Excerpts from *Supercapitalism: The Transformation of Business, Democracy, and Everyday Life*, By Robert B. Reich, 2007

Pg. 5 – The danger of summarizing my argument in advance is oversimplification, yet I want to give you a basic sense of it. The last several decades have involved a shift of power away from us in our capacities as citizens and toward us as consumers and investors.

Pg. 28 – In 1950, young families were moving into new houses at an unprecedented rate of four thousand a day, filling them with clothes dryers, electric skillets, air-conditioners, washing machines, baby carriages, and refrigerators – and at least one car in every driveway. Auto ownership surged from 10 million in 1949 to 24 million in 1957. William J. Levitt bought hundreds of acres of Long Island potato fields and constructed a thousand homes from scratch, using a factory system that kept costs so low that the houses were priced at less than $10,000 - $1,000 down and $70 a month – for three bedrooms, a wood-burning fireplace, a kitchen with stove and fridge, and a landscaped lot seventy-five feet by one hundred feet.

Many other nations had succumbed to tyranny in the preceding decades. In America, democracy had prevailed, and the nation congratulated itself on the strength and durability of its system.

Pg. 29 – America’s manufacturing sector was about twice as productive (per employed person) as that of Britain, three times as productive as Germany, and nine times as productive as Japan.

Pg. 68 – It is fashionable among economists to judge deregulation an unmitigated success – apart from unfortunate isolated incidents like the savings and loan fiasco. (No one should have been surprised that savings and loan bankers used their new freedom to invest in junk bonds and other risky ventures that would yield high returns since their deposits continued to be insured by the government – at a final cost to taxpayers of some $600 billion. Arrangements that confer all upside benefit on private investors and all downside risk on the public are bound to stimulate great feats of entrepreneurial daring.)

Pg. 107-108 – When the researchers compared executive pay to the firms’ total earnings year by year, they saw a pronounced upward trend. In the mid-1990s, they typical firm paid its top five executives 5 percent of total earnings. By the start of the 2000s, top executives were getting 10 percent. By 2006, CEOs were earning, on average, eight times as much per dollar of corporate profits as they did in the 1980s.

The trend line is the same when you compare CEO pay to that of average workers. During the Not Quite Golden Age, the CEOs of major American companies took home about 25 to 30 times the wages of the typical worker. After the 1970s, the two pay
scales diverged. In 1980, the big company CEO took home roughly 40 times as much; by 1990, it was 100 times. By 2001, CEO pay packages had ballooned to about 350 times what they typical worker earned. To make the comparison especially vivid, the CEO of General Motors took home about $4 million in 1968 (translated into today’s dollars), which was around 66 times the pay and benefits of the typical GM worker at the time. In 2005, Wal-Mart’s CEO, Lee Scott, Jr., took home $17.5 million, some 900 times the pay and benefits of the typical Wal-Mart worker.

Pg. 112 – The average take-home pay for the twenty-six managers of major hedge funds in 2005 was $363 million, a 45 percent increase over their average earnings the year before.

Pg. 131 – …thirty five years ago the vast majority of Americans thought our democratic government was run for the benefit of all the people. But over the intervening decades, that confidence has steadily declined. Now the vast majority thinks it is run by a few big interests looking out for themselves. Surveys done in other democracies show a similar pattern of declining trust and confidence in government. What happened?

None of the conventional explanations, as noted, is persuasive. A more likely cause, in America and to a lesser but increasing extent elsewhere, is the expanding role of money in politics – especially money coming from large corporations.

The confusion is over why it has happened. An important clue is found by looking at when the escalation began.

Pg. 132 – The flow of money had inflated everything in its path – not only hotel and restaurant tabs, but the compensation of powerhouse Washington lawyers, lobbyists, and public relations professionals; the price of Washington real estate; even home prices in surrounding counties. By 2005, Washington’s seven suburban counties were listed by the Census Bureau as among the nation’s twenty with the highest per capita incomes.

Pg. 134-135 – Statistics
Number of registered lobbyists in Washington, D.C. in 2003 = 32,890
Money spent on lobbying (in million of dollars) in 2005 = 2,250
Number of lawyers registered with the D.C. Bar in 1974 = 16,000; in 2004 = 77,000

Pg. 136 – This explanation is too facile. It doesn’t explain why corporate lobbying has increased around the world, for example. It also fails to account for the important fact that the increasing flow of corporate money into American politics has been largely bipartisan. By the time Democrats lost control of congress in 1994, they had already become dependent on corporate money. “Business has to deal with us whether they like it or not, because we’re the majority,” crowed Democratic representative Tony Coelho, who, as head of the Democratic Congressional Campaign Committee in the 1980s, commenced a shakedown of corporate America. Coelho aggressively sought, and finally achieved, a rough parity with Republicans in contributions from corporate campaign coffers. In 1990, for example, the trucking industry divided $1.51 million in contributions in exactly equal installments to Democrats and Republicans, according to the Center for Responsive Politics.
Upon leaving office, more than half of the senior officials of the Clinton administration became corporate lobbyists.

In the 1970s, only about 3 percent of retiring members of Congress went on to become Washington lobbyists. By 2005, more than 30 percent of retiring members turned to Washington lobbying – both Republicans and Democrats.

The amount lobbyists charge for new clients rose from about $20,000 a month in 1995 to $40,000 a month in 2005.

“There is $2.6 trillion spent in Washington, with the authority to regulate everything in your life,” said former Republican house speaker Newt Gingrich. “Guess what? People will spend unheard-of amounts of money to influence that. The underlying problems are big government and big money.”

A third theory attributes the escalating flow of corporate money into politics to a conspiracy of big business and Wall Street seeking to usurp the machinery of government and co-opt both political parties.

Big business and government are engaged in “class warfare” against average working people, says Lou Dobbs, a news anchor for CNN.

The fights that actually preoccupy Congress day by day, which consume weeks or months of the time of congressional staffers, and which are often most hotly contested by squadrons of Washington lobbyists and public relations professionals, are typically contests between competing companies or sectors of an industry or, occasionally, competing industries.

The more one competitor pays for access, the more its rivals must pay in order to counter its influence.

Another hotly contested issue during the session was whether the price of natural gas was being manipulated and what to do about it. Late in 2005, the House passed a bill authorizing the Commodity Futures Trading Commission (CFTC) to investigate gas prices, and requiring gas producers and sellers to keep price records and imposing stiff penalties for violations. It sounded like a battle pitting little old New Englanders and Minnesotans who relied on natural gas to heat their homes against greedy energy companies. But the bill was actually the handiwork of lobbyists representing the Industrial Energy Consumers of America – a coalition of corporations that consume gas – mostly large manufacturers and fertilizer producers. They were upset that shortages of natural gas in 2005 opened the market to speculators.

You might think the bill’s opponents would be oil and gas companies, but in fact the loudest opposition came from financial speculators who were making bundles of money in that unstable gas market. They were backed by the financial services lobby. “We’ll do whatever we have to do to make sure (this provision) won’t pass,” said Robert Pickel, executive director of the International Swaps and Derivatives Association, which was joined by the Bond Market Association, the Securities Industry Association, and the Futures Industries Association. All argued that giving the CFTC this authority would just cause trading businesses to move to less-regulated foreign markets. In the end, the bill went nowhere.
Pg. 185 - According to recent estimates, if health care benefits were considered taxable income, employees would be paying $126 billion a year more in income taxes than they do now. In other words, employer-provided health care is a backdoor $126-billion-a-year government health insurance system that’s already up and running.

Pg. 212 - But the largest impediment to reform is one brazen fact: Many politicians and lobbyists want to continue to extort money from the private sector. That’s how politicians keep their hold on power, and lobbyists keep their hold on money.

Pg. 213 - The half-truths, mythologies, and distortions that now litter the border between the private sector and the public sector make it impossible for the public to keep straight the distinct roles of corporate executives and public officials. Such muddled thinking confounds efforts to prevent supercapitalism from overrunning democracy.

A citizen’s guide to supercapitalism would begin by instructing the public to beware of any politician or advocate who blames corporations and corporate executives for the negative social consequences of supercapitalism, whether it be low or declining wages and benefits, job losses, widening inequality, loss of community, global warming, indecent products, or any other of the commonly voiced complaints. Corporate executives are responsible for obeying the law, and should be held accountable for any illegality. But they cannot and should not be expected to do anything more. Their job is to satisfy their consumers and thereby make money for their investors. If they fail to do this as well if not better than their rivals they will be penalized by consumers and investors who take their money elsewhere.

Pg. 214 - This doesn’t make them right, but the only way to make them wrong – the only way to stop companies from giving consumers and investors good deals that depend on such moves – is to make them illegal. It is illogical to criticize companies for playing by the current rules of the game; if we want them to play differently; we have to change the rules.

It follows that the public must also beware of any claim by corporate executives that their company is doing something in order to advance the “public good” or to fulfill the firm’s “social responsibility.”

Pg. 216 - The most effective thing reformers can do is to reduce the effects of corporate money on politics, and enhance the voices of citizens. No other avenue of reform is as important. Corporate executives who sincerely wish to do good can make no better contribution than keeping their company out of politics. If corporate social responsibility has any meaning at all, it is to refrain from corrupting democracy.

Pg. 217 - The public has the false impression that corporations pay it, and therefore they should be entitled to participate in the democratic process under the old adage “no taxation without representation.” But only people pay taxes. In reality, the corporate income tax is paid – indirectly – by the company’s consumers, shareholders, and employees. Studies have attempted to determine exactly how the tax is allocated among these three groups, but the distribution remains unclear. What is clear is the corporate income tax is inefficient and inequitable.
The corporate income tax is inequitable in that retained earnings representing the portion held by lower-income investors are taxed at a corporate rate that’s often higher than the rate they pay on their other income, while earnings representing the holdings of higher-income shareholders are taxed at a corporate rate often lower than they pay on the rest of their income. As we have seen, under supercapitalism, investors have far more power than they did decades ago. Their decisions about where to put their money to maximize their returns are similar to any other decisions they make about how to increase their earnings. Logically, there is no reason why their “corporate” earnings should be taxed differently than their other earnings. Abolishing the corporate income tax and treating all corporate income as the personal income of shareholders would rectify this anomaly.

Pg. 224 – THE TRIUMPH of supercapitalism has led, indirectly and unwittingly, to the decline of democracy. But that is not inevitable. We can have a vibrant democracy as well as a vibrant capitalism. To accomplish this, the two spheres must be kept distinct. The purpose of capitalism is to get great deals for consumers and investors. The purpose of democracy is to accomplish ends we cannot achieve as individuals. The border between the two is breached when companies appear to take on social responsibilities or when they utilize politics to advance or maintain their competitive standing.

We are all consumers and most of us are investors, and in those roles we try to get the best deals we possibly can. That is how we participate in a market economy and enjoy the benefits of supercapitalism. But those private benefits often come with social costs. We are also citizens who have a right and a responsibility to participate in a democracy. We thus have it in our power to reduce those social costs, thereby making the true price of the goods and services we purchase as low as possible. Yet we can accomplish this larger feat only if we take our responsibilities as citizens seriously, and protect our democracy. The first step, which is often the hardest, is to get our thinking straight.