the bailout were phony and the IMF financial contribution to the bailout was illegal. Mexico didn't suffer any "debt crisis" as it was only obligated to provide pesos, not dollars—the payment of dollars was forced on the Mexican government by U.S. officials, who persuaded the U.S. media that the dollar payments were required by the tesobono contracts. U.S. officials told this lie and required this payment of Mexico, not only to help U.S. investors, but also to dissuade Mexico from resorting to capital controls, which they could have done in accord with IMF rules, but which would have set a pattern in violation of the neoliberal principles being enforced on the Third World by the United States and IMF. Article 6 of the IMF Articles of Agreement not only would have allowed Mexican capital controls, it prohibits IMF emergency funding to facilitate capital flight—violated in this case in accord with U.S. demands and higher neoliberal principles (or rather interests).

Faux points out that the bailout money "was not used to rejuvenate the Mexican economy. It did not underwrite job creation for the unemployed or debt relief for the bankrupted small businesspeople or aid to hospitals and schools that were suddenly broke. It was used to make whole the Wall Street holders of tesobonos, who had originally bought the risky Mexican bonds because Salinas was giving them a high yield." Instead of capital controls Rubin and Summers insisted on budget reductions and "reform" of the Mexican financial system, which was followed and resulted in the "steepest economic crash since the Great Depression." The Mexican middle class "was decimated" by the forced contraction and Mexican taxpayers eventually being forced to pay the bills for the bailout. Rubin claimed that this was all because "Mexico…had made a serious policy mistake." But Faux points out that "Mexico" didn't do this, but rather Salinas and his successor Zedillo "both of whom 'Alan, Larry and Bob' had promoted to the American congress as honest, competent reformers who had to be supported with NAFTA, even if it meant thousands of American losing their jobs."

Faux also points out that as part of NAFTA, and in the wake of the Mexican forced contraction and budget crisis, privatization of Mexican public assets was accelerated, and local oligarchs and foreign banks (and customers of Goldman Sachs) could now buy up assets at bargain prices. So the Party of Davos and its local comprador allies did very well at the same time as ordinary Mexicans were put through the wringer. As Faux says, "The NAFTA financial model—liberalization of trade and finance leading to a speculative bubble, a subsequent crash, and the protection of investors from the consequences of their own actions—was repeated in various forms in the 1990s throughout the global markets in Thailand, Brazil, Bolivia, South Korea, Indonesia, Russia and Argentina."

That was written in 2006. Now that the NAFTA financial model has hit home in the United States itself, we can see how the Party of Davos, with Goldman Sachs once again in the lead, is doing its darndest to continue to socialize risks for investors and pass off costs to ordinary citizens. And with Bob Rubin and Larry Summers waiting in the wings, the Democrats swallowing the latest bailouts, and Wall Street still funding the Party generously, we may have more of the same in a new Democratic administration.

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