

Supercapitalism and its Discontents: An Interview with Robert Reich

Robert B. Reich is Professor of Public Policy at the Goldman School of Public Policy at the University of California at Berkeley. He has served in three US administrations, most recently as secretary of labor under President Bill Clinton, and has written eleven books, including *The Work of Nations*, *The Future of Success* and *Locked in the Cabinet*. His articles have appeared in the *New Yorker*, *Atlantic Monthly*, *New York Times*, *Washington Post*, and *Wall Street Journal*. The introduction to his most recent book, *Supercapitalism: The Battle for Democracy in an Age of Big Business* (published in the UK by Icon Books), can be read exclusively in this issue of Democratiya. The interview took place on 21 August, 2008.

Personal and Intellectual Influences

Alan Johnson: What have been the most important personal and intellectual influences on your thinking and your life of activism in Democratic politics?

Robert Reich: I have been fortunate enough to have had several mentors, among them the late economist John Kenneth Galbraith and Robert F Kennedy, in whose office I worked when I was in college. I have been influenced intellectually by social contract theorists but it was the civil rights movement that was responsible for getting me involved in activism. I am very short and was bullied as a kid. A young man several years older often helped me keep the bullies at bay. His name was Michael Schwerner. In the summer of 1964 he and two other civil rights workers were murdered as they tried to register blacks to vote in Mississippi. That was something of a turning point for me; I was determined that the bullies would not win in society at large.

Part 1: The Paradoxes of Supercapitalism

Alan Johnson: Your new book *Supercapitalism* is about the paradoxes of today's economy – great deals for consumers and investors but also widening inequalities, heightened job insecurity, environmental decay, the loss of Main Street and its surrounding community, and the crassness and violence of much of contemporary culture. And it's about the erosion of the very institutions that could address those paradoxes – the democratic political process and our civic life.

You draw a contrast between the ‘Supercapitalism’ of our era and the ‘democratic capitalism’ of 1945 to the mid-1970s when we achieved ‘something approaching the common good.’ You describe those three decades as a ‘not quite golden age.’ What made them ‘golden?’

Robert Reich: Everyone’s income rose in roughly the same proportion. Inequality declined, there was great optimism about the country’s capacity to overcome its social problems, and jobs were far more stable than they are today. We seemed to be haltingly on the road to a model of democratic capitalism that many people prior to the Second World War had hoped was possible. America became something of a model to a world struggling to forget its histories of totalitarianism, fascism and Soviet communism.

Alan Johnson: But then, you write, ‘something happened that changed everything: America and the world got on the road to Supercapitalism.’ What makes Supercapitalism so different to democratic capitalism?

Robert Reich: In two words: intense competition. The 1950s, 1960s and early 1970s were defined by far less competitiveness among companies and industries. That was the era of large oligopolies in many industries – two, three or four major competitors roughly co-ordinated their wages, prices and investments. It allowed for the organisation of labor unions industry by industry. In political terms it was the flowering of what we then called pluralism – special interest groups that spanned the political spectrum and the structure of the economy so that negotiations among them roughly corresponded with what democratic outcomes might be if we had a more direct democracy.

At the beginning of the 1970s, for a variety of reasons I chronicle in the book – most specifically, technological advances emerging from the cold war which made globalisation far easier and also undercut the entry barriers surrounding these vast oligopolies – competition dramatically intensified and deregulation became the norm. The result was a reduction in barriers to entry into every industry and into the profitable sector of every industry. The financial industry emerged as among the most profitable because it could orchestrate that intense form of capitalism from the standpoint of investors who could now get high returns by moving their money rapidly from one industry to the next, seeking the best deals. Consumers also benefited because of the spread of innovation that followed on the heels

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of this competitive surge, and as prices moderated or declined with regard to standardised commodities.

But there was a downside. Although we gained ground as consumers and investors, arguably we lost ground as workers and citizens. Our jobs became far more tenuous and job security disappeared. Labor unions dramatically declined and wages became subject to a spot-auction in the labor market. Inequality therefore widened significantly.

These trends are not unique to the US. The US is an outlier, but if you follow trends in Europe, Japan and even in parts of the developing world you find they are moving in exactly the same direction – the structural changes I document in the book happen first in the US but then spread throughout the world.

Alan Johnson: This distinction between our ‘consumer-investor’ self and our ‘citizen’ self is central to the book. I found it a useful analytical device for thinking about both the attractive power of Supercapitalism and the difficulty we face in addressing its dark side through democratic politics. Can you tell us how this distinction emerged in your thinking and what role it plays in your diagnoses of the paradoxes of Supercapitalism?

Robert Reich: I frankly tired at the debate between conservatives and liberals or leftists over the structure of the economy, particularly over the role of corporations. It seemed hackneyed and tautological to me. The right generally supported corporations, came to the defence of the rich, advocated deregulation and globalisation. The left on the other hand demonised corporations, sought to slow down deregulation or re-regulate the economy and hated global trade.

But the closer I looked at the empirical evidence about how people behaved and formed their opinions about both politics and economics, the more it struck me that this monotonous debate had missed the point. Embedded within us are both consumers and investors delighted to get the best deals from all over the globe, delighted with deregulation if it allows greater choice, and seeking more access to high-quality and low-priced goods and services. The consumer-investor is not at all worried about corporations as long as competition is intense and corporations deliver great goods and services. At the same time, also embedded within most of us is a citizen and a worker concerned about the rising instability of jobs, the widening inequality of wages and wealth, the decline of Main Streets, the loss of community,

and environmental degradation. And yet we fail to appreciate the fundamental paradox: the consumer-investor in us is responsible for many of the consequences that the worker and citizen in us finds so objectionable!

How do we live with this cognitive dissonance? Mainly because we prefer to blame corporations and other intermediaries, when in fact it is us as consumers and investors who are acting as fly-wheels for the entire system. We fail to see the connections between ourselves as consumers and investors on the one hand and as workers and citizens on the other because our purchases in the market are in effect laundered through the market mechanism. We don't see that when we get a great deal from a company that has sub-contractors in South East Asia hiring small children we are not only complicit in the hiring of those children but also in the loss in the jobs and wages of our neighbours, friends and family who might otherwise be in a factory in America making the very same thing.

That's not to say that the worker and citizen in us should necessarily win or trump the consumer and investor in us. We might still decide it's worth it. But we don't even address the trade-offs. Instead we cast blame and pretend that our consumer and investor selves have nothing whatever to do with these morally objectionable outcomes.

Alan Johnson: You talk of trade-offs between our 'consumer-investor' self and our 'worker-citizen' self. One critic, Tony Judt, is unconvinced by these categories. He wrote in the *New York Review of Books*:

Reich's way of cataloguing human behavior – as though our affinities and preferences ('consumer,' 'investor,' 'citizen') can be partitioned and pigeon-holed into noncommunicating boxes – is not convincing. It generates good sound bites – 'As citizens [we] are sincerely concerned about global warming; as consumers and investors [we] are actively turning up the heat.' But it can't explain why American citizens are trapped in this paradox while citizens in some other places have begun to address it. The trouble is that Reich's categories faithfully reflect his epistemologically thin view of society: by 'citizen' he means no more than economic man + enlightened self-interest. There is something missing here. Not only are there no 'heroes,' no 'villains,' and no one to 'blame.' There are no politics either.

How do you respond to Judt?

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Robert Reich: But we do have these compartmentalised roles in our heads, and the sad fact of the matter is that we don't connect the dots. I am not defending this compartmentalisation. Perhaps Professor Judt thought my explanation was a justification? Not at all. Quite the opposite – it's only when we begin to address this conflict that we can rescue ourselves from the silly and unproductive right-left debate we have been having all these years, and begin to take some responsibility.

Alan Johnson: Yes, the irony in Judt's claim that you pigeon hole human behaviour into 'non-communicating boxes' is that your work, at least since *The Future of Success*, has been in good part about integrating 'three conversations' that are usually kept apart – an enthusiastic conversation about the wonders of the new economy, a fearful conversation about the depredations of (the same) new economy, and a personal conversation about how to achieve happiness and the good life in the new economy. Judt, I think, misreads the book by mistaking a heuristic device designed to help us think of ourselves as more fully human with one designed to install economic man as the measure of all things.

Part 2: Supercapitalism and the diversion of democracy

Alan Johnson: Supercapitalism is not an anti-capitalist book. Indeed, you claim 'Capitalism is almost certainly a precondition for democracy.' Nonetheless, you also warn us that the new form of capitalism, Supercapitalism, has 'spilled over into politics, and engulfed democracy.' Why is Supercapitalism so dangerous for democracy?

Robert Reich: The intense competition that now characterises the market, and which gives consumers and investors such great deals, doesn't stop at the edge of the democratic process, but moves right into politics. In recent years there has been a great escalation not just in political donations but in lobbying, corporate public relations efforts around policy issues, and corporate legal activities in Washington, Brussels and other major business centres around the world.

This escalation cannot be explained without connecting it to the structural change towards far more intense competition in the economy. You see, if you examine closely what these lobbyists are doing in Washington and Brussels, you find that mostly they are *fighting each other*. Different industries are squaring off, or segments of industries or large companies are battling each other, to make sure that public policies work to their advantage and not to the advantage of their competitors,

or to make sure that they get their share of public subsidies and protections, or to make sure those subsidies and protections don't go to their competitors.

Google, for example, never thought about having a Washington office until it became a public company and had to deal with the stark reality that its major competitors, Yahoo and Microsoft, had platoons of Washington lawyers and lobbyists. Google was understandably worried that there were so many issues – intellectual property, competition policy, and trade policy, for example – that might be decided to its disadvantage if it did not have its own platoon of lobbyists in Washington. It's an arms race, egged on by lawyers and lobbyists who have their headquarters in Washington and Brussels, and who carry on what can only be described as an extortion racket, selling their services to large companies, creating and sponsoring trade associations, bundling campaign money, and all in an effort to drum up more business from other companies and other sectors of the economy.

Alan Johnson: What is the impact of Supercapitalism on our culture, the quality of our lives, the texture of our societies? It's been common to point to liberalism, Hollywood, and the legacy of the Sixties in explaining the coarsening of our culture and the rise of infantilism and violence. Why are you unsympathetic to that approach?

Robert Reich: The root, to my mind, is again the intensifying competition. Consumers and investors are in a far more powerful position, and consumers unfortunately want sex and violence. Now they can get it. There is great pressure on the entertainment industry to give consumers precisely what they want. Investors want to get the highest return, and if they can get the highest return by investing in companies that put out trash, then so be it. Here again, it's us as consumers and investors who are behind all of this. It is absurd to blame Hollywood or the entertainment industry. What do we expect from them in this intensely competitive market? They are going to give us what we want.

Part 3: Prescription: separating Supercapitalism from democracy

Alan Johnson: You do not think progressives should seek a return to the democratic capitalism of the 1945-75 period. That's gone and can't be made to return. Rather, you argue we should 'fashion a democratic capitalism more suited to our noble expectations for the 21st century.' And at the heart of achieving that

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goal lies the most fundamental idea in your book: the need to ‘separate capitalism from democracy and to guard the border between them’ (p. 167). This could be the basis of a new progressive agenda. What does it mean to ‘separate’ supercapitalism and democracy?’

Robert Reich: It means we have to be very vigilant about creating laws and rules that limit not only campaign donations – they are only the tip of the iceberg – but also lobbying, public relations campaigns by corporations on public issues, and the overwhelming dominance of lawyers and ‘expert witnesses’ paid for by corporations. Otherwise public policies will reflect what corporations seek, and what corporations seek will reflect what we in our roles as consumers and investors seek. In other words, there will be no room in the political process for us in our roles as citizens and workers.

You see, the one piece of connective tissue between our consumer-investor self and our worker-citizen self is the democratic political process. Politics should be able to address the conflict between what we want as consumers and investors and what we want as workers and citizens. We can’t address that conflict as individuals because of the problem of collective action. Even if you as an individual were to decide to change your purchasing and investing habits to better reflect your moral and social values, you would have no reason to think that anybody else would follow your example. And therefore your sacrifice would be fruitless. It’s only through collective action that these trade-offs can be addressed. Politics is the means of confronting this deep conflict in our selves and in our culture. But if corporations overrun politics then our consumer and investor selves overrun democracy, and our citizen and worker values have no means of expression.

Alan Johnson: You claim that instead of politics doing what politics should do – passing laws to regulate Supercapitalism, confronting and balancing the trade-offs between our consumer-investor selves and our worker-citizen selves – we have instead a systemic ‘diversion of politics.’ I’d like to explore four of the diversionary forms you criticise.

First, you describe the campaign against particular companies, such as Wal Mart, ‘an ersatz politics – a massive diversion from the real thing.’ Can you explain?

Robert Reich: It makes no sense to go after an individual company except perhaps as part of an effort to organise workers and get the company to accept a labor union.

In terms of trying to get consumers and investors to change their practices this kind of campaign violates the underlying reality that consumers and investors want the best deals they can get. A small percentage of consumers and investors may decide to boycott Wal Mart if they are aware that Wal Mart is doing certain things that those consumers and investors find morally objectionable but the percentage is likely to be very tiny. And even if they do boycott Wal Mart, a new Wal Mart-like company will move in to fill the space. The only way we can get changes in the practices of big-box retailers like Wal Mart and its competitors is to pass laws that require such companies to do certain things and refrain from other things that we find objectionable.

Alan Johnson: Second, you do not think ‘corporate social responsibility’ is an answer to the problems caused by Supercapitalism. Why not?

Robert Reich: It’s mainly public relations. The danger is that it convinces the public that certain social problems are being addressed when they are not. Right now, every company is calling itself ‘green’ and pretending it is on the cutting edge of cutting carbon emissions. Nothing could be further from the truth. Some companies are doing this because they want to get ahead of legislation they see coming. But even if you add up all the efforts of every private sector company to be more environmentally responsible it’s a very small effort relative to what needs to be done. Here, as in so many other areas of our public life, we are misled into thinking that the private sector, out of its own magnanimity, will tackle the problem.

Alan Johnson: Third, you are sceptical about the potential of either ‘stakeholder capitalism’ or ‘triple-bottom accounting’ to tackle the paradoxes of supercapitalism.

Robert Reich: Competition is so intense, the demand from consumers and investors for great deals is so paramount, that companies simply do not have the discretion to sacrifice their bottom lines for the pursuit of environmental responsibility, or any other value that the worker and citizen part of our beings might find important.

Undoubtedly there are instances when companies can get a high return on investment and provide customers with a great deal by opting for a more socially responsible means over a less socially responsible means. But we are talking here about a very narrow band of discretion. Again, as competition intensifies, corporate discretion declines. And the public should not be hoodwinked about this. If being

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good to employees or communities, or taking care of the environment, was good for the bottom line then companies would be doing it already.

Alan Johnson: Fourth, you note a depressing pattern in politics itself. Politician A will attack Wal Mart but propose no new rules to stop the practices he objects to. Politician B will complain that CEOs who ‘export jobs’ are ‘Benedict Arnold CEOs’ without the slightest intention of doing anything about this. Bracketing the question of whether it is progressive to oppose ‘the export of jobs,’ why do so many progressive politicians prefer moral grandstanding to legislating?

Robert Reich: For two reasons. First, they often depend on trade associations, corporations and corporate executives for a large share of the funding of their campaigns. Second, because the moral exhortation seems to fulfil the public’s need to see them as champions. So it’s a cheap way to buy off the public without jeopardising the flow of campaign contributions. Again, it is important that the public understand what’s going on. Calls for ‘corporate social responsibility’ from politicians are as much public relations as the claims made by corporations to be responsible.

Alan Johnson: You argue we need an alternative to these forms of the ‘diversion of politics.’ You write: ‘The only way for the citizens in us to trump the consumers and investors in us is through laws and regulations that make our purchases and investments a social choice as well as personal one.’ Can you give me some examples of the laws and regulations you have in mind?

Robert Reich: The silver lining is that because the onslaught of corporate lobbyists, lawyers and public relations professionals has been an arms race, it is in the interests of companies to de-escalate. The McCain-Feingold campaign finance law was enacted partly because a number of CEOs of major companies supported it as a means of reducing the amount of money they would have to pay to the lobbyist-extortionists in Washington. There may be many other things that can be done along those lines.

There are also ways by which campaign finance can be dramatically improved. In the US we have the first amendment to the constitution which guarantees free speech, and, according to court decisions, the spending of corporate money is free speech. But even given that bizarre interpretation, it is still possible to limit corporate contributions by the simple expedient of requiring all candidates to set

up what might be termed a ‘lock-box’ or a trust into which contributions would go. The candidate could never legally know who contributed what, so immediately all those corporations seeking influence through their campaign contributions would have no reason to do so. But anyone who wanted to support a candidate because they believed in what the candidate stood for would not be deterred.

Government’s most profound role when it comes to markets is to design the rules of the game. Without government’s continuing efforts over several centuries to organise and enforce markets we would not *have* markets! The view that somehow the market exists on one side of a great divide, with government and politics on the other, is false. The definition of property, of what forms of contracts can be enforced, of the rules of liability when it comes to all sorts of issues that are changing every day because of new technology, all of these things require government decision-making. But at present that decision-making cannot reflect our values as workers and citizens. Rather, because of the dominance of corporate interests in politics those government decisions largely reflect our values as consumers and investors.

Alan Johnson: You argue that if we seek change company by company without changing the rules of the game, then competitive advantage will simply move to those companies that are not yet ‘socially responsible.’ As you put it, ‘There is no logical stopping point.’ But then surely those rules must be international – a change of rules in one country will simply shift competitive advantage to other countries. Does the logic of your argument point to the need for supranational economic governance?

Robert Reich: Not really. We are not going to get to any kind of international or supranational mechanism any time soon, certainly within my lifetime. We’ve had enough difficulty trying to get the EU to function! Look, there is cause for some optimism here. Europe and the United States each contain around 300 million consumers, and quite wealthy consumers, relative to the rest of the world. This is a market in which every company in the world wants to be able to function – selling goods hiring talent, getting investment capital. The EU to a considerable extent, and certainly the US, have the ability to set the rules of the game in such a way that every major player in the world is affected.

Alan Johnson: How can progressive politicians gain electoral majorities for these new rules if it is true, as you show in the book, that ‘Consumers say they care about social responsibility, but in practice few care enough to pay more for it?’

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Robert Reich: First, I want to distinguish between my own values as a progressive – and I talk in the book about how I would trade-off my consumer and investor values against my worker and citizen values – and my hope that the book itself should be of use to conservatives. They may simply make trade-offs in a different direction, but the points I make apply to all of us. A right-winger also has citizen values and exists as a worker with concerns that extend beyond his or her role as a consumer or investor.

But to answer your question, it will continue to be difficult for progressives to make much headway in the democratic process as that process is now organised. Let's assume for the sake of the argument that progressives can be recognised and defined by their willingness to trade-off consumer and investor values for the sake of worker and citizen goals. Logic dictates that until we have the sorts of understandings that I am advancing – and changes based on those understandings with regards to keeping the consumer-investors in us at bay, so that the democratic political process can reflect our citizen and worker values – then nothing much is going to change. We may elect people who call themselves progressives, but they are going to be confronted with the same dilemma all over again.

Alan Johnson: Your account of the civil war raging between our consumer-investor self and our worker-citizen self reminded me of a presentation by a leading polling organisation at a policy seminar at No 10 Downing Street in Spring 2007. The British electorate, we were told, is sometimes like a well-known character from a British comedy show, 'Kevin' the stropky teenager. Kevin is impossible: he rages that he wants to be left alone to live his life on his own terms but also demands you iron his clothes, give him money, and taxi him around town. The polling results suggested that the electorate is like Kevin. The very same individuals wanted low taxes and top-quality services, localism and the removal of post-code lotteries, just as you say people want low process and great returns on investments plus ethical businesses that support union rights and a generous minimum wage.

Did the 'third way' of Bill Clinton and Tony Blair oversell our ability to reconcile economic efficiency and social justice? Did it fail to take proper measure of Supercapitalism and of how difficult its logic makes any such reconciliation? Ralf Dahrendorf once warned that the third way was a politics that spoke of the need for hard choices and then avoided them by trying to please everyone. But maybe Dahrendorf has it wrong. Maybe the third way did try to please one group more than any other: the consumer-investor. And maybe that's why the policies enacted

by third way governments have been timid, accommodating of Supercapitalism, and accepting of its logic? Maybe that's why progressive governments have presided over a rise in economic inequality and in many forms of mental distress, along with a cultural coarsening?

Robert Reich: As someone who served proudly in the Clinton administration I can tell you that the third way up-close didn't seem all that different to the first and second ways, precisely because the overwhelming dominance of corporate interests made it so difficult to achieve the degree of public investment we thought necessary, or to raise taxes on the rich in order to finance it. It can only be different next time if we have a genuine citizens and workers movement reflecting our values as workers and citizens, and understanding that there may have to be some trade-offs with our desires as consumers and investors to get great deals.

It's not all a zero-sum game, mind you. Economic growth and social justice depend on one another to some extent, as we are seeing right now in the US. It's very hard to keep an economy going when median wages are dropping and most people are going deep in debt and can't afford to buy. When wealth and income become extremely concentrated at the top the economy lacks sufficient aggregate demand to keep it going. We saw this last in 1928 when inequality reached similar proportions in the US. But the trade-offs are real, and to pretend they don't exist leads to great disappointment. The Blair and Clinton third ways raised public expectations a great deal and then didn't quite match them.

Alan Johnson: What are you working on now?

Robert Reich: I am taking off from chapter five of *Supercapitalism* and delving into what we can expect from the corporations and the private sector in the future.

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Alan Johnson is Editor of Democratiya.com and Professor of Democratic Theory and Practice at Edge Hill University.

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