J.H. 00:00:21 And um she was the one that had the idea of doing the pictures, and she found this site posters.com. You know, so they have a huge archive and you know they are all copyrighted images, so you pay a royalty fee but it’s still pretty modest, the price. You know, a couple two to three hundred dollars per print, so it’s really not that much.

A.G. Yeah.

J.H. We have who can actually write like that today, or then we probably didn’t have that many. It does seem like that is something that has been lost.

A.G. Um, so all right, you know a little bit about what we are doing?

J.H. Uh, just based on the e-mails you sent, and I know your prior work.

A.G. Let’s start with, you know how do we know there’s so much income inequality. You have a chart on whatever, page 23

J.H. Yeah.

A.G. I mean it’s kind of a staggering chart in terms of, so I guess the question would be in recent days has our society become more economically unequal?

J.H. We have become much more unequal as a society, I mean the last thirty years have featured a steady increase in inequality in the United States, and we know that thanks to new income tax statistics that were developed in the last decade. Using income tax statistics back to the early twentieth century, you can actually get a very accurate picture of how much income is going to people in the middle and at the very top and it is hard to know what is happening at the top unless you use these income tax statistics because when you ask surveys you know, you don’t reach very many rich people and those you reach may not give you an accurate picture. But when you do these income tax statistics, they are like DNA evidence; you can really get an accurate picture of what’s happening at the top. And what’s happening is over the last thirty years or so, the top one percent has pulled away from the rest of Americans. The top one-tenth of one percent of the distribution has pulled away from the top one percent, so we have seen a rise of a winner take all economy where most of the economics gains have accrued to the top ten percent and most of those have accrued to the top one percent and even a big chunk have accrued to the top one-tenth of one percent.
So that’s the way in which we know. We have very accurate statistics that tell us the United States have gone from being a society in which there was an inequality but it was similar in some key respects to the inequality we saw in other rich democracies. We have gone from that to a society that has levels of inequality that look more like those found in more oligarchic nations, like Latin American countries or Russia. That’s the transformation we’ve seen.

A.G. 00:05:52 But you know, so what, like if a few people, you know, do really well why’s that such a big deal, isn’t that just proof of the American dream, you work hard and you’re successful?

J.H. 00:06:05 Well, there’s two parts to the answer right? I mean the American dream everyone thought was pretty alive and well in the mid twentieth century when incomes were growing equally, or pretty close to equally across the ladder. So, rich people were getting richer, but so were middle class people and poor people. And what’s happened over the last generation is most of the income gains have been at the very top, the rest of Americans have either held steady or fallen behind. The other thing that matters is as more income goes to the very top, that changes a society in a polity, it changes the way our politics work, it changes they way our society looks, in ways that I think many Americans find troubling. Certainly, the extent to which the riches that have gotten to the top have been churned back into politics to lobby for favorable public policies, or to contribute to sympathetic politicians. That aspect of what the top one percent and the top one-tenth of one percent have done with their money is crucial.

A.G. 00:07:07 You know there is one argument which says, that look this is inevitable because we live in a global economy now, downward pressure on labor and also people who work in the gulf stream of the global economy, the financiers and stuff. They’re going to profit, but is there, uh, have the people at the top been tinkering with the rules? In order to enable them to get to what they got?

J.H. 00:07:44 So there’s no question that there have been big changes in the global economy and the technology of the work place that have accentuated gains at the very top. But the crucial thing to note is that the United States stands alone among rich countries, in having this massive hyper-concentration at the very top. So, lots of countries that are as globalized or more globalized and that have just as technologically sophisticated economies as we do. I’ve seen much more modest increases at the top, or no increases at all off this sort. You know, just the runaway gains at the top are very much an American phenomenon, and so that raises the question, well what’s
the difference between the United States and these other countries? And you know part of the difference may be that we’ve had more globalization of our financial system, but that doesn’t get very far because as I said most countries are much more integrated in the world economy than they used to be. You know, what I think is crucial is the United States has responded as a society, as a government, much differently than many countries have to rising globalization to changing technology. And those responses, which are embodied in government policies have really accentuated the gains of the winner. There has been a reinforcing cycle, right, so those at the top have done well, they have invested in policies that are favorable to them, and they’ve done even better and then they’ve turned a lot of that money back into policy. So what are some of those politics? Well, here are three. Financial market deregulation, right? This is not a natural occurrence. Over the last 40 years, politicians actively dismantled the set of rules that have been put in place after the Great Depression, and during that financial crisis to try to prevent future financial crises, and to make sure that the normal sort of profit-seeking behavior of people in the financial sector didn’t result in a lot of risk for the rest of Americans. And that deregulation is clearly a big part of the reason why finance has become so much larger as a share of our economy, and why it became so much more lucrative for those people involved, and those gains came at the expense of the rest of us because ultimately the financial sector took our economy off a cliff. So, financial deregulation is a big part of the story. Look also at tax policy. I mean this is a generation in which, the last thirty years, in which we have seen the top one percent and one-tenth of one percent gain a larger, and larger share of national income. Now, you might think that if the rich are doing much, much better, that tax rates would become more progressive, right? That there would be a kind of response from the rest of us, to say you know what maybe we need to take some of these gains and use them for the common good, for investments in public education, or other things that we value. But in fact the opposite has been true, as the rich at the top have pulled away, tax rates on the rich have come way down, and that’s very striking. Most countries have seen, over the last generation, an increase in the degree to which they reduce inequality in the market. The United States has gone in the opposite direction, and it has in part by just these massive wave after wave of tax cuts for the very, very wealthy. Tax cuts on capital gains, on corporate income, on estates, on gifts. The kinds of tax cuts that are like economic smart bombs for the rich. That is they deliver very targeted payloads of cash to those at the top. So, taxes have been another big part of this story. And then the last thing I would emphasize is that we’ve seen over this period a real failure to respond to a shifting
market place on the part of our political leaders. So, part of this story is about policy changes, like deregulation or tax cuts, but part of the story is about failure to update our governing policies in the face of massive changes in the market. For example, as corporate CEOs have gotten more control over their pay with the rise of this decentralized shareholder capitalism where the corporate CEOs basically are appointing compliant boards, and basically getting through a kind of an arms’ race, higher and higher pay. I mean executive pay has sky-rocketed over this period, and executive pay is a big part of the reason why the richest of the rich have pulled away, about six and ten of the top one-tenth of one percent are executives in public or private companies, or finance. And if this is taking place, if the executives are basically rigging the game, so they can get higher, and higher pay, a natural question is, well where were political leaders and policy makers. Where were they when stock options were being used as a way of hiding how much corporations were paying their top CEOs. Where were they when accounting was being used in ways that allowed for example, the backdating of these stock options, so that these companies after the fact, would basically change what the projection was for the stock options, so that their CEO would walk away with more money. Where were they when these conflicts of interest, that we know were rife in the system were taking place. And the answer is they were largely looking the other way, and they were looking the other way because they were powerful lobbying groups and politicians who were basically blocking efforts to update the regulations. So, we know that our regulatory architecture for finance was totally creaky and falling apart, and now there’s this scramble to try to update it. But we’ve known that for twenty or thirty years. What’s happened is that every time there was an effort to update it there were a lot of people who were inside government, and outside it with big money, that were pressing to keep things the same. My favorite example of this is when the head of the Securities and Exchange Commission, Arthur Levitt, went to Phil Gramm, the Republican from Texas who was heading the banking committee, and asked for some tighter accounting rules. Phil Gramm turned to him and said, unless the waters are crimson with the blood of investors, I don’t want you engaging in any regulatory flights of fancy. So, I mean this was clearly a very prescient statement, right the waters were blood red in a few years. But during those years those executives who were using the shady accounting practices, raked in huge amounts of money and Phil Gramm did this on issue after issue, and a lot of other politicians in both parties did it.

A.G. Let’s dig deep, or dig into the details of one of these, which is in the news a lot now, you know a lot of people now are getting
upset, oh my god, Mitt Romney only pays fifteen percent or not so very long ago, maybe it was three years ago Steve Schwartzman reacted with the idea that they might change the head for new public sentences like Hitler invading Poland. Who’s responsible for that, I mean that seems like a total, if you’re in a democracy and the majority rules, that seems like a total winner. How come nobody can get rid of the hedge fund loophole?

J.H. 00:16:17 And there is actually only been one poll I am aware of, on the carried interests provision, the hedge fund loophole, and it suggests that when it’s explained to people it’s crazy, right? Why should someone who’s pulling down hundreds of millions of dollars, or even billions of dollars a year pay only fifteen percent, when the top income tax rate is roughly twice that? And the answer is because of this obscure provision called the carried interest provision of the tax code. It was actually never enacted, it’s basically with an administrative ruling by the IRS, that said along time ago before there was private, at least, the similar kinds of hedge funds and private equity firms that there are today, it said, ‘Okay if you are paid in the form of two and twenty, that is your two percent management and twenty percent of profits then that should be treated as capital gain.’ So, twenty percent should be treated as capital gains, even though you’re not investing your own money, even though you might be receiving that payout years after you’ve made the initial investment. I mean what’s most galling about the Mitt Romney story is that we always hear, well, you have to have this low tax rate to encourage investors to put money in. When Mitt Romney was investing, when Mitt Romney was involved with being capital, the capital gains tax rate was much, much higher than it is today. Now he’s getting the preferential tax treatment, you know, fifteen years later. It can’t of had any influence on his decision back then. So, the carried interest provision basically says that the most highly paid financial executives get taxed at a rate lower than your mom and pop grocery, and it has survived in the tax code because of the incredibly effective lobbying of the financial industry. From 2006 on, every Democratic leader and president, in the case of President Obama, has said we’re going to get rid of this. They come in, they say it’s going to go, and then magically it manages to survive, right? And that I think is a perfect example of the way in which money talks in American politics today. There’s no question that this would be a popular change. Getting rid of this, and taxing this income, which is just income basically for management of assets. It’s not your own investments. Taxes’ income as ordinary income, as labor income, the way we tax all other Americans. There would be huge support for that, but it’s obscure for one thing, and two there’s this huge special interest that are working on it. And so
you know, leader after leader says this is unconscionable we have to change it, and then suddenly, you know, there is a shift of the tides, and before you know it the Congressional session has ended and oh my God we ran out of time, we didn’t get to it, we’ll do it next time, right? Meanwhile, you know, multi-billionaires are getting the sweetest tax deal in the United States.

A.G. 00:19:13 And just to dig into this a little deeper, I mean one of my favorite characters in this story is the esteemed senator from New York, Charles Schumer. And Charles Schumer, I mean is known as kind of a liberal, um, Democratic senator, but correct me if I’m wrong, you’ll tell me, but I mean I think he’s pretty much responsible for keeping this in effect and, yet, he always says, you know, he’s from my constitutes, and I keep wondering, well what the fuck, you know…

J.H. 00:19:45 Yeah, but these are my constitutes who have tons of money to contribute to Democrats and to me. I mean, Schumer became famous for his ability to gain Wall Street dollars. That’s why he was elevated within the Democratic leadership, because he was such an effective fundraiser. And there’s that, you know, old story about why when Willy Sutton was asked why he robbed banks, he said that’s where the money is. Well, for Democrats in the 1990’s and especially the 2000’s, the money was on Wall Street, and Wall Street was a reliable Democratic contributor, and so people like Chuck Schumer and later Hillary Clinton were really effective in getting Wall Street dollars. In fact, most of the top fundraisers, Democratic fundraisers, in the Senate and in the House were I mean, getting their money from Wall Street during this period. So, Schumer writes this book entitled, “Positively American.” It’s about this fictional family living on Long Island, that’s making modest middle-class income, and he says those are the people that we need to make, you know, the real focus of the Democratic party. And as we write in the book, the release party for this book is held at Schwarzman’s house. In attendance is Michael Bloomberg, right, this billionaire, right? It’s the notables of New York and Wall Street who come, and he says we have to get much more in touch with the people, but the people that Schumer seems to have had the strongest connection to are the one’s that are able to fund his campaigns and other Democratic campaigns. So, Schumer consistently says, ‘Oh, I don’t think this is a good provision. We need to change the carried interest provision, but we need to make sure that every possible group that might get a similar kind of preferential tax treatment is also dealt with.’ Which of course, guarantees that you’ll never reach agreement. Because he’s basically saying, you know, we need to overhaul the tax code as it
concerns the capital gains treatment. And so, Schumer has been a big obstacle to doing this, and since he’s in the Democratic party and the leadership, he’s very effective. But I should say, I mean, I worked on healthcare reform. On healthcare reform, Chuck Schumer was one of the leading proponents of a public option, a Medicare-like plan to compete with private health insurance. He’s a strong, liberal Democratic on all these other issues and so he’s what we call on the book, a Republican for a day. On this issue, right, he’ll side with Republicans, who are ideologically opposed to doing anything about the carried interest provision or raising anyone’s taxes. And that the problem is there are Republicans for a day on issue after issue, right? If it’s the oil industry, right, then you’re going to get a bunch of coal state Democrats who are going to side with Republicans if you’re talking about the fight over executive pay and stock options, it was all the Silicon Valley Democrats and Joe Lieberman of Connecticut who joined with Republicans in opposing change. So, this is an important part of the story of what’s happened to our politics, that money matters more than it used to, and even if it isn’t swaying your, you know, run of the mill liberal Democrat, it’s pulling enough Democrats to the other side on these issues that it’s possible for those who are more supportive of this kind of growing inequality to Republicans to get what they want, and the thing to remember is it is much harder to get things done in American politics than it used to be. Over this last generation, we’ve seen the rise of the filibuster, which used to be a kind of rare declaration of minority interests, you know the southern segregationists, uh, you know, went to the floor and stood there and fought civil rights bills, but now, it’s a routine part of lawmaking, right, every major piece of legislation is subject to the filibuster, and what the filibuster means essentially is that you have to get sixty votes to get anything done, with the exception of the budget which is separate, um, from the, which is not subject to a filibuster. You have to get sixty votes and it’s a lot harder to get sixty votes than it is to get fifty votes, and remember the Senate is already an incredibly mal-portioned body, right, every state big or small gets two senators. So at the extreme, a filibuster could be sustained by senators representing just a tenth of the population. It’s just sort of a remarkable fact, and so, while we don’t see that kind of alignment with all the small states lining up at once, uh, on any issues, it’s potentially the case that we could have ninety percent of the population’s senators on one side and ten percent of the population’s senators on the other side and the ten percent would win.

On this, last thing on this issue, the, um, you know Republican *Fredo*, okay I get that, but with something like hedge fund loopholes, I mean, sure has got to be rationalizing this by saying to
himself Democrats need to worry – the only way we’re gonna win is if we get a lot of money and the only place to get money is on Wall Street, so we’ll bribe these guys with this thing, or I’ll take a bribe or the Democratic party will take a bribe. Can we see it that way? Because it seems like, you know there are a lot of liberal hedge fund guys, particularly on social issues, but when it comes to their pocket book it’s like, no man, you know, pay me my money down. So, isn’t the Kindt kind of a bribe?

J.H. 00:25:14 Yeah. I mean, I think it’s an institutionalized bribery. Institutionalized corruption. Petty corruption in the United States, the kind of corruption that result in like a politician like representative William Jefferson with ninety-thousand dollars in his freezer. That kind of question is rarer than it used to be, the kind of cash handed under the table. But institutionalized corruption, you know, just a distortion of our Democratic process overall, that is much more common than it used to be, and there is no question that what Chuck Schumer is thinking when he says, ‘I need to make sure that I represent these deep pocketed Wall Street interests if I want my party and me to be successful,’ there’s no question that what he’s thinking there is that money matters a lot in American politics, but that’s not the way it should be, I mean after all, you know, while the Supreme Court says that, you know, corporations are people and should have free speech right and should be able to contribute unlimited sums, most Americans believe that the ultimate purposes of a Democratic government is to represent the people, the citizenry, right? And that whether you’re right or poor, whether you contribute large sums or none at all or whether you have a lot of organizations behind you or not, you should have an equal potential to influence what government does. Now, of course, the real world is messy, right? Of course we know there are inequalities of representation, there always have been, but these inequalities we see today are much more systematic than anything we saw in the mid-twentieth century and they are much more aligned around money and issues of money. So, the dirty secret of American politics is that while both sides of the partisan aisle have a lot of culture issues they’re fighting over, from abortion on the one hand to gay marriage on the other, that the basic kind of class issues that have long been a part of American politics, questions about, how much do people get paid, will Social Security be there when you retire, um, whether or not we’re gonna have regulation of financial markets, those kind of bread and butter economic pocketbook issues, on those issues our politicians look very unresponsive to middle class Americans, you know, after all you poll people and they say what’s the number one way to deal with the deficit? Why don’t we raise taxes on the rich? Most Americans are supportive. In the 2010 election, exit poles
showed even a majority of Republicans who voted in that massive conservative turn, are supportive of ending tax cuts for the very rich, and yet, again we’ve been now, year after year, where we’ve been debating the Bush tax cuts for the rich, and they have gone nowhere. So that to me is a really strong indication that on these kind of pocketbook issues that I think are very much at the center of what government is doing and what the fights are about today, politicians are much less responsive to our very middle class citizens than they used to be because there’s so much more money that’s coming from lobbyist and from those at the top and there’s such weaker organization and representation for the broad middle, you know, the kinds of organization that once brought people into politics and helped them understand what was at stake in the debates: Labor unions, cross-class civic organizations, um, you know, local grass-roots movements including social movements – all those have lost tremendous ground.

A.G. 00:28:35 So not just TV?

J.H. 00:28:37 TV? TV matters a lot, obviously.

A.G. 00:28:42 Because you do see the cost, I mean you do see the cost of elections, I’ve gotta feel some sympathy for Congress-people and senators. You see the cost of the election just skyrocket.

J.H. 00:28:51 That’s right.

A.G. 00:28:53 And some of these guys, how many days every week do these guys have to spend on the phone dialing for dollars?

J.H. 00:29:00 Yeah, I mean, most politicians say they spend 50% of their time, or maybe more, fundraising, and that’s a pretty big indictment of the system today. So, in one sense it makes everyone worse off, right? Every politician is worse off. If they could all agree to step back from the arms race in terms of raising money and in terms of the arms race of the lobbyists, you know, who are fighting each other sometimes and spending more money, more and more money, to fight each other, if they could all just step back they’d be better off, but no one can make that agreement, but I think it would be a mistake to think of this only as a, you know, kind of collectively bad outcome, because it’s really bad for those who don’t have money, the kind of money that lobbyist and the top campaign donors have. And it’s really bad also for the party, right, that has the natural alliance with less affluent Americans, namely the Democratic party. So, what’s happened over the last generation, is that as money has become more important, as business groups have become much more mobilized in politics and much more active than lobbying,
that the whole Washington ecosystem has changed, and Republicans have been pulled dramatically to the right, right, they’ve been pulled back to their economic base, if you will, and we forget how cross-pressured Republicans were a generation ago, how many moderate Republicans there were in the party, there were none, where did you go Jacob Javits? Where have you been, you know. It’s, uh, those kind of New York moderate Republicans, no more, right? And at the same time, the Democratic party has been pulled slightly to the left, the evidence is that they moved slightly to the left, but mostly what’s happened to them is that they’ve been pulled into a fetal crouch, if you will. I mean, right they’ve got corporate campaign contributions they need to get, right? And at the same time they want to attract less affluent votes who are more reliably Democratic than they used to be, there’s a whole new slew of minority voters in the electric, right, so they’re torn between these and they kind of oscillate between this overwrought populism that often seems more rhetorical than real on the one hand, and really aggressive efforts to try to fundraise among large, uh, sectors of the, uh, top one percent and then the corporate world. So then, where do they go for their money, they’ve got to go to socially liberal media and people and industries that are typically more left leaning, they’ve got trial lawyers to help them out sometimes, and then in terms of corporate donations they often go to Wall Street, they’re trying to get group, uh, industries that are a little bit more pro-government, say, parts of the energy industry that appreciate government subsidiaries, but the point is the Democratic party has not found a way to master this new political universe, so even though Republicans were, with the exception of 2010, uh, really back on their heels politically, um, if you think about it, right, they barely won the presidency in 2000, Bush eeked up reelection 2004 against a very weak Democratic candidate, they lost decisively in 2008, um, so there’s been a period in which, and they of course lost Congress in 2006, so they’ve been in a period where the Republican party has been very disadvantaged in terms of building a broad electoral majority, um, but, at the same time, right, the Democrats have not been able to exploit that at all, in part I think because they just have very split identities, split personalities, they have a consistency within their own party that basically doesn’t want them to do anything on a lot of these pocketbook issues.

A.G. 00:32:40 Let’s talk about the power of ideas for a second because it does seem to me that one thing that’s changed, and I, again this is not, based on anything except a sort of gut-bucket hunch, but I mean, what’s changed over the last 50 years is the notion that, uh, government is bad, um, private enterprises are always good, and at some point, you know, being self-reliant and going for it is what it’s all about and anything the government tries to do to stop that is a
huge mistake. And indeed, even the idea to some extent, that poverty is kind of a good thing because if you have poverty then that spurs people to work hard.

J.H. 00:33:22 Right.

A.G. 00:33:26 Don’t you think these, have these ideas been consciously, are they effective ideas, number one, and number two have they been consciously fed into the blood stream of the American body politics.

J.H. 00:33:37 Well the ideas, they are certainly effective, and they are long stand. I mean, Americans have long had greater skepticism towards government and a greater faith in the market than have citizens of other nations. In fact, the extent that we can see changes in public opinion over time, and I mean, it’s hard, you have to find polls that are the same and repeated multiple times, we don’t see a huge shift to the right on a lot of these basic issues. But I think that Americans are very skeptical of government and that skepticism of government, distrust of government, has certainly risen over this period and in fact I think one of the most effective aspects of the Republican strategy has been to say government doesn’t work well, therefore we need to cut government, right, and it’s a self reinforcing strategy in some ways because one of the ways in which they’ve waged this campaign from Newt Gingrich in the 1980’s and 90’s on, is to tie government up in knots, to make it very hard to do positive things. So there’s a wonderful self-reinforcing quality to this, uh, critique, right, if you say we need to tear down the institution because government doesn’t work and the institution isn’t working because it’s being torn down a lot of people are going to be receptive to an anti-government agenda. But that’s I think not enough to explain what’s happened, because although I think most Americans aren’t necessarily shifting dramatically to the right, there’s no question that sort of the elite discourse around a lot of these issues has moved to the right and I think that was very much a part of a conscious effort by political elite by interest groups to invest in the generation of slogans and ideas from the promotion of supply-side economics in the 1970’s and 80’s, right, the idea that we should just cut taxes on corporations and the right and that their beneficence will trickle down to the rest of Americans, to the dramatic shift in thinking about Keynesian economic policy, so in the 1980’s there was a huge move towards the idea that the federal reserve should be, uh, focusing only on containing inflation. There was certainly an economic crisis that discredited a lot of the existing policies in the 1970’s nobody knew why we were getting this massive inflation and stagnant growth at the same time, the stagflation, that led Jimmy Carter to give this famous malaise speech in which he didn’t actually say malaise. But there was a tough economic time and so a lot of ideas were called into doubt but the reason that crisis generated a really dramatic shift to conservative economic thinking
was the investment by political leads and deep pocketed donors in idea generation thought think tanks like the Heritage Foundation, The Cato Institute, through the promotion and support of politicians who were conservative. I mean if you think about the kind of big conservative breakthroughs that occurred over this period, right, they came from politicians, right, who had been nurtured by conservative leads over that period. And in 1994 when Republicans took Congress the party that was in change was a very different party than had been, uh, in charge in the 1980’s. So in the 1980’s Regan cuts taxes dramatically, he’s definitely responding to the new supply side thick, he’s also responding to voter unrest, but a year later he starts attacking backwards and because the deficit is flying through the roof, um, they start raising taxes, Congress starts raising taxes, today, right, Republicans are basically completely, universally opposed to any tax increases, every Republican in 1993 votes against president Clinton’s tax increase. President Obama has received no support, literally no support for any elements of his tax agenda, and so, Republicans have transformed and I think in a lot of ways that transformation was pushed by this investment in ideas and in a more conservative Republican party by wealthy activists and by others who really believe that the problem for Republicans was not that they had the wrong set of prescriptions, that conservative economic prescriptions were right, but that the party in the past had had too much dissent, right, and had been too focused on kind of fundamental philosophical questions like the size of government and not focused enough on the simple practical point that if we say again and again that it will improve the economy to cut taxes, if we say again and again that the job creators, right, the people at the very top, are the ones that need to be treated well by the government and even more important if we aggressively discredit government, if we do all those things, that’s going to help us in the long term, the short term maybe we’ll have setbacks, but in the long term we’ll be given a stronger position, and there’s certainly a strong position today, because president Obama comes into office after winning a very substantial election victory. He’s got sixty Democrats after sorting it out, he’s got sixty Democrats in the Senate, right, a filibuster-proof majority, some of the largest Democratic margins since the Carter years in the house, and look what happens, right, he barely squeaks through several of his major legislative priorities. He sees a major reversal in 2010, by the end of his first two years, there’s a tea party movement mobilized against him, but in many ways the last two years have seen a rebirth of the conservative economic philosophy that really got us into the economic mess in the first place. That’s a remarkable turn-around and it’s, you can’t but admire the political leadership and elite level activity and investments and ideas that help make it possible.
A.G. 00:39:41 You know it’s also, you can’t help but admire another aspect too, which is, I think it was in a book by the chairs, in a way, a title conceived of yours, Winner Take All Society by Robert Frank and that’s how teams are operating you get one or two teams and they get everything, but the idea that in an economy we gotta keep, you know, the people at the top flush with Ferraris and hookers or else they’re going to go to Kazakhstan.

J.H. 00:40:21 Exactly, which is absolutely laughable, right? It’s one thing if you’re a governor to worry about millionaires fleeing the state if you have a millionaires tax, it turns out, they’ve actually done a lot of research on this, that even that doesn’t happen, right, people seem to like the states they’re in so if you impose a higher tax on the very richest in a state for the most part people stay put and grudgingly pay the tax. But this idea, right, that we’re going to have all of our idea entrepreneurs flee to Mexico or Europe, you know ‘Europe,’ or somewhere else, the Cayman Islands or something if there are slightly higher taxes on the wealthy is just ridiculous, but I think that the argument is really deeper than that and I think this is the extent to which the conservatives have really won the battles of ideas, right, the idea that there are job creators and then the rest of us who are somehow in sort of in Ayn Rand’s kind of conception parasites, right, moochers, is really at odds with the reality of a modern economy. In a modern economy, the reason we’re rich is due to productivity of workers, right, and yes, job creators, entrepreneurs help create that productivity, right, by coming up with innovations that will allow the people to produce more for the same amount of work, but actually, the scholars who have looked at this overwhelmingly agree that most of the investments that make that productivity possible are society-wide investments and also the hard work of people who take advantage of those investments, education, decent healthcare, right, good infrastructure, investments in common technology, you know, Al Gore may not have invented the internet but the federal government did. Those kinds of things that make our broad prosperity possible probably account for a vast majority of the overall gains of our economy, the reason why we’re so much more productive than people in China or than we were 50 years ago, right. So yes, we should reward the job creators, we should reward the people who start firms, but we should also recognize that the only reason why they’re able to capitalize on this highly productive workforce on a society that’s open on innovation is because of the hard work of so many citizens and the investments, the common investments we make as a society. So this conception, essentially denies the major reasons for America’s economic success, it suggests that if we somehow could get government out of the way
and have no common investments and if we somehow had a society in which just a very small slice – and we’re moving there – received all the rewards and decided who they wanted to share it with, those rewards with, that we would somehow be a better much stronger place. And, I don’t want to live in that country, and I don’t think a lot of Americans want to live in that country, but I’d also argue that it would be a very poor country. Not just in social capital, but in physical and economic capital, we would have roads that were in decay, we’d have people rushing from one protected enclave to another, we’d have social unrest and we wouldn’t have the kind of educated, uh, committed, eager, hard-working population that makes our overall economic strength possible.

A.G. 00:43:30 I want to get to the bottom of ninety-nine in just a second, but just before we get there, just a quick question it’s kind of like a whacky one, tell me about Ayn Rand, who is she and why do her ideas seem to have such a hold on these, uh, these characters who seem to be eviscerating the idea of government.

J.H. 00:43:58 Well, so, the very interesting thing is when Ron Paul the, and Ron Paul and Paul Ryan, these conservative politicians in the Republican party who are very committed to the idea that we should have extremely limited government, when they were asked who is the greatest influence on you they either cite obscure Austrian economists or Ayn Rand. And Ayn Rand, this expat who came to the United States and wrote a series of what I consider to be a series of what I consider to be pretty bad novels but none the less contained the sort of philosophy of, um, that was a combination of libertarianism and contempt for anybody but the most, what she would consider the kind of creative and most hardworking and productive members of society, that these novels have become a kind of touchstone for contemporary Republican politicians, most notably Atlas Shrugged, um, and that is a very interesting in two respects. One is that when Rand was writing she received relatively muted, uh, views of her abilities as a novelist but in her phil—no one took the – the philosophical element of her writing very seriously and in the mid-twentieth century the idea that after we’d won the war through positive government efforts and after we’d seen the [inaudible] train, millions of Ameri-, uh, millions of returning servicemen and we had an economy that was booming and bringing more and more people into the middle class and creating prosperity that was unprecedented in world history. No one was very attracted to the idea that it should be a kind of, uh, secession of the rich successful people from the rest of society, but that has returned with a vengeance and these contemporary Republican politicians are basically, by saying that they like the goddess of the market Ayn
Rand, they’re basically saying that they don’t believe there’s much of a role for government and that government is mostly, uh, aiding the kid of moocher aspects of society and not helping and, uh, there’s this sort of, uh, super-creative class that the job creators I mean, that are the ones that should be rewarded. And I mean that term, ‘job creators,’ it strikes me, which has become sort of part and parcel of Republican rhetoric, is really, I think, indicative of this kind of Randian turn in the discussion. And, uh, the apotheosis of it is there’s some California internet entrepreneur guy who wants to create a kind of Randian, an Ayn Rand utopia off, in international waters where you can have no building codes, everyone can carry as many guns as they want, there’ll be no taxes no common, uh, no common goods, and I don’t about you but I guess for me no building codes and unrestricted firearm use is probably just, is already a pretty bad start but this is, this is the image, right? That somehow this utopia that exists, where there is no government at all, it’s a false utopia. Uh, our economy depends in part on having good public policies, so we should never defend government because it’s there, we shouldn’t defend it, you know, in, uh, generically, but we should defend programs that provide people with economic security or with skills and education that allows our society to be stronger and there certainly is a lot of that.

A.G. 00:47:41 Yeah, because, now, moving into the bottom 99, I mean, the other side of the, uh, of the Rand theory is that you got to encourage, you got to give the Ferraris and hookers to the people at the top.

J.H. 00:47:58 I think she said that.

A.G. 00:48:00 But then they also, they have to make sure to make it as rough for people on the bottom as humanly possible because you don’t want them to become moochers you want there to be – poverty is a good thing because it’s a motivator.

J.H. 00:48:15 That’s right. Yeah, and so, you have Newt Gingrich in this presidential campaign saying that getting rid of child labor laws is a big contributor to inequality because there are lots of kids who need to be back there in the workplace learning good, positive values, and you know this is the same Newt Gingrich who has talked positively about the return of like mass orphanages and the likes. So it’s, I think that the, um, the flipside of this extolling of the job creators is a denigration of the value of good, basic, hard work by ordinary Americans. Right, so, a job creator in my book is someone who goes to work every day and creates value for his family and for his society, right? And the idea that there is this sort of, um, group that is so valuable to our society that we should not only tilt every aspect of our policies towards them but also make life as rough as possible.
for the rest of Americans, to me is not just bad economics it’s anti-Democratic, because ultimately democracy rests on this idea that people have all citizens have a sort of basic potential to thrive, and that we’ve changed our view of what this means over the centuries from a view that was very restricted, that only white men would need common school and you know, to a view that incorporates virtually all of the American population and we’ve also changed our views about what that entails in terms of liberty, so if liberty is just, ‘you should be left alone,’ then maybe we can say that the Ayn Rand kind of view is tenable, but if liberty means you need to have some sort of basic capacity to exercise your citizenship and to be a productive member of society, then public education is important, then making sure that we don’t allow people to suffer unnecessarily with uncovered healthcare costs or with retirement poverty is important, these kind of basic commitments to citizens are crucial and most countries, including the United States, right, have, over time, made those kind of commitments, right, some basic commitments to economic security and opportunity. The idea that, somehow, if you just pulled away and let the chips fall where they may, that that would be just or good is completely false and societies in which there is this extreme concentration of income at the very top, Latin American countries before recent Democratic reforms, they have been very unpleasant places with high levels of violence, with total breakdowns in public institutions and I think it’s arguable the case that that’s not just bad for the 99% who are suffering as Ayn Rand says they should, but also for the top which ends up in a society that no one would want to live in, in which they’re hated, vilified, and are a source of predation, so to me, that’s a word that we would head towards if we really took this vision towards its logical extreme. I mean, I think it’s fair to say that for many Republicans who spout Rand’s vision, they don’t actually want to go to that extreme, I think they’re quite happy to take the one part of that that is potentially politically popular and can be enacted, namely, just keep cutting taxes on the rich and go with that and drop regulations on corporations, but I don’t think we should pretend that lurking behind that agenda a kind of vision of society that is one that we should be very, very skeptical of. One that I think is against the American tradition and one that is against the Democratic ideal.

A.G. 00:52:13 Let’s go to, actually, what the impact is, what the effects are, because it is interesting for me, you know when I was doing a little film about healthcare and you were involved in the whole healthcare thing. And, um, you know, I was talking to this blogger named Maggie Mahar.

J.H. 00:52:30 Yep, Maggie.
And we were talking about how, you know, we spend a tremendous amount but our rates comes to not that great, particularly in terms of mortality, and she said, well, let’s back away from that one for a second because actually the reason that is, is that we accept a level of poverty in this country that most other countries won’t accept.

Yes, yeah. I mean…

So, this is, I guess what I’m saying is that income inequality is not abstract, I mean, this can be a life and death issue.

That’s right. You know, figuring out the cause and effect relationship between economic inequality and population health or educational outcomes or, um, the degree of crime, or incarceration of society, figuring out that relationship is hard, but what we know is this: countries that have low levels of inequality also tend to have good outcomes on all of these other things, countries that have high levels of inequality have bad outcomes, countries that have high levels of inequality have shorter life spans, countries that have high levels of inequality have societies that are marked by greater degrees of conflict and crime, countries that have high levels of inequality have less social cohesion and trust, and I’m not sure that inequality is the crucial variable here, but I think that it’s the case that when you have societies in which there is a large share of the population that just feels as if they can not get ahead, that is cut off from the kind of sense of opportunity about, that is at the heart of the American dream, that you tend to have a lot of other things go wrong as well. And I would also say on the health front that the United States stand out here because this really gives the lie to the view that if we wanted to address these problems we’d have to spend enormous amounts of money and have huge government. In health care we spend so much more than other countries on health care that even though our government pays about half of the health care tab, the amount that our government spends per person is higher than in any other country. We have the highest level of government spending per person because our healthcare costs are so much higher. And, yes, infant mortality is linked to poverty, yes a lot of bad outcomes are linked to our inequality, but fundamentally, all the research suggests our healthcare costs more simply because it’s so inefficient, it’s so uncoordinated, there’s such high levels of administrative waste, the costs for individual services is much higher, yes our physicians make a lot more and many more of them are specialists, but all these things matter because as it turns out we spend much, much more than other countries even when you take into account that richer countries spend more, and, and this is the kicker, our citizens see the doctors less often, they spend less time in the hospital, and our health outcome are no better and in fact worse.
than these other countries and that seems to me to suggest that on this front and many others we’re talking about a dysfunctional, um, structure of incentives and policies that really gets back to the root problem that is our politics. So what would’ve been a better approach to health care than the one that ended up being the president’s, right, I mean the president rightly took on this issue, President Obama took on this issue and he pushed for an expansion of coverage, and if all goes well we could see perhaps two-thirds of those who lack coverage today getting coverage, however it’s pretty clear that we’re not going to see a substantial slow-down in the rate of increase of health-costs, and that’s going to mean that more and more people are going to find it hard to afford coverage, more and more employers are going to drop coverage because the costs are so high, and it’s also absolutely clear that we could’ve provided coverage at a much more affordable cost if we had had a large public health insurance plan in the mix. You know, Medicare program, for all it’s flaws has seen it’s costs rise much more slowly than private insurance costs, it provides a good, solid benefit for the elderly at a cost that’s well below what private insurers would charge for that same coverage and we know that because Medicare has private insurance plans in it and it consistently looses a lot of money because private insurance plans are so much more costly. So when Paul Ryan and other conservative Republicans are saying we have to repeal Obama-care, that’s how they put it, right, and we have to privatize Medicare, what they’re basically saying is, not only are they saying, whoa we don’t care about the 50 million Americans who lack coverage, but they’re also saying, we’re willing to have healthcare costs consume a larger and larger share of people’s budget. Because that’s what it means, the Ryan Heath Plan for Medicare would increase the out-of-pocket costs for seniors by roughly 60% according to the Congressional budget office, as it was implemented, and that’s just enormous, right, and you’ve got a lot of senior citizens are already spending a huge part of their income on healthcare, so, healthcare is like a microcosm of the broader problem. Why is our heath care system so dysfunctional? Because it’s in the thrall of conservative ideological interests on the one hand and special interests on the other. The lobbying industry and groups for heath insurers and for pharmaceutical companies and for hospitals and even physicians are so powerful that just to get out the gate a health care bill and in a Democratic Congress, requires essentially conceding that we’re not going to try and control health care costs in a serious way, or that we’re not gonna have a large public heath insurance plan, so that to me is another symptom of our political dysfunction. We’ve got real problems this country knows how to address and, uh, we know we have pollution and climate change issues, we know we have health care problems, we know our
financial sector even with new regulations is going to need better regulations over time, and yet, basically, no one thinks that you can address these problems. Our long term budget deficit which is driven mostly by health care costs, right, is going to keep on rising unless we can tackle these problems but right now our politics looks completely broken.

A.G. 00:58:48 Yeah, there’s um, here’s another example, I mean, this is where self-interests suddenly becomes, um, so interesting. I mean, it’s supposed to keep costs down, but I guess, this is a smaller point and then I wanna get to another character, but, you know, one of the interesting things about health care, it seems to me, you know better, but you’ve got private enterprises and special interests who want to make money but also what they really want but they also don’t want the government to go away they just want to be able to elude it.

J.H. 00:59:22 That’s right. That’s right.

A.G. 00:59:24 Like the Tom Delay big farmer bill. I mean, as I understand it, it’s still the case, right, Mannicure can’t negotiate for prices, I mean.

J.H. 00:59:34 Yeah, and well, I think we should actually call this not the Tom Delay giveaway because the bigger story about the prescription drug bill that was passed under president Bush was that very particular character who was in charge of the negotiations, Billy Tauzin, an American politician who was simultaneously designing the bill and negotiating with the pharmaceutical lobby PhRMA to take over the top post at PhRMA, and he ended up taking it for about two-million dollars a year, apparently. I mean it’s just a complete conflict on interests but also suggestive of the extent to which the revolving door matters so much. So, politicians are highly responsive to lobbyists and they’re highly responsive to the prospect of future employment. And that’s kind of just politician’s staff who work for them as well, most of the staff that were working on the heath care bill, or who were working for the key player on the health care bill, the Senate, senator Max Baucus, most of those staff have been recruited by high-priced, hay-street lobbying firms, so there’s this revolving door that really pulls all these different policies toward these very concentrated interests that have the lobbying prowess, that have the intensity of interest, to really shape the policies. And you’re absolutely right, I mean, there’s a famous quote from the libertarian, Murray Rothbard, who said, ‘If you wanna understand libertarianism, think of government as a, basically a band of thieves and everything else follows from that.’ And, actually, I’m kind of sympathetic to that except the problem is, right, the libertarian philosophy suggests, right, the problem is these sort of grubby 99%-ers, you know, the rest of Americans who want to have high taxes.
and big benefits, right. But, actually, the band of thieves lately, it seems to me, has been the top echelons of corporate America; Wall Street, the health industry, big energy companies, have all been seeking special treatment in the law. So they don’t want a free market. You know, there’s a famous quote from one of the heads of this massive conglomerate in the 1960’s, Litton industries, who said, ‘competition, we avoid it at all costs.’ Right? You know, they don’t want competition, what they want is government subsidies, what they want is to have as much ability to milk the federal government as possible. So, think about the private health insurance plans within Medicare, right, the major solution that Republicans are offering on Medicare is that it will rely more on the private plans. Well, it turns out, that we spend a lot more because of these private plans, that the private plans do not control costs, all the research has shown that we probably spend 10-15% more, per patient, when they go into a private plan, relative to being in traditional Medicare, because traditional Medicare has very low administrative costs, it’s able to bargain for lower rates, uh, and these private plans on the other hand, have high administration overhead and they also tend not to be able to get as good a deal because they have a smaller group of providers they’re working with or they’re less substantial portion of the market than is Medicare, and so, again, free market theology says private plans, um, the private plans do not want real competition, what they would like is to continue the cushy deal where they get paid 10-15% more, in perpetuity. And, so, these private health insurance plans were very supportive of the continuation of Medicare’s excessive subsidies, um, because of this and private insurance plans were also very supportive of some elements of the Obama health-plan. They didn’t like a lot of the regulations, they didn’t like some of the rhetoric, but they were very favorable towards the idea that every American be required to have a private health insurance plan. As far as a private company is concerned, having everyone mandated to buy your product, that’s a great thing. And this goes on and on, I think what we’ve seen over the last 20 or 30 years is a rise of sort of policy feudalism in the United States. That is, there are these corporate sectors that have a huge amount of stake in a particular area, right, if you’re a corn producer you care about ethanol subsidies, if you are a big oil, right, you care about the special subsidies for gas, if you are a health insurance or pharmaceutical company you care about the way Medicare is structured or the subsidies for private health insurance or the requirements for private health insurance, and on and on and on. And at one point in time I think there was more of a creative tension within the business community. There were, sort of, corporate leaders who said, okay, we have these broad set of objectives we want, we don’t want government to get too big, we
want to make sure there’s a simple, fair tax cut, but over the last generation we’ve see the sort of, chieftains, the princes in each area, basically be given carte blanche by all the other segments of the business community. So, um, all these companies are paying so much for health insurance, but who gets to decide what’s good for the business community? The private health insurance industry. Right? All these other companies are paying enormous amounts for energy, but also are facing the risks of climate change, but who gets to decide what’s good for American business sector in energy? The oil and gas, and the coal companies. And so, this, the government in these instances is not a referee or an arbiter, but it’s a source of sustenance for these companies. And what happens is you essentially end up with a government that is, in these crucial areas, captured by powerful economic interests. And it’s no surprise, then, that lots of citizens on the right and the left are pretty skeptical of government. I mean, one thing that The Tea Party and Occupy Wall Street have in common is that they both think that the Wall Street bailouts were basically a huge giveaway to the financial industry so one side says as a result of this we need to tear down government, even though in practice most of the politicians, who are, that the Tea Party supports, really are very favorable towards government activities, certain kinds of government activities that pour money to corporate coughers. The other side says, well, I’m not sure what Occupy Wall Street would say in terms of prescriptions because they still haven’t articulated that kind of forward looking philosophy, but clearly they believe the problem is that our government is captured and that we need to have serious political reform so that politicians can be backed on behalf of public interests. So both sides feel that government isn’t working well and for relatively similar reasons because they feel government has basically become, uh, an agent, um, you know, uh, an abettor of corporate interests.

A.G. 01:06:24 Well it’s become part of the market, I mean, ultimately you get what you pay for. I mean.

J.H. 01:06:29 That’s the golden rule of American politics, he who has the gold rules. Right? So, you get what you pay for, but let’s be clear, right, there is no natural free market, government has to set up the basic rules of the road.

A.G. 01:06:43 No, I meant something different in the sense that you have a free market in terms of buying government.

J.H. 01:06:49 Right. Oh, that’s right. That’s true. That’s true. Absolutely. So, you know, we see corporate lobbying and contributions dramatically escalate. And lobbying was about a 4/10 of a billion dollar, you
know 400 million dollar a year industry in the 1980’s and it’s about a 4 billion dollar industry today. And you might ask, why would corporations invest more and more in this particular good that is lobbying. And I think the obvious answer is if you’re a savvy profit seeking firm, that there’s something in it for you, right, that it’s a rational strategy. And it turns out there’s a lot of research that suggests that that’s true, that corporations that lobby more or rely more on government lawyers who have once worked in government get a lower tax rate, corporations who lobby more might actually have a higher, uh, profit rate because they’re getting favorable public policies. The studies are just piling up that suggest there is a real influence of this lobbying. And so, one time political scientist were sort of skeptical, they said, well you know there’s interest groups on one ides and there’s interest groups on the other side, but that was 40, 50 years ago when there was a much more diverse, more pluralistic political environment, where there was labor, and where there was corporate interest and there was a ton of social movements and, kind of, broad activist groups that were active on these different issues. Today, basically, the people who invest some money are the ones who care the most about the outcome because they benefit financially from it. And occasionally that’s two different groups, so they’re fighting each other, who gets the spoils, but a lot of the times it’s basically one group. So, the hedge fund tax loophole, the, uh, we’ve talked so much about, right, the hedge fund loophole costs all of us probably about 24/25 billion dollars over ten years, is what the new estimates are suggesting. It costs us a lot of money, but it’s a cost that’s born broadly by our society. On the other had, if we were taxing, um, the incomes of hedge fund managers the way they should be taxed. Individual managers like John Paulsen would see their tax bill dramatically go up, um, they would spend, they would pay millions of millions and hundreds of millions of dollars more in taxes, so you can guess that they’re going to be pretty motivated to fight that. During the estate tax fight, the Democrats offered up compromise after compromise in 2001 that would have basically exempted all but the very small, the very, uh, small number of people who had the largest estates. Uh, the Wal-Mart, the Walton family that’s gotten all its money from Wal-Mart. The Republicans said no deal, right, because for those groups this was an enormous gain if they could get it. So, we’re talking about not just, policies that help those in the top third, or the top ten percent or the top one percent of the income distribution, a lot of times we’re talking about policies that help a handful of people at the very, very top. The top 25 hedge fund managers or the 50 richest families of the united states and these folks have a lot of money to put into politics. These are people like the Coke brothers, Charles and David Coke. Right? And what do they say, do Charles and
01:10:08  David Coke talk about how they want to fund campaigns to do they talk about their commitment to a broader vision of, um, of the civic world? No, what they say is that we're in it to change policy, we want to make sure that every state legislator and the national legislator has rule to make it hard for unions to form. We want to make sure that tax rates are as low as humanly possible on the richest of the rich. So, they care about policy and they push for policy change year after year after year, right? Whereas most Americans pay attention if they do at all just before an election, right? And an environment that's dominated by claims and counter-claims. So it's a really imbalanced universe and there just aren't those groups that were back in the old era that really represented the broad middle class on a lot of these issues.

A.G.  01:11:03  But also the other thing changes that elections cost more now, there's a pressure point now, and they're more desperate for cash.

J.H.  01:11:13  Yeah, you have to buy pricey consultants. You have to do all these get out to vote drives because you can't rely on the unions to do that. So yeah, the costs have gone up of being a politician, of getting elected, right, and the people who run that gauntlet, who are elected are the ones who the ones who are most effective at raising money from deep-pocketed owners and who are able to get the support of ideological activists, and that's particularly true on the Republican side of the aisle. I mean, there's a tendency to say, oh, you know, we've seen this huge polarization of the parties, the Republican party has become more conservative and the Democratic party has become more liberal, and there's an element of truth to that. Certainly Democrats are more liberal than they were when there was this huge group of southern conservative Democrats, who were very, very conservative on racial issues and Republicans are way more conservative than they used to be, there's no doubt about it. But it hasn't been a kind of equal polarization, it hasn't been that both parties have kind of moved apart from the center at the same rate, in fact every piece of evidence that we as political scientist have, suggests that the Republican party has raced to the right and the Democratic party has sort of drifted to the left slightly. And the Republican party, I believe, has raced to the right because of two major changes. One the rise of money, right, and the rise of this much more equal economy, and for Republicans that has been extremely useful, right, because it's meant that their anti-tact, anti-government agenda, um, their anti-regulatory agenda, which often involves using government and giving goodies to people, but which is very powerful for reaching these lobbying groups and ideological conservatives and top donors, that has allowed them to prosper as a party. But they also have managed, I think, uh, a kind of wonderful
jujitsu move in that they’ve also managed to bring a lot of working class voters to the party as well with more culturally conservative themes. And, there’s a ton of research on this, a ton of writing on it and the clearest thing is that for the party that’s been an enormous gain. They have a lot more running room electorally because they have both this sort of upscale constituency that really supports their conservative economic policy and a less affluent constituency that’s more in tune with their socially conservative position. And the result is that Republicans have had a very free reign on a lot of these issues.

A.G. 01:13:53 Yeah, I mean my brother is a ditto-head, so I mean he, he is, his thing is, you know he sees, liberal Democrats as finger-waggers and that’s it for him and so, don’t be lecturing me. It’s all about the freedom, which is, but, his unemployment insurance is not a Republican institution.

J.H. 01:14:29 Was it Janis Joplin who said “freedom is just another word for nothing left to loose?” Yeah, I mean, so, yeah, I think this aspect of the transformation, that is the degree to which Republicans have been able to, um, stitch together and electoral and governing collation that includes the very well off and the deep pocketed lobbying groups on the one hand and lots of middle-class white voters on the other is enormously important to understand what’s happened in American politics. The important point to make is that Republicans have not had to make any concessions on their economic agenda to do that. And that’s, that’s what makes it so powerful. That’s what makes it have such a big effect on what we’re debating in American politics. So they managed to get, uh, conservative evangelical Christians on board largely by appealing to them on social issues, and as a result they can still go for this anti-tax agenda that probably isn’t going to have any positive benefit for many of those less affluent voters who side with them. And I think that this is mostly been driven by leadership strategies rather than sort of grass-roots pressure. I think that conservative Christian leaders, basically decided that siding with the Republican kind of free-market anti-government agenda was an essential part of building this coalition where they would get at least symbolic affirmation of culturally conservative themes, but if you look at what Republicans have done in office, for the most part they’ve really focused on the economic side. The stuff that they’ve been able to pass has been big tax cuts for the rich, uh, deregulation, uh, policies that are pushing to privatize existing public programs in and the like. They have not managed to repeal Roe V. Wade for example, they have seemed not to be able to hold back the tide of increasing support for gay marriage, they have been much less
effective. Now some people, Thomas Frank in “What’s the Matter with Kansas” argues that this is an elaborate bait and switch, I, my views are a little different, I think that in a lot of ways the conservative social agenda has suffered for the fact that it’s very hard, that we’re becoming a more tolerant society and that it’s very hard to get affluent Americans on board with this agenda, that rich Republicans are pretty socially liberal. So it’s just been a much tougher political road, on the other hand this transformation has just greased the skids for a massive amount of policy changes that help those at the top economically.

A.G. 01:17:18 I’m sorry, could you just say that last part again.

J.H. 01:17:20 But at the same time this transformation has just greased the skids for a massive amount of policy changes that help those at the top economically.

A.G. 01:17:29 Two last questions, one easy, one, not harder, but it’s, uh, broader. Now I don’t know if Blair told you, but the way we’re focusing understanding how the top one percent does what they do is by focusing on a particular geographical location: 740 Park Avenue.

J.H. 01:17:40 Oh, wow. That’s wonderful.

A.G. 01:17:44 That happens to be the residence of Steven Schwartzman and David Koch.

J.H. 01:17:54 That’s where the Schumer thing was. Wonderful.

A.G. 01:18:00 Um, so.

J.H. 01:18:05 I’ve never been we should go there. If you ever need a follow-up interview I’d love to look up there and go, “wow.” Okay, go ahead.

A.G. 01:18:10 And Steven Schwartzman is in the apartment, I think, of which Rockefeller? [Off screen third person] Uh, John, the son.

J.H. 01:18:18 He’s a piece of work, I have to say. Go ahead, yes.

A.G. 01:18:22 Well, he’s a veteran of Yale.

J.H. 01:18:24 Yes, Yale has a strong connection to the Winner Take All economy. After all, George W. Bush was a graduate and he was, I think, one of the more powerful figures in creating these tax cuts for the very rich that we’ve seen over the last decade. But, you know Schwartzman, you go ahead. You were going to ask a question. I don’t think I have a Yale story to tell here.
A.G. 01:18:50 Okay, I was going to ask a question about David Koch, because the, you talked a little bit about the Coke brothers, but also just in terms of a pure self interests, I mean what you see is, look, they’re an energy company and so they’re, correct me if I’m wrong, but I mean they’re very effective at undermining, uh, ecological regulations that might affect their bottom line.

J.H. 01:19:19 I think you’d have to say if you had like a list of the dirty dozen, right, the political and economical leads for most responsible firm, failure to address these fundamental issues, like climate change and environmental degradation, you’d put the Coke brothers really high up on the list. David Coke right up there at the top, probably, because their industry relies on lax oversight of environmental rules and on weak environmental regulations and at the same time the Coke brothers, I think, have decided that this kind of anti-environmental agenda is part in part of a larger anti-government agenda. In this respect, I think they’re similar to other leading conservative politicians historically, so if you look at Tom Delay who rose to be this leading Republican, you know, eventually he was the leader of the Republican party in the house, now discredited but he was a very powerful figure. He created this huge lobbying network, uh, where Republicans were basically overseeing who K-street firms were hiring and working with K-street firms or just favoring them depending on whether or not they would go with the Republican agenda more broadly, is called the K-street project. Delay was, uh, the hammer, uh, he was you know a former, uh, pest remover. I think the technical term is, right, is he would… yeah so he’s a pest control guy. Like Terminex or something like that. And he, in his work, became enraged at the amount of rules that were required with handling these pesticides and became a, you know, huge opponent of the EPA, the Environmental Protection Agency, which he called the Gestapo. Um, and this sort of anti-regulatory fervor that you saw on Delay’s part and you saw against the Occupational Heath and Safety Administration and then against the IRS which became the sort of villain even though we need to have a well-functioning IRS if we’re going to have fair application of the tax code. All these kind of anti-government crusades were waged against very specific parts of government, right? The specific parts of government that were trying to make corporations play by fair rules and in particular to make the corporations of these different individuals worked in or cared the most about play by fair rules. So the Coke brothers, right, had decided that all these environmental rules and requirements are just like a huge boot on their throat and they take…
… that, the fact that they’re disadvantaged by some government regulations that are designed to protect the population as a whole to be the kind of sign that the government is overreaching more broadly. Right, and so what’s the connection between some public sector teacher and her collective bargaining rights and environmental regulations? Well, there’s not much of one except for, if you’ve decided that because government won’t let you pollute the waterways or the skies or do whatever you want with your industry, that government is evil, then you think that we should do away with all of these rules and all of these requirements. And so ultimately I do think that the vision that’s behind this is one in which we as a society are atomized, we’re on our own, right? We are the, sort of, crusaders who have to deal with economic risks and insecurity by ourselves. We’re the ones who create value and we deserve to get the reward. It turns out there’s just a small circle of us, according to the Coke brother, we’re the ones who really create value and they’re being fettered by the government and that view, I think is so at odds, I think, with this longer-standing tradition in American life which says, we’re in this together, right, we’re a community. I mean, this was a vision that said that ultimately we needed to deal with the scar of slavery, this was the vision that said that we had to reform the workplace, and labor, this was the vision that said that women should be equal partners in our society. And it’s not a foreign vision to the United States, it’s at the heart of the American ideal. Um, all of us are created equal, all of us have the equal potential to influence what government does. And that vision that says that the economy and society is a common project, that of course we all strive to do the best that we can on our own, but we rely on others, right? And we give to others, right, we’re generous society, uh, philanthropy is a huge part of that, but also we’re generous through our government in that we make sure that people have basic protection against retiring with poverty, or they have basic protection against ruinous health-care costs. That is what, I think, the contemporary conservative attack is denying. It’s denying something very fundamental about who we are, that we’re in this together and to me, that’s the greatest threat that this poses. That by pushing this agenda it will create a society in which people don’t trust each other, don’t rely on each other and don’t give to each other.

Great last, question, and it’s pretty, it’s actually quite related to what you were saying right at the end there. What do we know about the degree to which income inequality affects economic opportunity? In other word, if you were at the bottom, particularly way at the bottom
is this the American dream? Is it easy for you to make it all the way to the top?

J.H. 00:02:55 Well we know that more unequal societies are generally societies in which it’s harder to rise up the income ladder. Um, the economist who, Kruger, has dubbed this the Great Gatsby curve and what he shows is that countries that have low levels of inequality also have higher levels of inter-generational mobility. That is less of a relationship between parents and children’s economic outcomes and that’s the essence, isn’t it, of the American dream. That no matter what your background that you the ability to climb up the ladder to make a life for yourself. We also know that the united states stand out as being a country with relatively little upward mobility, particularly a mobility from the bottom rungs of the economic ladder to the middle and the top. People seem to be stuck at the top, very happily so I guess, and at the bottom, much less happily. So, we haven’t seen over this generation in which inequality has grown we haven’t seen some kind of counter veiling increase in the chance that people will climb the economic ladder, which might sharper the sharp edges of rising inequality. After all, if we all could be, uh, we can’t all be in the top 1%, but if we all had the possibility of being up there then I think people would be much less concerned about these trends. And I think that Americans tend to believe that they can make it. That the American dream is strong despite evidence, that people’s belief in the American dream is strong despite evidence that it is, actually, very hard today to rise up the economic ladder, but I think that’s the greatest problem. Inequality is, itself, I think, worrisome, but it becomes dangerous when it translates into unequal life chances, unequal opportunities and unequal political influence, because we as society have very complex views about economic inequality. Um, Americans are, uh, are not of the view that all inequalities of wealth or income are unjust and in fact they think if you work harder if you seize opportunities then you should be able to get ahead. But there is a very strong consensus in the United States that we should have equality of opportunity, that everyone should have a chance to rise up the income ladder, everyone should have a chance to lead a good life. And there’s also a very strong belief, maybe even a stronger belief, that our democracy should be open to all. That even though we come from different background, have different views and values and have different incomes, we should have the equal potential to influence what government does. And I just don’t think anybody looking at our society today can believe that we have anything approaching equality of opportunity or equality of potential political influence. Did my stomach get in the way there? Yeah. Okay.
A.G. 00:06:02 Yeah, it would be nice if you stated that closing statement…

J.H. 00:06:04 And I don’t think that anybody looking at our society today can believe that we have equality of opportunity or that we’re close to realizing that ideal, that everyone should have the equal potential to influence what government does.

A.G. 00:06:18 Great.

J.H. 00:06:19 Good.

A.G. 00:06:22 [Off screen third person] Yeah, well, I just, I think it’s important to clarify just one point in your book, your second book, “The 30 Year War” and talking about this happening and to clarify really when it began because in your book you point out that it doesn’t begin when most people think it begins.

J.H. 00:06:40 Yeah, and I haven’t really talked at all about the mobilization business, so we could very quickly just, uh.

A.G. 00:06:46 I think if there’s a brief, just sort of the landscape of the 70’s leading up and that, that, the origins of it. I think if you could hit that, that could be great.

J.H. 00:06:57 So, a lot of people think our contemporary political polarization is a legacy of the 1960’s and it’s about cultural issues that arose in that period about this sort of backlash against the liberalism of the 1960’s and the libertine qualities of the 60’s. But in fact, our government, our policies didn’t change much into the mid-1970’s, that Richard Nixon may’ve run speaking for the silent majority but he governed pursuing many of the same economic and social policies that Johnson had, or that Kennedy had before Johnson, or that Truman had before Kennedy. The real shift point, surprisingly to us, is the 1970’s and the late 1970’s in particular under president Jimmy Carter. So, we have a period now, in the late 1970’s where you have a Democratic Congress and a Democratic president and yet, in 1978 and beyond you get a major defeat for organized labor that is seeking reform of labor laws and ends up losing in a filibuster in the Senate which was unheard of at the time. You get a defeat of an effort to link the minimum wage to, to, general wage inflation so that the minimum wage wouldn’t just erode over time. You get passage of massive tax cuts for the rich, including a big reduction of capital gains tax rate. And that’s pretty puzzling, right? I mean after all, the Democrats are in charge and you get conservative policies, whereas under Nixon you have a Republican president and you continue to get liberal policies. So, what explains that transformation? And in the book we argue that it really has to do
with the mobilization of business that occurred in the mid-1970s. Because of Ralph Nader and other corporate reformers, business was pushed back strongly on the defensive in the early 1970’s and of course this was a tough time for business and for the economy overall, profits were down, the economy was reeling from the oil price shocks and what did business do? Well, they followed the prescription of the future Supreme Court Justice Lewis Powell, who wrote an influential memo for the chamber of commerce saying that business needed to organize. Businessmen of the world unite might have been the slogan for these efforts. They created new organization, they invested enormous new sums in politics, they started to change their strategies, moving from New York in the case of one big businesses organization, to Washington, and developing personal relationships between CEOs and politicians, and the result was that in the late 1970’s the Carter administration and Democrats got rolled over on every major issue. They said they’d never seen lobbying like this before. They said they’d never seen the kind of organization on the part of the business community and corporations emerged victorious in these battles and that was the precursor to the massive tax cuts that occur in the early 1980’s under Ronald Regan. Really the dye had already been cast at that point. And business doesn’t stop there, that’s just the sort of warm up act, because over the next two or three decades they start to invest more and more money in politics. They take from these victories a sign that they don’t have to complacently wait while government policymakers decide what to do, but that they can influence the writing of the laws, the implementation of regulation, the degree to which the tax code tilts towards business and those at the top versus ordinary working Americans. And it all starts in this forgotten period in the late 1970’s.

A.G. 00:10:30 Great. Now let me sneak in one last one, which is, within the context of the themes you were talking about what role, in terms of defending the prerogatives of the 1%, does Stephen Schwarzman have?

J.H. 00:10:44 I mean, Schwarzman is a kind of complex figure because he often can be very conciliatory when you meet him in small settings. I was at an event where he was attending and he forswear any views on many of these hot button issues like the 2010 financial reforms. But when he’s less guarded he clearly has very strong views. He, for example, said famously, now, that taxing hedge fund income the way that ordinary wage income is taxed would be akin to when Hitler invaded Poland. He’s obviously a very hardcore Republican and has been supportive of conservative causes, and I think Stephen Schwarzman is emblematic of one wing of the Wall Street world. As
Wall Street became massively more well-off it also produced this set of elites who believe strongly that they’re self-made. So you have Schwarzman as one example, another I would mention here would be Sandie Wile, um, yet another would be John Paulson. Uh, when the Occupy Wall Street protests were taking place John Paulson poo-pooed that they were going to drive away business and tourism in New York City and that these people shouldn’t be whining, basically they should get a job. Um, or if you look at Sandie Wile, before he was discredited as head of the massive conglomerate CitiGroup, he of course, was the leading proponent of repeal of the Glass-Steagall Act, that made the CitiGroup possible. So, Sandie Wile, in 2007, I believe was interviewed by the New York Times, it might’ve been a little earlier, 2005, Sandie Wile was interviewed by the New York Times in the mid-2000’s in an article entitled, ‘The New Gilded Age’ and Sandie Wile said, we didn’t wait for somebody else to build what we built. If people can look back on this last 25 years and say it’s been an incredibly unique period of time, and it certainly has been for Sandie Wile and others at the top, this has been the age of riches. But it’s a little misleading to say that Sandie Wile didn’t wait for somebody else to build what he built because it suggests, right, that Sandie Wile thinks that he came to these riches through his entrepreneurial activities through his leadership of a major financial institution, when in fact a big part of the reason that finance grew so big was because of deregulation and other kinds of government aid. And of course after Wall Street and CitiGroup bit the dust, government came to the rescue as well. So maybe Sandie Wile was telling the truth when he said we didn’t wait to build, for somebody else to build what we built because it was actually Sandie Wile who led the lobbying charges against Glass-Steagall. On his wall, apparently, is a, when he was head of CitiGroup, on his wall was a four-foot plaque, my guess is it’s probably in the closet now, was a four-foot plaque that said on it, it had a picture of him and it said, “Shatterer of Glass-Steagall, Sandie Wile.” Right, so this is a trophy to his killing of a new deal regulation, so, that’s a story that I think we need to grasp, that many of these entrepreneurial leaders who believe they are self-made rich men, really relied heavily on government and they weren’t shy about it, they actually sought to change what government did, and the irony of our contemporary era is that those at the top worked very hard and are receiving most of their income in the form of wages and capital gains. They’re not living on the inheritances or large estates that were characteristic of the rich of the 1920’s, they are the working rich. But their rewards are not just because of their hard work and smarts but because our economy and our society is tilted so heavily towards rewarding those at the top. And so they believe that they are masters of the universe, that they deserve all the gains,
that they’re the ones who figured out how to surf this new economic world and master it, but in fact what’s happening, I believe, is that we’ve seen a distortion of our market in ways that have specifically been designed to help those at the top and these people have been reaping the rewards of a tilted political system as well as a changed economy.

A.G. 00:15:16 And actually, I mean you think of it, in terms of love-sports metaphors, I mean it’s not like through hard work they drove their team to the end-zone, it’s more like they figured out which referees to pay so they could change the rules of the game.

J.H. 00:15:33 Right, and a lot of times they probably started on their opponent’s ten yard line as well, so, yeah. That’s a very good way to put it, that you know, the playing field has been tilted in American politics and it’s not easy for those on the winning side to always see just how much they’ve benefitted from this tilt. But the fact is, is that, ask anybody, any normal American whether they think government is working well for them and they’ll say no. There was a poll that was done in 2010 that asked Americans whether or not the federal government helped a bunch of different groups a great deal. So they asked about large banks and financial institutions, uh, 53% said that the federal government had helped them a great deal; this is right after the bailouts. Then it asked about large corporations, 44% said that they’d been helped a great deal. And then the survey asks about the middle class and just 2% of respondents said that they thought the middle class had been helped a great deal. So most Americans don’t believe that the government is on their side. They think it’s basically put the ball on the ten-yard line and the people they’re playing against, the biggest corporations, the richest Americans have a huge advantage in the fight.

A.G. 00:16:55 Great.

J.H. 00:16:56 Thanks.

A.G. 00:17:01 Thanks. Good. Thank you. Shoot 15 seconds of room tone.