The Crony Capitalists
Guest: Hunter Lewis
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Hunter Lewis is the author of numerous books, including* Where Keynes Went Wrong*.

WOODS: We're talking about *Crony Capitalism in America*, your other book that's out right now. We talked last time you were here about *Free Prices Now! Fixing the Economy by Abolishing the Fed*. But I guess the first thing we have to do is explain what crony capitalism is.

LEWIS: "Crony capitalism" I define as the merger of big government, big business, big finance, big labor, and big law. These people get together. They make deals amongst themselves. All of which benefit these private interests and government and do not benefit the people, the middle class, especially the poor. We have more and more of this crony capitalism. There's always been crony capitalism in America. The very first act of Congress was the tariff bill protecting special interests. But you know the United States has had less crony capitalism than other countries, and that's really enabled us to prosper. But recently we've had more and more of it. It's almost as if the Soviet Union didn't die. It just sort of migrated here. And we're paying a terrible price for it. One of the main reasons the economy is doing so badly right now is all this crony capitalism going on.

WOODS: I understand that the two books you have out now—and of course, any agent will tell you, you cannot possibly have two books out simultaneously—actually began as one book, and then you decided that conceptually it might be useful to have them as two separate books. So when we talked about *Free Prices Now*, which is a book that focused primarily on the Fed, that topic is not therefore entirely remote from the subject of crony capitalism. This was intended to be one book. What is the relationship, then, between the Federal Reserve and crony capitalism?

LEWIS: First of all, why is the economy doing so badly? As I alluded to, one of the reasons is that we're just choking with this crony capitalism. But that's one side of the coin. The other side of the coin is the bad economic policies that we discussed in the context of the other book. So it's two sides of the same coin, and the Fed is a very good example of it. The Fed is following these Keynesian policies, which we talked about before. The idea that if too much debt causes a crash, just load on more debt and so on. And yet, in the process, that of course leads them to bail out Wall Street, to create this conveyor belt of money going from Washington to Wall Street, which makes people there richer and richer while the rest of the economy is struggling and the average person is doing more and more poorly. So these two things are combined and the bad economic policies undermine the economy. They also fuel crony capitalism, and that makes the economic situation worse.

WOODS: Now, I have to say I'm especially intrigued by your chapter called "Government Sachs: Revolving Door Prodigy and Power Behind the Throne." Can you elaborate on that, because I think there's a lot of interest in this among the general public. Kind of a curiosity about what really goes on at Goldman Sachs. People have the sense that this is an institution with enormous influence, like a vastly disproportionate influence, on politics and seems to be able to get what it wants, so can you maybe take us behind the curtain a little bit?

LEWIS: Well, Goldman Sachs is one of the principal crony capitalist enterprises. To some degree all of Wall Street more and more can be described as basically crony capitalist in orientation. They're making money in partnership with the government and that is at the expense of the rest of the economy rather than to support the rest of the economy. But they're absolute masters of influencing government. The former head of Goldman Sachs, Bob Rubin, was Secretary of the Treasury under Clinton. He was instrumental in achieving the bank reforms that enabled investment banks in banking to come back together again for the first time since the depression. And then, of course, we had another former head of Goldman Sachs as Secretary of the Treasury under Bush during the crash. He was not allowed by government rules to talk to Goldman Sachs, but of course, he got those rules waived. He single handedly really saved Goldman Sachs from bankruptcy, and he did it in ways that absolutely did not help the economy.

One of the lesser known facts about the period of the crash, but to me perhaps the most scandalous, was that Goldman Sachs was allowed to be treated as a bank, which meant that they could then go to the Federal Reserve and borrow money at virtually zero interest rates. And they've continued to do that to the present. All the conversations have been about the fact that Goldman Sachs got TARP money from the government and paid it back, but that was nothing compared to being able to tap into the Federal Reserve.

WOODS: Another as-American-as-apple-pie institution is General Electric. Everybody knows GE, and I think people have more or less a benign impression of it. But you're calling it "Government Electric." What's the deal with GE? Not another crony capitalist?

LEWIS: Yeah, absolutely. General Electric prior to the crash really morphed more and more into a finance company. A majority of their earnings were coming from their financial operations, and they were very badly run. General Electric would have gone bankrupt except for being bailed out by the government. And of course, the head of General Electric, Jeff Immelt, has been very close to Obama. He was made head of Obama's so-called Jobs Council. But the Jobs Council wasn't really a jobs council. It was really just a fundraising vehicle set up in order to finance the last presidential election. There was sort of a headline at one point in the press about, "why has the Job Council not met for six months while unemployment is so high?" And the reason was it had nothing to do with jobs.

WOODS: Part six of your book is called "Crony Labor." Can you explain that?

LEWIS: Of course, it isn't just a business that seeks to influence government, and the process goes back and forth. The government is increasingly taking over control of the economy. A business naturally responds by trying to influence or even take over government as much as possible. Government relies on business for campaign contributions. Business relies on government for essentially price controls and manipulations. That's the primary thing they want from government. They want monopolies, which the government can grant them, or they want other favors of that kind. But it isn't just business. It isn't just finance and Wall Street. There are other special interests involved, and labor is one of the biggest. Lawyers are another one.

What's happened in the labor side is in some respects extremely important. It wasn't very long ago that public labor unions were not allowed in much of the government. Franklin Roosevelt said that he couldn't imagine public employees organizing, because who is the evil employer they would be striking against or negotiating with? The government was the people, so how could employees of the government organize against the people? So Roosevelt was totally against that. Then, under President Kennedy an executive order changed all that, allowing public employees to organize. That began at state levels as well. And what that led to was the public employees who were paid with the taxes then had part of their pay syphoned off to a labor union which then in turn made massive campaign contributions to the local politicians.

So in effect, tax money was being diverted into campaign money and financing, particularly the Democratic Party but also some Republicans, and this has just transformed state politics. In state after state after state, this sort of electoral machine has been created, driven by the public unions who are in turn paid off by the politicians, so they get more and more salary increases and especially retirement benefits. And of course, as we all know, we've reached the point where the retirement benefits have gotten so high that nobody can afford them, and that not just Detroit, but even states are faced with bankruptcy. Illinois being a good example, but there are many others.

WOODS: My understanding there is that this is a case of politicians wanting to reward their reliable constituencies like the public sector unions, but the general public is resistant to tax increases. So the solution is to make these promises to the public sector unions that are future oriented. These are promises that as you, say, deal with retirement, with pensions, and so on, this way you're giving them a lot that they want but it's not immediate. So you don't get the immediate tax revolt. But now it's coming, because now the bills come due.

LEWIS: That's exactly right, and it's also interesting that in some states that have pushback against this as in Wisconsin, for example, or Indiana, they basically just said employees of the government should not have to have part of their payroll go to campaign use. It should be a choice of the employee whether that happens, and when the employees had that choice, very few of them allow their money to go into politics. And so then the whole campaign system collapses.

WOODS: Where else do you see maybe the most blatant examples of crony capitalism? What are the most obvious ones? I think Goldman Sachs is an example, and I'm glad you raised the Fed connection. That it's not just TARP. It's also that special privilege that they got at the Fed's window. But what are the ones? Sometimes they might be right beneath our noses, but people are so accustomed to it they don't perceive the injustices going on.

LEWIS: There are so many examples. It's really hard to know where to begin, but let's perhaps mention the fiscal cliff bill at the beginning of the year in which President Obama took credit for raising taxes on the rich while preserving the Bush tax cuts for the rest of the population. And of course what was not reported about that bill was that President Obama, knowing that it was going to pass for sure, stuck in tax breaks for his favorite corporations. We have to remember that the Democrats have their favorite corporations—so the film industry, for example—along with the Republicans. So he simply stuck into that bill tax reductions for his favorite corporations. And those tax reductions completely offset the expected additional revenue from taxing the rich. At the end of that, as he's signing the bill, he says that this is just a first step. We need more reform of taxes for individuals and corporations at the very moment he is giving these favors to his corporations. It was just the most hypocritical moment imaginable.

WOODS: I think one of the clearest examples, the clearest pieces of evidence, that the crony capitalist phenomenon is very real is the revolving door that we see existing between regulatory agencies or the cabinet and the private sector that they are supposedly supposed to regulate or be in charge of, and you have a chapter in here in your *Crony Capitalism in America* called "The Revolving Door."

LEWIS: Right, and so we've touched on that a little bit with Goldman Sachs sending employees and the government, and the government employees going to Goldman Sachs. Then back to government. An enormous amount of that. But that goes on throughout the economy, and there are lots and lots of examples in the book. One of the more blatant examples relates to an employee at Monsanto who went to work for the U.S. Department of Agriculture, and then there he was in charge of deciding on what the government policy would be for genetically modified food, which is of course a Monsanto product. And he goes back to Monsanto. Then comes back into the FDA. Then he goes back into Monsanto. He's now in the FDA where he is, again, in charge of this whole area even though his career is clearly Monsanto-based. And genetically modified foods—when they first came out, people in the FDA said, this really needs to be investigated. There are serious questions about the health risks involved and so on, but that was all shut down by this individual.

WOODS: I want to talk about health costs for just a minute, because you have a lengthy discussion of this. This is an issue that people who support the free market have to face quite a bit, because people say, "look at how outrageous health costs are." And it's getting worse, and everybody knows this, and you go in for a minor visit, and you're sitting in the hospital for five hours. Your bill is $2,000. It's crazy, and since we don't have full-on government control of the medical sector people are inclined to think that this is the free market, and that just goes to show what happens when you have a free market. What would you say is the primary factor that is instigating these high prices?

LEWIS: In our other session, we talked about how important free prices are for an economy, how the economy simply can't survive without them, and the medical area is a very good example. Basically, since the creation of Medicare, the government has come to dominate the medical field more and more. Just within Medicare, government is setting many, many thousands of prices and then those prices vary by specialty and by location and so on. So in the end government is really setting billions of different prices in the medical field. The private insurers tend to follow the Medicare system, so all the prices are basically being set by the government. And that has completely backfired. That's just created more confusion, more price increases, steadily rising prices. There's no way to get medical prices down without getting free prices back into the picture by having consumers know what things will cost and be able to make some choices.

WOODS: What kinds of things could be done to make that a reality and how would your proposed changes compare to the sorts of changes that we're seeing implemented right now?

LEWIS: There have been some steps in the right direction. For example, when the health savings account was created that enabled consumers to make some choices about how they spent their medical money up to the first $3,000, $4,000, $5,000 of expenditure a year, and those consumers knew that if they didn't spend that money, they could use it for retirement later. So there was an incentive not to spend it. That really helped the efficiency of the system greatly, but it's still just a very small percentage. Consumers control such a tiny percentage of medical spending right now that they can't really bring down costs, and they can't decide what kind of medical system they want.

One of the problems with Obamacare from the beginning is that if you decide what health insurance is then you're also deciding what medical care is. The government, in effect, is defining what the product is, and the government's not in a position to know what the product should be. So you freeze innovation. You freeze change. You don't have any of the positive elements of a market system going on as well as you just get prices going up, and you don't get the real innovations through to people to help them in their healthcare.

WOODS: As we've said, the two books that you have here are basically one book in a certain way, in that there's a similar thesis being presented here under different aspects, and I think that becomes clear as you come to your conclusion. Towards the end of the book, one of the last parts of *Crony Capitalism in America* is called "Losers," and I think these people are losers not just from crony capitalism but also from what the Fed is doing, which you detailed in your *Free Prices Now* book. So can we talk a little bit about the so-called losers, the people who actually do lose out on this, the people who are forgotten about but who actually do lose out in this? I mean you've got, for example, the young and the poor to name just two. How precisely is it that they are harmed by all of this?

LEWIS: Let's just talk about the young for a moment. It's really ironic. They were Obama's margin of victory in this last election. If the young, that is people under 30, had just split their vote evenly, Obama would not have won. And yet, when you look at what these current economic policies and the resulting crony capitalism are doing to the young people, it just absolutely wrings your heart. First of all, they've graduated from college if they go to college, and they can't get a job. We're all aware of that. They're saddled with all of these immense student loans, and why are they saddled with immense student loans? Again, it's a failure of government policy. The government provided the student loans, but that subsidy really just flowed into the budgets of the colleges and universities. The expenses, the fees and tuition just kept going up, up, up, so that the more subsidies the students were getting, the less it helped them. It just led to larger debts, completely backfired.

Recently, the government has overhauled overtime rules for young people, so if you're a college graduate, that's no longer going to exempt you from overtime. So of course, how does the employer respond? We can't afford to hire these graduates anymore, because we're going to have to pay them overtime. Then of course, you've got the minority kids who can't get a job because of these price controls on wages. And then of course you've got Obamacare, which is adding a minimum of $2.30 to the minimum wage for anybody, any single person to be hired and more if the employer pays the family benefit. So that's making labor costs more and more, and it means fewer and fewer jobs. This is just tragic what we're doing to young people.

WOODS: I don't know how many of them have had a political awakening as a result of any of this. I think some of them are still so caught up in the version of events that was taught to them in school that they just think that this is an example of how private employers are bad and greedy, and they won't give them a chance. "And Obama's just doing his best to give me a fair shake." I don't know. I mean I'm kind of out of ideas as to how to crack through to people like this.

LEWIS: On the positive side, I do think that there are a growing number of young people who are beginning to understand this. In general, the American people—it seems clear that they know that something is seriously wrong. They're not buying the official lie. They know that something is really completely off. They're just confused. They don't really understand what it is, and it's the young people that have to figure it out. Because they're the ones who are able to do it, and I think that they will do it. I'm more optimistic about the young catching on.