



Power, Inc. The Epic Rivalry Between Big Business and Government--and the Reckoning That Lies Ahead

[Public Affairs Program](#)

[David Rothkopf](#), [Joanne J. Myers](#)

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Introduction

JOANNE MYERS: Good afternoon. I'm Joanne Myers, director of Public Affairs Programs, and on behalf of the Carnegie Council I want to thank you for joining us.

It is our pleasure to welcome David Rothkopf to this Public Affairs Program. David, who was recently appointed CEO and editor-at-large for *Foreign Policy* magazine, is also the author of several widely acclaimed books that have proven to be both timely and astute. In fact, I wouldn't be surprised if many of you haven't already read either [Superclass](#), which is about the global power elite and more prescient than ever, or [Running the World](#), which *The New York Times* cited as "the definitive history of the National Security Council."

I can assure you that his latest book, [Power, Inc.: The Epic Rivalry Between Big Business and Government—and the Reckoning that Lies Ahead](#), confirms the accolades which he received for his earlier books.

This time he writes about the defining political issue of the moment, which he sees as how to strike the right balance between private and public power; or, as the subtitle indicates, how to minimize the rivalry between business and government. This is a quandary facing economic policymakers around the world as they adjust to the global shift of economic and political power unfolding before our eyes.

Even so, this tension between the desire for a perfect society and the equally ancient impulse for wealth, along with the underlying question it raises about what role we want business and government to play in society, is not new. As David writes, "political power co-opted by private interest has deep roots." This theme is one that has recurred throughout history, as he demonstrates with a few fascinating stories that reveal the often stunning parallels between past crises and those of today.

Even so, David believes we are about to enter a new phase, for which he envisions an unexpected scenario; this manifests itself as a contest among competing capitalisms, such as those in China and Brazil, that are growing faster and competing more tenaciously than we are, while at the same time offering different visions for how the governments and businesses should work together. This often means a more significant role for states to play in regulating ownership and control of assets.

Whether the successor to the American model comes from China, Sweden, or Singapore, which is of course difficult to predict, it remains incumbent upon us to know what it will mean when old systems, old approaches, and old rules do not apply.

To give us a sense of this shifting frontier between government and markets and to address the question about whether the American model is coming apart or is already in ruins, please join me in giving a very warm welcome to one person who has thought a great deal about this issue and has a sense about what the future may hold, our guest today, David Rothkopf.

Thank you for joining us.

Remarks

DAVID ROTHKOPF: Thank you very much. It's a pleasure to be here and to have a chance to chat with you. I will talk for 20 or 30 minutes and then we can have a conversation among us, because I would much rather do that and hear what is on your mind, and we can expand or broaden the conversation, whichever direction you want to do it.

I was looking at the paper this morning and I was reading about [Super Tuesday](#), which gives you a sense of sort of word inflation, because I don't really know what was so super about it, and I was reading about what was going on in the Middle East and what was going on in the U.S. economy. Two words came to mind: "oy" and "vey."
[Laughter]

I thought we have come to a moment of such great import in terms of the direction of the world economically, politically, in terms of who is going to lead and what direction that leadership is going to take us, and we are having a debate in the United States that is so absurd and so simplistic. You know, it's this [George Orwell](#) "four legs good, two legs bad" kind of silliness, where one side is saying "leave it to the markets" and another side is saying "government can solve everything," and both sides are mischaracterizing their views, and nobody is having a serious discussion about the issues at stake.

Both sides are pandering. The [president of the United States](#), a man for whom I have some considerable admiration on some issues, in the past couple of his State of the Union addresses would say over and over again, "America is number one, America must be number one, this is the critical issue, we can't fall behind."

He would bring up China as if it was the bogeyman. It wasn't actually a country. It was like something from a [Grimm's fairy tale](#) that lived out in the woods and would eat you if you weren't careful, because China was out there and it was going to overtake us.

And I'm listening to the other side—I don't know what happened to [Romney](#) when he was off there on this mission in France, but some serious psychological damage was done to this guy. I mean you listen to him and the darkest word he can summon up is "Europe"—"Oh, well, we don't want to become like Europe," or "This is the way things are done in Europe and that's the wrong way." I'm thinking: Is this a serious discussion about where things are? He's like, "We don't want to fall behind."

And Obama is with "We must be number one." And I'm thinking: Number one? Number one at what? Do we want to be the largest country in the world? Do we want to be the most powerful country in the world? Is that the way we run our lives?

Do you say, "I need to live in the largest house on the block"? Or is there something else? What kind of country do we want to be? What do we want to lead at? It seems to me that's what we ought to be discussing. We ought to be saying: "What is the shape of the society that we want to have? And if it isn't what we want it to be, how do we change it?"

This is what led me to do this book, because it was very clear to me that what has happened in the United States over the course of the past 10 years is not producing the society that we want to have.

For the first time in American history, over the course of the past 10 years we have actually lost net jobs. For the first time in American history, social mobility is falling. Over the course of the past decade, and actually over the course of the past three decades, inequality is growing in the United States. And it's not getting any better.

Last year we eked out a bit of recovery. The benefits of that recovery, just like the benefits of all the growth leading up to the [crisis](#), were distributed disproportionately. Ninety-three percent of the benefits of last year's recovery went to the top 1 percent. Seven percent—table scraps—went to everybody else. That's not an interesting statistic or a subject for a cocktail party conversation. That's a social catastrophe. That is the collapse of the system that we've got.

But you then look around and you see other things within the system that have got to trouble you.

You see [Citizens United](#), a Court decision that perverts democracy by asserting that a right that is given in the [Constitution](#) to everyone, the right of free speech, actually isn't what we thought it was, because if you equate money with speech, which is what the Supreme Court decision means, it means some people have a little bit more of that right than other people. They have more of an ability to speak, to influence outcomes.

It leads to things like [Super PACs](#). So far this year you've got [Newt Gingrich](#) running for president courtesy of [Sheldon Adelson](#), champion of social liberty and casino mogul, which says all that you need to know. Except as long as he keeps writing \$10 million checks, this guy is a viable candidate for president.

And we haven't seen what is going to happen when we get closer to the election in the year of Super PACs and how that is going to influence things and what outcomes. Because if you don't think there's a quid pro quo for those big checks, I've got some things that I'd like to sell you after this—not just books, by the way.

We have gotten to that point where we have a society in which money has entered democracy and corrupted it so fundamentally that there is a giant thumb on the scale. That's why the playing field is not level and that's why the benefits trickle in one direction and not in the other direction.

And at the same time, by the way, we are having a debate in which one of the candidates is arguing, because he

is from the party that's against government, that we should have education not done by the government. This is mindboggling to me, and I would be more mindboggled if the guy actually wasn't also the candidate who doesn't believe in science or math.

But he at this moment thinks government ought to get out of the education business, at a moment where the majority of minority students who live in urban areas in the United States drop out of high school, which means they are out of the economy, which means they will never compete, they will always be a burden to society and deprived of the kind of dignity that human beings ought to have and the opportunity that human beings ought to have.

But because it's ideologically in the interests of one party in the United States to say "smaller government" because it makes room in certain economic zones, they then take it to the next level and say "that means get out of the area of education."

You've got another candidate in this race who regularly says, "We want government out of the way so liberty can step in and follow." This to me is another canard that's out there. Although whenever he says it a bunch of guys in camo [camouflage] outfits stand up in the back of the room and cheer him on because they love to hear this stuff, this is a false notion. When government is pushed out of the way, that doesn't immediately get filled with liberty. It gets filled with the people who can fill it. Nature abhors a vacuum, and so super-empowered actors edge their way in and get what they want of that before the average citizen does.

What gives the average citizen a voice? Government. That's the idea. Government is a leveler. The whole story of the development of nation-states and of democracy for hundreds of years was giving people a voice against super-empowered interests.

So my sense was: If the thumb is on the scale and if things have gotten to this pass in the United States, how did we get here? What of what we are discussing today is new and what of what we are discussing today is part of longer-term trends?

The conclusion that I drew was you've got to go back into history. I went back into history. In fact, in this book I go back a thousand years. Why? Because, first of all, the last big struggle of the sort that we are seeing today ended 1,000, 600, 700, 800 years ago, which was the battle between church and state.

Now, you may think, "Well, that was a battle between philosophies or it was a battle about theology vs. politics." But that's not what it was. It was an economic battle. It was a battle over who controlled the ability to tax, who controlled the waterways, who controlled the fields, who was able to determine who got to put a mill where they wanted to put a mill. It was two different systems for divvying up money and power, because those two things go together.

When that battle was resolved, however, something interesting happened. A new actor entered the state, because the nation-states that were just budding up at that time wanted to build their economic power, and they created corporations, which they empowered to serve the state.

In this earliest incarnation that was the idea, that the corporation would go out, it would collect money from doing whatever it was doing, usually trading—although in the case of one corporation, which I followed particularly closely in this book, which is the oldest corporation still in existence today, now called [Stora Enso](#), once called Stora Kopparberg, which was a copper company that was born in Sweden in Viking times—the idea was that these enterprises could produce revenue that would go into state treasuries and enable the states to be stronger.

I follow the story, and I say: "Where did things evolve so that we got to the point that we're in today?" One thing that you discover is that fairly early on in the history of corporations you got struggles like you are seeing today.

In fact, in the early part of the 18th century there was something called the [South Sea Island bubble](#). The South Sea Island bubble was a scheme, a company, that was created, and shares in the company were sold in the United Kingdom to go and develop these islands in the South Pacific. The bubble blew up and a lot of people went broke, and there was a lot of finger pointing.

If you go into the paper from those days—you don't have to do that because it's in the book—but if you go in and you read this stuff, you will see articles that sound like they were torn out of the *Financial Times* or *The Wall Street Journal* from right now: that Parliament was corrupted, that Parliament was bought, that corporations had a bigger voice in things than was fair to the average citizen.

Whenever there is a bubble, there is this same kind of debate. But something interesting also happens in the context of that. There is a bubble, there is this same kind of debate. Do corporations get their power reined in? They don't. It gets pulled back a little and gradually more is acquired.

The one country that has done the most to empower corporations to a point where the power as it exists today is hard to control was the United States, because we were born with the [Industrial Revolution](#). 1776 was not just the

first date of the [American Revolution](#); it was also the date of the first patents that [James Watt](#) got on the steam engine. So the United States was sort of born of the industrial era, and it was born of a debate over what the shape of that country should be.

Even in the earliest days, our forefathers, [Thomas Jefferson](#) for example, warned that great corporations would have too much power. He wasn't alone by the way. [Lincoln](#) said it, [Theodore Roosevelt](#) said it, [Franklin Roosevelt](#) said it, [Woodrow Wilson](#) said it—presidents throughout history—[Louis Brandeis](#) said it. They were worried that too much power would become undemocratic, that it would undermine the ideals of this government. But somehow those with power got these ideas institutionalized.

In the early part of the 19th century, there was a [case](#) about Dartmouth College, which would seem to have not much to do with corporate history. But what happened was that a charter was given and the state wanted to take the charter away. It was brought to the Supreme Court, where one of the people arguing the case was [Daniel Webster](#), and they had a debate and determined that once a state gives a charter it can't take it away.

What did that mean? Essentially it meant that these corporations, designed to be immortal—the whole idea of having a corporation is that it outlives people—now was starting to acquire a kind of immunity once it left the womb of government.

The next big turning point was the [Civil War](#) in the United States. The [Fourteenth Amendment](#) was passed after the Civil War to ensure that African-Americans who had been slaves would have the rights of other people. That was the purpose.

But in the first 50 years of the Fourteenth Amendment being in operation, most of the cases brought to the Supreme Court using it were by corporations seeking to ensure that they would have the same rights as people. So this Mitt Romney comment "corporations are people"—it seems like a kind of a glib comment. But it's actually not. It's a core concept.

But they are not just people of course, because, unless some among you are billionaires—and you look like you could be, and I certainly hope that you are—but the reality is that if you are immortal and you have massive resources and you've got legions of lawyers, you've got a lot of advantages operating within a society like this one. When you do that, you can influence the outcome of elections or you can get laws passed that serve your interests.

Now, what else happens? Globalization, which is fueled by technological advancement, creates new opportunities. Corporations can take advantage of those opportunities. But states can't do on the global stage what they traditionally did on the national stage. States which regulated within their borders can't regulate beyond their borders.

So you've got a global derivative market and you can't actually regulate that globally. You can't actually regulate global emissions. You can't set standards in the same way on the global stage that you could on the national stage. So corporations which are adept have benefitted from that.

They have also benefitted from the fact that over the course of the past couple of hundred years the prerogatives of nation-states that we think of as the prerogatives of states have gone away from many, many states. The basic prerogatives to control your own borders, to project force, to enforce laws, to print money—those have gone away.

In the age of the Internet you can't really control your borders. In the age of the transportation revolution it's hard to control your borders.

In terms of enforcing your own laws, if a global actor can say, "I'm not going to your country if you've got a tax law like that, I'll go to some other country," he all of a sudden has leverage over you that he didn't have before. He's got the ability to move.

Companies like Walmart are domiciled in 27 different countries. So if they don't like the decision that you make, they'll move to a different country.

I remember when I was in the U.S. government, Caterpillar came to us and they said, "Please help us with a project in China." We, for a variety of reasons, said, "We can't help you with this project in China." They were outraged and immediately called their Belgium office and the Belgians helped them. So they stopped being an American company and they started being a Belgian company as it served them. So that limits the power of states in that regard.

In terms of printing money, most of the value-bearing instruments in the world today aren't actually created by governments, they're created by the financial community. Most of them are derivative instruments, things you can't see, that you don't know who the counterparties are, that you don't know where the risk is associated with them. The number of countries that actually print currencies that are usable around the world can be counted on

one hand. So most countries don't actually print money.

In terms of projecting force, there are probably 16 or 17 countries in the world that can project force and sustain it beyond their borders for a couple of days—maybe 17. There is really only one that can fight a global war for any protracted period of time.

What do you call a country that doesn't have those core abilities? I would call it a semi-state. If it doesn't have those abilities within its borders, think of how limited it is in dealing with big global actors like companies that have grown up to the size and scale of global corporations.

We talk about markets as promoting competition. Markets don't promote competition. [Adam Smith](#) liked the idea of markets promoting competition, and he thought they would if it was small businesses. But if businesses get too big—and he railed against that—that actually quashes competition.

And of course what markets seek is efficiency, and the way you get efficiency is through scale. So big, big, big businesses do better, particularly on the global stage.

In fact, at one point while I was doing this book I had a conversation four blocks up and two blocks over with [Bob Rubin](#), who had been the treasury secretary when I was in the [Clinton administration](#). I said, "Tell me about what you think we ought to do about this too-big-to-fail problem."

What he said to me was quite telling. He was being very thoughtful about this stuff. I'm not denigrating in any way his response. He said, "Too big to fail isn't the problem; too big to fail is the system." What he meant was that if you've got big giant corporations, you need big giant banks to service those big giant corporations.

That creates all sorts of risks, because when those banks founder it's got huge social consequences, just like when those corporations do. What has happened is the corporations seeking scale have grown to a size that we never would have possibly imagined; where BlackRock, a money management firm, controls more assets than the Chinese Central Bank, which has more assets than any central bank in the world; where Walmart or Exxon have more financial resources than all but maybe 30 countries.

If you were to ask, "Who would have more impact over, say, the [Kyoto Protocols](#) or global climate talks, Exxon or Sweden?"—the GDP of Sweden is roughly the same as the sales of Exxon. But Exxon is in twice as many countries as Sweden is. Exxon has dramatically more discretionary income than the Swedish government do in their budget. Exxon has much more political influence. In fact, there is a bunch of countries where, if Exxon doesn't produce oil, those countries' governments don't stay in power.

So you've got a situation where you've got a bunch of big companies—so many in fact that if you go to the number 2,000 company, it is bigger than 50 or 60 countries in this world. So you've got semi-states but you've also got super-citizens, global actors, immortals, with an enormous amount of resources.

Does that mean that my saying that countries can't control or influence or regulate or be a problem for companies? No, of course they can.

Does it mean that things have gotten out of balance and there are places where the system isn't what we thought the system was? Yes. If you go to Harvard's Kennedy School of Government and you study international affairs under the term [realism](#)—I love it when people call their view realism, because it means obviously if you don't hold their view you're unrealistic—but if you go there and you study realism, the realistic school of global affairs will tell you that international affairs is conducted between states.

Is it? Can we control emissions working only with the public sector? Can we deal with proliferation only with the public sector?

Even some of the things that we thought were once exclusively the realm of the public sector aren't. In the wars we fought in the Middle East just now in [Iraq](#) and [Afghanistan](#), more than half of the people that the United States government had on the ground were contractors. It's the first time in our history that we have been fighting contractor wars.

Now, it's not the only time in history that this kind of thing has happened. In the early part of the 19th century the fourth-largest army in the world was fielded by the [British East India Company](#), which effectively controlled and governed India, raped it, took \$2 trillion worth of value out of it that has never come back, that has been a permanent setback to India.

But we are in this situation now where the world order is different and the rules don't apply to this world order.

This leaves us with a couple of kinds of problems: How do you control it in the national level? How do you control it in the international level? Nationally you've got this issue of democracy in the United States being corrupted by money. Internationally we lack the institutions to do the regulation and to throw this thing back into balance, and

any politician who suggests that we need to create stronger international institutions is thrown into a deep well, because that's just the last thing that you are allowed to do in politics, is suggest that we cede sovereignty upwards.

This is a fundamental mistake, by the way. I mean you come here and you listen to discussions about international affairs, and people talk about sovereignty like they're talking about religion, that it's something that you want to hold close.

But the reality is this: if we don't cede sovereignty upward, then we don't create institutions that control the global commons; and, if we don't, then individuals have no influence over the outcomes there. So you need to create mechanisms that report to people in order to create outcomes that are chosen by people.

The way the book concludes—and I'm about to conclude here—is with two key points.

One is about this world of super-citizens and semi-states and what this means. One of the things it means is we need new institutions. Another is that we need public/private cooperation on things. You can't solve climate problems, you can't solve global public health problems, you can't solve proliferation as an issue, you can't solve economic growth as an issue, without public/private partnership in the right kind of balance.

But the other issue is that we at the end of the [Cold War](#) had a big party. We had this moment of wild euphoria. There had been this contest between a system that said leave it to the state and a system that said leave it to the markets, and the system that said leave it to the markets won. [Francis Fukuyama](#) wrote a book, [The End of History \[and the Last Man\]](#), and we went out and we partied in the early 1990s and said, "We won. It's our way. American capitalism has triumphed."

But what we've discovered is that that's not actually what happened. We are now in a world in which, instead of a communist/capitalist competition there is a competition among different kinds of capitalism. There is capitalism with Chinese characteristics; and there is democratic development capitalism in India or Brazil; and there is small-state entrepreneurial capitalism in places like Israel or Singapore or the United Arab Emirates.

And there is European capitalism, which takes some forms in the southern part of Europe that are a little dysfunctional; but in northern Europe, which we used to laugh off—when I was in the Clinton administration, you would talk about "Swedish Euro-socialism, that's deader than a doornail"—well, not so much.

If you look at the lists of quality of life in the world—and there are many such lists—the dominant countries on that list are northern European countries. If you look at countries that are leading the way in terms of educational performance, or if you look at countries that are leading the way in terms of fiscal discipline, they are also on that list. So this is not free-spending whacky socialists.

We talk about free-spending whacky socialists like the Swedes, right? But what happened when there was a financial crisis? A lot of companies went bankrupt.

Let's take two auto companies, General Motors and Saab. In the United States when General Motors went bankrupt, there was a threat of social catastrophe. The president of the United States had to step in and bail out General Motors, because if he didn't, people would be in the street and there would be nothing to take care of them. So he stepped in.

In Saab you know what the Swedish government did? Let it go bankrupt. Why did they let it go bankrupt? Because there was a social safety net and the people who were kicked out of the company knew that they would be retrained and that they would be taken care of.

That's why Swedes, in a small country that benefits much less from globalization than we do, are much more open in the polling towards globalization, because dislocation is not as big a threat to them as dislocation is in the United States where we lack some of these programs.

So one of the things that we are seeing here is that there are all these different systems and the U.S. system is an outlier. It's an outlier because we have for the past couple of decades promoted a system in which government's role is shrinking, and in these other systems government is playing a bigger role, not just playing social safety net but also in helping these countries to compete.

You might say, "Oh, he's just one of these big-government guys and he is against markets." Well, that's not true. In some of these places that are seen as exceedingly pro-market, like Singapore, they see a very big role for government.

In fact, I sat and I had dinner with the absolutely brilliant finance minister of Singapore. He said, "Look, our role is to help empower our people to succeed in the market. So we must educate and we must allocate resources so we can play to our comparative advantages." Is that pro-market or anti-market?

We've got to drop the sort of reflex reactions that we have in this country and say: "What's working? What's fair? What produces the kind of society that we want to have?"

We also have to stop assuming that, as was the case for the past 70 years, American capitalism and American views are going to dominate the way things are going to evolve going forward. That's not going to happen, and the reason it's not going to happen is that as you look over history, one thing that you see is as the economic center of gravity moves, so does the intellectual center of gravity move.

The economic center of gravity was in Europe and that's where the intellectual center of gravity was for a long time, and that's why we study what's going on in Europe or what happened in Europe in our schools. It was here for a while. It is now moving across the Pacific.

If you want to see what the future of capitalism is going to look like—I don't think it's going to be Chinese capitalism; in fact, I don't think there is such a thing. When you say "capitalism with Chinese characteristics," what that means to me is lots of different kinds of capitalism, a lot of chaos—some of them very regulated, some of them not; some of them like the Wild West.

But there are other versions of capitalism emerging, like the Singaporean version, that are gaining traction within China. It could well be that—we've been taught—that the world is going in the direction of [Milton Friedman](#) and it could be going in the direction of [Lee Kuan Yew](#), and it could be going in the direction of a different kind of a model.

So we have to ask ourselves: First, What kind of a society do we want to be? And then, how do we change the system within the United States in order to ensure that we achieve that? And then, third, how do we achieve our goals globally in order to ensure that we are protected against bad outcomes and we are able to advance our national interest and do so in a world in which it is not just nation-states and it's public/private?

The punch line of all this is not the same simplistic, silly discussions that we are having in the United States about one way being right or one way being wrong. It's about finding a balance and recognizing where the market has a constructive role to play and where government has a constructive role to play, not making silly statements that "government is always bad" and that "less of it is more."

Government is the only means of ensuring that the average person has a voice or a seat at the table in these things. That's why we have the system of democratic government. So we need to preserve that as we do these other kinds of things. That's the moment that we're at.

Unfortunately, it is a moment, like moments that have occurred throughout history—and I talk about it in the book—where the rules of the system are out of date with the needs of the system. So over the course of the next couple of decades we are going to be remaking those rules. What we should be aware of is that typically when that happens you live in a period of big upheaval and uncertainty. So that's why we find ourselves now in a period of upheaval and uncertainty.

Lots of promise, even the possibility that an evolved American form of capitalism can continue to lead for decades to come, but there is a choice to be made, one here internally and also one on the international stage.

Having said that, I'm happy to discuss any element of this or anything else that's going on in the world in the remaining time that we've got here.

Questions and Answers

QUESTION: Allen Young.

To what extent do you think that the problem of the national deficit, which is now close to our gross domestic product on an annual basis, will impact the ability of government to react and to intervene and to meet some of the problems you've been talking about?

DAVID ROTHKOPF: I think to a very large extent, and I think we need to address that. I think the way to address it is not the fake debate that we are having in Washington right now, where one side says, "We've got to keep taxes low," and the other side says, "You can't touch these programs."

The only way to fix the United States' national fiscal circumstance is to raise taxes, to cut defense spending, and to reform entitlement spending. One party is against part of that and the other party is against part of it. Anybody who has balanced a checkbook knows you've got to do all of it.

We also have to ask ourselves, in this question about what kind of a society do we want to be, whether we have been making the right asset allocation choices. If you look at what we've got in terms of discretionary spending in the United States—that means taking all of that government spending that is mandated as part of entitlements out of the picture for a while—the biggest chunk of it is defense spending, and the biggest chunk of it has been

defense spending for several decades.

The United States has essentially made a choice—and I don't know if this is a choice that you made around your kitchen table, but effectively you did—which was we are going to spend the bulk of our money, the bulk of our tax dollars, on being the world leader in defense.

To me this is just crazy. That's not the way I want to invest my money. I don't think that's the way that America is going to lead the world going forward.

So we've got to stop and recognize that continuing in the same track that we have been on essentially is making certain decisions like that, and we can't afford it.

So where does this all start, how does it change? At the end of this year, the [Bush tax cuts](#) come for renewal. If the president of the United States is reelected, perhaps he will have the courage—and particularly if the recovery continues—to say "no more." That will take you a good long way towards reducing that deficit. Personally I think the whole thing ought to be gone, and I think we are going to have to look at some other ways to raise revenue, including a gas or a carbon or some kind of tax along those lines.

Does that mean we should continue to spend wastefully? Of course not. We have to get rid of that.

And there's one other thing we can do that makes a difference, and that is understanding the distinction between spending and investment. A dollar that goes into a bridge that is going to be there for 100 years is not the same as a dollar that goes into a government salary.

Corporations typically have a capital budget, and we as a country would do well to have a capital budget so we could say, "Yes, we are going to make some investment spending over here because that's going to help attract investment, that's going to help create jobs, that's going to help create a tax base."

But what we've got to do is get beyond some of the nonsense of the discussion that we've been having, where people say, "Oh yeah, if you cut taxes we'll make that up. That will create the growth that you want to create; that will create jobs, that will free people to create jobs."

We had the biggest tax cuts in American history ten years ago, and the result of the biggest tax cuts in American history was the first decade in which we did not create net new jobs, we actually lost them; in which social mobility decreased; and in which median incomes went down.

QUESTION: My name is Ann Phillips. I'm on the board of the International Peace Institute.

That was the best, the clearest, the most succinct, the most comprehensive statement in such a short period of time that I've heard about what's going on in our society.

DAVID ROTHKOPF: I don't think you need to say any more. [Laughter]

QUESTIONER: What makes me feel despondent, though, literally—I really feel so pessimistic—is that the average American wouldn't have any comprehension whatsoever about what you were talking about.

You spoke about the majority of kids in the inner city not graduating from high school. Well, the most recent statistic that I read is 40—and there are some statistics that say 50—percent of all high school children drop out of high school. This is the future population of this country. And those who do graduate from high school, there's a large percentage of them that do very poorly in colleges because of the quality of our education.

I also read that we are like 27th now in the quality of education among the industrialized nations of the world.

This is the future of America. How can we possibly rectify the problems that you have addressed without having a public that—they select their congressmen, they cheer about liberty and they cheer about getting rid of the government. They don't understand any of this. And I'm not speaking patronizingly. I'm just being—again, realism.

DAVID ROTHKOPF: The United States of America was created and blossomed in a country that didn't have a highly literate population. The United States of America withstood 100 years ago having to change from being an agrarian economy to being an industrialized economy. We went from 96 percent of the country earning their living off of the land to 96 percent of the country earning their living off of industrial. We have reinvented ourselves. The genius of the U.S. system is that built into the Constitution is this ability to constantly reinvent ourselves.

Furthermore, you should take a little bit of hope from the fact that a consequence of this upset and a consequence of this recognition of the problems of things like inequality was everything from [Occupy Wall Street](#), which started as an idea and spread to [900 cities](#) around the world, to the [Tea Party movement](#). These things seemed like antithetical movements, but they are all the politics of alienation. They're all people saying, "Wait a minute,

something is wrong here."

The president of the United States is now running saying, "The issue here is fairness," which at least is a twinkling of recognition that this is a bit of a problem—although I think, frankly, the problem with the president of the United States is he is much too much of an establishment politician. He did not crack down on Wall Street in the way it needed to be cracked down upon. We now have more banks that are too big to fail than we did before. We have more banks taking risks with derivatives that we did before. We have a lot of the behaviors that we wanted to get rid of that haven't been. But there is a twinkling of recognition.

I think Mitt Romney, who I think ultimately will be the candidate, is a fairly serious man, and I think he is somebody who also has some fairly decent impulses.

And I think there is a fairly decent chance that, believe it or not, in the United States in the course of the next six months you may see a thoughtful debate about some of these issues.

Are we going to fix things fast enough? I don't know if we're going to fix things fast enough.

But, first of all, a lot of change takes place at the state and local level, particularly in terms of education, which is most effective at the state and local level.

And we have every reason to want to change. We have certain comparative advantages in this country, and the biggest comparative advantage is that we are moving into a post-industrial world in which high-value-added economies are the ones that will do the best, and high-value-added economies are the ones that not only create new intellectual property, they protect new intellectual property. China can do everything that it wants, but right now no one will go into China based on their protection of the intellectual property and they will go here.

So there are a lot of reasons why people will come here and they will invest here. And if they come here and they will invest here and we play our cards right with regard to that, we will have the tax base to make some of these changes.

I think that, even though there are large gaps in our population and I think there are some very disturbing trends—anti-science trends or people who do not understand the very deliberate distinction between church and state that was written into our system—despite those things, I am still relatively optimistic that we can tap into this national ability to reinvent ourselves.

I hope you are slightly less despondent.

QUESTION: Matthew Olson.

I want to come back to education to just touch on a historical point. Based on your opening remarks and the role of government in education, it seems to me that the government has run a monopoly on education at the primary and secondary levels since, let's say, the mid-19th century. That seems to me to be what has gotten us to the pass where people are now talking about taking a lot of educational responsibility away from government.

You mentioned Sweden, which is a country I'm pretty interested in. I just want to point out that they went through a catastrophic [systemic financial failure](#) in the early 1990s, which led eventually to the end of the almost-monopoly of the [Social Democratic](#) socialistic system that they had up until the mid-1990s, and now it has a very successful center-right government organization. It looks like they are going to be there for quite a while.

Lastly, the question is: Sweden is a small country; there are 9 million now, 8 million 20 years ago. Singapore is even smaller. In both of those cases, the public/private partnership came about because they were able to develop consensus. I wonder how you apply that to a country of over 300 million people.

DAVID ROTHKOPF: It's hard to know where to start in all that, but let me take a shot at it.

Your first point was about a government monopoly over public education since the middle of the 19th century. Well, the product of that was the growth of the richest and most powerful nation in the history of the Earth. I don't think that public education system did so badly. I think that in fact some of the greatest developments in terms of educational progress that have taken place in the history of humankind took place under the course of that system.

I don't think that education need necessarily be left exclusively to the state. But I do think that when you look at these populations that are dropping out, you look at the populations that are in need, they don't have a choice. There is no fallback.

I think there is a lot of talk about "let's get government out of contraception" or "let's get government out of education." Well, that's fine if you've got the money for the alternative. But if you don't have the money for the alternative, that gets the education and the contraception out of the lives of large populations.

You're absolutely right about Sweden facing the crisis that they did. In fact, Sweden managed its way out of that crisis with a bunch of maneuvers that included temporary nationalization of banks and things that were much more in the socialist arsenal. When we went through our crisis, we had a bunch of people going over to Sweden and saying, "How did you do that so successfully?"

Furthermore, the center-right coalition of [Reinfeldt](#) in Sweden right now embraces a whole set of policies that we would consider to be far left of Obama. This is a completely different spectrum. The assumption about the role in that society of that particular political party is completely different. If he were to come here and run on those policies, he'd be run out of town on a rail by centrist Democrats who don't agree with him.

Having said that, I'm not saying that they've got it right. You're absolutely right, little societies have an easier time managing problems than big societies. We are never going to be a consensus-managed society. Our system needs functioning local governments and functioning state governments and functioning national governments, and it is always going to have a degree of dissent in it.

But I do think that we can make a move towards recognizing that there is an appropriate role for government to play, and that when government doesn't work the answer isn't "shut it down," because it's got to play that role; it's "how do we fix it?"

When the private sector oversteps, the answer isn't "shut them down"; it's "rebalance, let's look after the interests of everybody else."

I'm talking about nuance and readjustment. I don't think we need to reinvent everything here, nor do I think we need to slavishly follow other systems that aren't appropriate models for our own.

QUESTION: Anthony Faillace.

You've talked a lot about the government needing to rein in business, business is too big, crack down on Wall Street. Maybe you could be more specific. Exactly what do you want to do to the companies? Maybe you could take three or four examples of where businesses are too big, and what exactly are you going to do about it?

DAVID ROTHKOPF: It's not a question of exclusively businesses being too big, although that's an issue in some cases. It's a question about restoring balance to the system.

The first place I would begin to restore balance to the system is take money out of politics and the way that money is currently in politics, because if money is in politics, people with more money have more voice.

There are plenty of systems in the world that work extremely well and are not considered to be laggards in their democratic standards that have fixed-duration political seasons and federally financed campaigns where people don't have the incentive or the ability to spend massively, and thus have not the ability or the incentive to go out and seek unlimited funds from people, which gives opportunity to those with unlimited funds to have a bigger voice.

Similarly, the role that lobbyists play in our system and the muddling of the line between doing that and campaign finance is a problem. So I would start there.

I do think that we really need to think about the size of financial institutions, for example, and that if they want to be a certain size they need to accept a greater social responsibility in terms of the management of their assets. In other words, the bigger you get, the fewer risks you can take, because, frankly, if you are big and you take big risks, the consequences of your failure are greater for society at large, and so you need to take those things into consideration.

I also think that there are serious issues with regard to executive compensation, which has become absolutely perverted in the United States of America. In the 1970s, CEOs would make on average 35 times what the average employee made and today, they make 350 or 400 times what the average employee makes. Things have gotten deeply, deeply out of whack in terms of that. That not only leads to the perception that the 1 percent have rigged the system; it helps contribute to the reality of a few being able to benefit dramatically more than the rest.

I think a fair tax code would go a long way towards rectifying this system. That's not something that we've got. Most of America's growth was during periods in which the tax code was dramatically higher than it is today, including up to 1944, when it was over 90 percent. But for most of the period of America's fastest growth, the top tax rate was over 70 percent.

I think that's it's not just a question of the size of companies but the power of government to offset that size as needs be.

The first thing I'd do is take off the table some of the popular discussions of the moment, like "Let's get rid of the Environmental Protection Agency." Sometimes regulation saves society money. It saves society money in health

care costs, it saves society money in terms of damage to the environment, it saves society money in a lot of other ways.

There is also a philosophical shift. The purpose of our society is not to create wealth. The success of our society is not measured by the size of our GDP. The success of our society is measured by the quality of life of the people within our society.

Therefore, we've got to take a leap from that philosophical thing and start saying: How do we invest in our society in a way that doesn't just accelerate wealth creation for the few because they're so big that it pulls up the average for everybody but doesn't actually affect the bottom as much as it does the top, and move to a system where we say we've got to have a fairer system; we've really got to create opportunity?

I have two daughters who are in college. Fortunately, they are at good colleges and some day they may be employed. But for all the good—and they've been to the best colleges in the world, the best system that you could possibly have—I don't think it's a good system if they can benefit that way and half the population isn't graduating from high school and doesn't get opportunity, because ultimately that is going to be a price socially that my daughters are going to have to pay in their lives.

QUESTION: James Starkman.

What types of new institutions, both domestically and globally, would you envision to move toward a better social world; or do you just feel that we should strengthen the already existing institutions on both those levels?

DAVID ROTHKOPF: There are lots of different directions that we could go there.

First of all, I'm not advocating wholesale creation of new government institutions. There are some places where there are gaps.

We need some kind of global regulatory mechanism for financial markets. If so many transactions take place out in this unregulated space, we need to deal with it.

We need some kind of global regulatory mechanism that deals with emissions and preserving the global environment. You just have to deal with that on a global basis and we don't have the mechanism. There are a couple of new institutions that we would benefit from there.

We also need institutions that help translate the will of the people at large into the strategies we have for dealing with global issues. We don't really have those in terms of security issues. The UN and the other institutions created at the end of the [Second World War](#) were actually created to be weak. They were created to preserve our prerogatives, those of the United States and the other victorious nations. We have got to graduate towards having true global governance. That involves strengthening those institutions.

In terms of our national institutions, again I don't think we need a lot of new ones. I think we need more effective ones. That doesn't necessarily mean bigger ones. It means government institutions that actually are able to counterbalance power.

In fact, some of the things that I think would be best are doing away with things—doing away with this massive campaign finance octopus that is strangling American democracy.

QUESTION: Daniel Chin. I'm from the U.S. Merchant Marine Academy.

Very quickly on that note, do you believe that the banality of the national discourse on those issues is linked to these super-actors, and do you see a way that that can be rectified?

DAVID ROTHKOPF: Sure it is. If people are financing campaigns, they are doing it for a reason. Do you think that some of these billionaires who are sitting in backrooms underwriting some of these PACs and underwriting some of the candidates that are in this debate are promoting small government because they actually believe that that's going to create liberty for everybody? Or do you think they are promoting small government because as we push back on government it gives them more elbow room to advance their interests?

I think we have to look at the world in a very capitalist way and assume that people are going to go and pursue their self-interests, and that we need to have systems that allow them to do that in a way that's fair and that looks out for the weaker among us in a way that is also fair. That's why governments were created the way that they are.

When you get to a point of perversion, like Citizens United, a decision that perverts democracy and is arguably, as [one senator said recently](#), "the worst Supreme Court decision since the [Dred Scott decision](#)," you've got to stop and say: "What happened? The train has gone off the tracks."

But you also have to see the institutionalization of that. It's not an accident that parties associated with these moneyed interests when they gained office put into place justices of the Supreme Court who later put into place laws that look like that law.

This past week we've had this notion of corporate super-personhood illustrated even more dramatically when a [case](#) came before the Supreme Court arguing that corporations should not be liable to the same kinds of human rights laws that individual human beings are. Based on the questioning before the Court, it seems like the Court—and they could change their mind; something else could happen—but it seems like the Court was actually leaning in that direction.

So you might have a Court that says, "Corporations have all of these rights, they are going to be able to play this kind of role in political campaigns. But let's not bother them with having to actually follow or be beholden to the same kinds of laws as average citizens are."

Well, is that an accident? Is that just a quirk of democracy that that happened that way; or might it have been a consequence of this progression over time? My sense is it's a consequence of this progression over time.

If you go back and you read president after president after president of the United States, Democrat and Republican, the greatest presidents that are universally acknowledged to be so by both parties have all warned that this was a threat to democracy. Is Jefferson your hero, is Lincoln your hero, is Wilson your hero, is Theodore Roosevelt your hero, is Franklin Roosevelt your hero, is Louis Brandeis your hero? Go back and read what they had to say. All of these people were worried about this as a progression.

It's not because they were ideologues. It's not because they were poor, because most of them were rich. It's because they were in the middle of the system and they saw what was happening in the system.

This is not a "throw out the baby with the bathwater" statement. We need markets, we need corporations, we need private enterprise. It has made us a great society. But, just as you wouldn't want to live in a small community in which one family dominated that community and dominated the political process, because you thought that was unfair, you'd want to level it out, we need periodically to stop and to find levelers in our society.

In fact, all of modern history from the 17th century onward—well, actually from the 13th century onward—has had these moments of leveling, these moments of trying to restore an equitable balance within society. I think we are at a moment where we need to think about that.

JOANNE MYERS: We need one more thing. We have to thank you for giving us the power to think about these issues and to make statements at the reception afterwards. Thank you for being here.

[Joanne J. Myers](#)

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