POWER, INC.

THE EPIC RIVALRY BETWEEN BIG BUSINESS AND GOVERNMENT— AND THE RECKONING THAT LIES AHEAD

DAVID ROTHKOPF

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David Rothkopf

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For my brother and sister
and siblings everywhere
who are the first to teach us about
the great rivalries we cannot do without

It's the best possible time to be alive when almost everything you thought you knew is wrong.

—Tom Stoppard, *Arcadia*

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Introduction: Bodies but No Souls

> **Where possessions be private, where money bearethe all the stroke, it is harde and almost impossible that there the weal publique may justeleye be governed, and prosperously floryshe.**
>
> **—Sir Thomas More, *Utopia***

> **Corporations have been enthroned and an era of corruption in high places will follow, and the money power of the country will endeavor to prolong its reign by working upon the prejudices of the people until all wealth is aggregated in a few hands and the Republic is destroyed.**
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> **—Abraham Lincoln, letter to Col. William Elkins**

In most countries of the world today, there is a central tension that divides populations and helps define the shape and success of societies. At issue is how we balance public and private power. Differing national and regional approaches to resolving this tension will go a long way toward determining who leads and who follows in the global society of the twenty-first century, the role of evolving international institutions, and the very nature of how we organize ourselves as human beings on this planet.

The challenge is that the power of the people and the governments that represent them must harness, enable, and yet regularly offset the power of private actors and corporations that seek the maximum freedom to pursue their self-interests. It is an ancient struggle but one that has, in recent years, taken surprising turns that have forced many to question what have come to be basic assumptions about governance.

In the United States, the balance between public and private power is the defining political issue of the moment. Is government too big, a burden to society, and a threat to individual liberties? Or is it too ineffective a protector of average people, having been co-opted by big business and moneyed interests? Is it contributing to the general welfare or has it become a means of institutionalizing inequality, serving the few rather than the many?

In Europe, such controversies also roil furiously but they are joined by an intense argument over how much of the power of individual countries should be passed on to a collective European Union government, and about whose interests are best served by such collaborative governance—a departure from the traditional idea and role of the nation-state.

In China, this public-private tug-of-war is visible at every level of a society that is reinventing itself at such a breathtaking pace that stability and growth often seem as irreconcilable as they are essential to each other. It is a challenge faced elsewhere in the emerging world as well, from the battles between Russia’s oligarchs and its government leaders and the sub-rosa relationships those battles sometimes obscure, to the social tumult we have recently seen in the Arab world, in which uprisings were as much against cronyism and governments that served the economic interests of elites as they were for individual freedoms and opportunities.

If the bloodshed, social experimentation, and ideological polarization of the twentieth century have offered us one lesson, it is that extreme solutions do not work when trying to balance public and private power. No society can effectively thrive without a balance between the two. When the balance between public and private power is lost, problems—often large ones—ensue.

Recent developments demand we rethink issues that were widely discussed—and, we thought, resolved—just a few years ago. The end of the cold war did not bring the expected triumph of American capitalism. The marketplace and its dominant actors, while constantly gaining influence, have, as recent scandals and crises reveal, clearly overreached and abused their power.

In the United States in particular, but in many other countries that have adopted a U.S.-like model as well, those abuses have led to a sense that the balance has become far too tilted in favor of private power. Inequality has grown in terms of both economic outcomes and apparent privileges and prerogatives of a super-empowered elite within—and beyond—the law. The result has produced a backlash and fueled the emergence of other alternative models of capitalism, each of which is based on a different kind of public-private balance as well as on different philosophical, cultural, and historical foundations.

This book, then, is about the epic rivalry between public and private power that has taken place over the centuries, and about how it has entered a new stage. It is about how essential it is to strike a balance between the two while avoiding collaborations that are too cozy between those empowered by the people and those seeking private gains. It is about the new approaches to achieving that balance that are emerging as legitimate rivals and even likely successors to an American model that has, at least temporarily, lost its equilibrium and a not inconsiderable measure of its legitimacy. And it is about the emerging world order that turns not primarily on the interplay between states, but on that between a new collection of actors: a handful of traditional states and a majority of states so weakened that they are now effectively semi-states, an emerging class of increasingly empowered private global actors that might be called super-citizens, and of all the rest of us.

Ultimately, therefore, it is about the challenges we face and the choices we must make to achieve the right balance between public and private power in the rapidly changing international environment of the decades ahead—and how history can help us gain the insights we need in order to do that.

The Evidence Is in the Headlines

In April 2010, in the wake of the financial crisis, Goldman Sachs's CEO, Lloyd Blankfein, and several other top officials of the firm were summoned to testify before Congress. More than any other company, Goldman had come to symbolize Wall Street clout. Like previous hearings involving financial executives who had played significant roles in the meltdown of global markets in 2008 and 2009, this one followed a traditional script.

The executives could barely conceal their contempt for the Congress that had called them to Washington. They read carefully worded prepared statements that denied wrongdoing. They spoke of the market collapse as if it were something like a turn in the weather. "Unfortunately," said Blankfein dryly, "the housing market went south very quickly. So people lost money in it."

Members of the Senate committee before which they were testifying derided the "fundamental conflict" in Goldman's selling financial products that its own executives characterized as "shitty" or "crap." The executives didn't flinch. One primly denied that they used that kind of language. For eleven hours the Congress attacked and the Goldman executives squirmed but argued that the products they sold were nothing but tools to reduce client risks, despite all evidence demonstrating that they had actually increased them.

America had been rocked by a financial crisis that had triggered the worst economic downturn since the Great Depression of the 1930s, and Congress, playing to angry Main Street constituencies, was talking tough. Senator Carl Levin, who chaired the hearing and whose home state of Michigan had been hard hit by the economic tsunami, condemned the fact that firms like Goldman had been having their way with government thanks to the armies of lobbyists the banks deployed who "fill the halls of Congress, hoping to weaken or kill legislation." That was going to have to come to an end. Washington was going to have to crack down on the practices that had brought about the devastating global downturn. Levin characterized the behavior of Goldman and similar big Wall Street investment houses as "unbridled greed in the absence of the cop on the beat to control it."

There would be a reckoning, promised the senators. Reforms were coming. Wall Street couldn't get rich shrugging off regulators for years, then both trigger a financial calamity and simultaneously demand a costly bailout without suffering lasting consequences. Changes were around the corner. New regulations would be imposed. A national crackdown on speculators and greed was inevitable. Washington was going to flex its muscle.

And then it blinked.

Even before the hearing, Wall Street had already begun another bonanza year. In 2010, Goldman Sachs doled out $15.3 billion in pay and bonuses to its staff. It added 3,200 more employees. Blankfein said, "Market and economic conditions for much of 2010 were difficult, but the firm's performance benefited from the strength of our global client franchise and the focus and commitment of our people."

Meanwhile, new financial reforms that had been passed in the middle of the year hung in limbo. Detailed regulatory provisions had yet to be written. Much-needed new staff had yet to be hired. Oversight agencies were too poorly funded to effectively implement the new laws. At the Securities and Exchange Commission (SEC), commissioners complained that many elements of the new laws simply couldn't be enforced because Congress hadn't appropriated the resources they needed for their computers to do even the basic tracking of key transactions. Washington had talked the talk, but when the cameras were turned off, it had shied away from walking the walk.

Resentment boiled over around the world. In the United Kingdom and across Europe, anger also welled up thanks to the latest wave of bonuses in financial districts, coming even as countries were squeezed by harsh austerity programs from their governments. Matters were not helped by the fact that the governments were soon scrambling to contain a deepening E.U. financial crisis created by a different kind of toxic collaboration between the public and private sectors. Politicians won office by promising voters benefits that the countries could not afford but had nonetheless been financed thanks to too-loose lending practices engineered by big banks—practices that, for example, enabled countries like Greece to overborrow by keeping some debts off their balance sheets. A similar cycle of public and private sector risks was generated through government officials looking the other way when it came to bankers and bankers looking the other way when it came to governments—at least until crises broke—breeding economic and social hardships from Washington to Tokyo, from Islamabad to Buenos Aires. Similar patterns were followed as giant global financial institutions played national governments against one another while helping to fund and influence candidates who helped create advantageous business conditions—even if that meant compromising everything from the health of the public to that of the planet itself.

Two thousand eleven became a year in which anger with the global and national systems that seem deliberately gamed to serve the interests of a privileged few spilled out into the streets.

In Tahrir Square in Cairo, the “Arab Spring” demonstrations protested not just the Mubarak dictatorship but the unfair concentration of power among the members of the country’s crony-dominated elite. In Athens, while a government debt crisis triggered nationwide protests and strikes, the anger that motivated people to march on government buildings was triggered by a sense that the system in one of the birthplaces of democracy now had them working not just for the few in their own country but to repay bankers across Europe. England witnessed its most violent street clashes in decades.

In Zuccotti Park in lower Manhattan, not far from the offices of Goldman Sachs and other leading financial firms, the “We are the 99 percent” chants of “Occupy Wall Street” protesters highlighted the unsettling way wealth has become concentrated in the hands of the top 1 percent of American and global society—40 percent of all U.S. wealth is held by this relatively small slice of the U.S. population. The top four hundred Americans have, according to *The Wall Street Journal* in March 2011, a collective net worth almost equaling that of the bottom 50 percent of the U.S. population. At the same time, even though they were ideological worlds apart from the Wall Street demonstrators, members of the right wing’s Tea Party movement were another manifestation of America’s politics of alienation who mobilized to decry the degree to which the U.S. system had become broken and was no longer working for the average person. The Tea Partiers blame the concentration of too much power in the government. The “99 percent” blame the concentration of too much power in big business and the government officials whose votes have been bought.

Many of the members of these angry, restive groups around the world would argue they had little to do with one another. Many, no doubt, are completely unknown to one another. Nonetheless, the convergence of so much unrest worldwide with such a similar set of issues at its core cannot be dismissed as coincidence. In a matter of just a few short weeks, “Occupy” protests had spread to more than nine hundred cities worldwide.

A cascade of questions began to flow from the media, experts, and average citizens alike in countries around the world: Who is in charge here? Who makes the rules? The people who write the laws, or the ones who write the checks? Where did the greater good fit into all this? The global economy, it seemed, was at a watershed in terms of the relative and changing roles of public and private power. But what were its origins and its implications?

The Crisis Produces an Unexpected Winner

At about the same time global anti-establishment protests really began to gain momentum, I had breakfast with a senior official of the Obama administration at the Four Seasons Hotel in Washington. He had a provocative perspective on one of the unexpected consequences of the financial upheaval.

"Here's what you have to understand," he said to me with the authority of someone immersed every day in the ebb and flow of transpacific geopolitics. "The Chinese feel that they won the financial crisis."

The thought hung in the air for a moment. It was one of those unfamiliar ideas that nonetheless made immediate sense. I asked him to elaborate on the observation.

"Here's how they see it: Their growth didn't really suffer. They grew stronger while other major powers struggled. And perhaps most important, the American system was revealed to be profoundly corrupt and dysfunctional." The United States, therefore, lost ground while China gained. American criticisms of China's management of its economy and society were deflated. In other words, while America was trying to persuade China to devalue its currency, we were the ones who got devalued—politically and, more important, in terms of the role we had played since the end of the Second World War as an example to the world.

He described how the Chinese "victory" was almost immediately institutionalized when, in an effort to respond to the crisis, first the Bush and then the Obama administrations embraced the G20 rather than the G8 as the central coordinating mechanism of the global economy. China was now at the head table of the international system. What is more, it had gained further clout not only because it was joined there by other emerging powers but also by virtue of the fact that the established Western powers were back on their heels. China had trillions in reserves, the fastest growth rate of any major country, huge investment inflows, and it had ascended to be the world's second-largest economy. Within the Chinese government, advisers around President Hu Jintao who advocated a more aggressive international stance had gained traction. China's diplomats and treasury officials had rapidly become masters of the international game.

He paused and added, "I'm not sure if some of my colleagues in the U.S. government fully understand what has happened yet. Most of them are lawyers. They are used to getting briefed and then dealing with the next issue on the agenda. Far too few have well-developed worldviews." He was acknowledging a seismic shift in the way the world works and in the way the American system was viewed. Not only was the West blindsided by this shift, but many Westerners in key positions were still not fully aware of what was happening.

China was in its ascendancy, and the missteps of Western bankers and politicians were helping them. At the same time, other emerging economies were also benefiting, growing faster, claiming a new role on the international stage. Seeing the flaws in the approaches America had promoted for decades, they too began to chart much more independent courses in terms of how they managed their own markets and politics. Even within Europe, some of America's closest allies, top officials in the German, French, and British governments, were assailing the "American model" as the root of recent economic problems. Even former senior U.S. government officials like the former chairman of the Council of Economic Advisers and Nobel Prize winner Joseph Stiglitz sensed the shift. Said Stiglitz: "People around the world once admired us for our economy, and we told them if you wanted to be like us, here's what you have to do—hand over power to the market. The point now is that no one has respect for that kind of model anymore given this crisis. And of course it raises questions about our credibility. Everyone feels they are suffering now because of us."

A decade and a half ago, we in the United States were celebrating the triumph of American capitalism and the defeat of state power by the forces of the marketplace. This came in the form of a victory dance on the grave of communism and socialism. What is clear today is that our celebrating was premature.

We have since gone from a battle between capitalism and communism to something even more complex: a battle between differing forms of capitalism in which the distinction between each lies in the relative role and responsibilities of public and private actors. As the freewheeling market model promoted by Washington is reeling from self-inflicted wounds, other approaches are succeeding. At the same time, those rising models are vying with one another for influence—from the "capitalism with Chinese characteristics" of China to the "democratic development capitalism" of India or Brazil, from Northern European approaches to capitalism built around a strong public-private compact to new entrepreneurial models found in such places as Singapore, Israel, or the United Arab Emirates.

Listening for Echoes of History

After the 2008–2009 crisis and in the midst of its aftershocks, political debate in the United States has returned to old familiar themes as though nothing fundamental has changed in the world or within the way modern economies and societies work. Yet the current argument that is so central to America's national conversation at the moment—and to that of so many countries around the world—about pitting the dangers of "big government" versus those of "big business" is much more than a tired cliché or a distorting oversimplification. It is an unwitting argument both about how the United States will position itself to compete economically in a rapidly changing world and about whether the American system which has for almost a century been seen as a model for the world will continue to influence other countries. That argument is also the latest manifestation of a struggle between public and private power that has gone on for at least a millennium. This struggle is not just about who has influence or who gets the biggest piece of the economic pie, it is about deeper issues like the changing role of national governments in the global era and how they work with, relate to, and sometimes vie for power with rapidly growing multinational corporations and other big private entities such as NGOs or terrorist networks. And make no mistake about it, history demonstrates that when the power of states is reduced, with alarming regularity, it does not benefit average citizens so much as it does big private actors well positioned to swoop in and take best advantage of the opening.

To accept recent headlines merely on their face is to misunderstand them. For example, China's rise may be new, but it is also a return to the status China held as the world's largest economy for most of history, until the early years of the Industrial Revolution. For all that time, through the early nineteenth century, India was second after China. Their current ascendancies and the differences in their two approaches on how to best organize their societies are tied to those long and very different histories.

In the same way, the contest between public and private power, between the power of the check writers and the power of the lawmakers, has been a central engine of change in countries worldwide for centuries. As a consequence, almost everywhere we look, from Europe to Asia to the Americas, we can see historical resonances between today and this seemingly unending effort to balance the interests and roles of states and private actors. In addition, by examining the past we find telling parallels between this millennium-long struggle for political, economic, and social power and the one that preceded it—the battle between church and state.

* * *

Writing for *Rolling Stone* in the midst of the financial crisis, Matt Taibbi vividly captured the feeling of a seething, abused public by describing Goldman Sachs as "a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money." It was potent language. But it also uncannily echoed the imagery of books written more than a century earlier in response to what was then perceived as the overreaching power of the first generation of American corporate giants. There was Ida Tarbell's landmark muckraking history of the Standard Oil Company, Upton Sinclair's *The Jungle,* and Frank Norris's novel about the ruthless expansion of the railroads in the West that was explicitly titled *The Octopus*.

Norris, basing his book on a real bloody land war between California farmers and railroad men, had described the railroad as "the galloping monster, the terror of steel and steam, with its single eye, Cyclopean, red, shooting from horizon to horizon … the symbol of vast power, huge, terrible, flinging the echo of its thunder over all the reaches of the valley, leaving blood and destruction in its path; the leviathan, with tentacles of steel clutching into the soil, the soulless Force, the iron hearted Power, the monster, the Colossus, the Octopus."

More than simply evoking imagery from the past, however, the Taibbi article and the wave of books, documentaries, blog posts, and cable television shouting matches provoked by the crisis all unearthed much deeper concerns that had preoccupied philosophers and statesmen since the beginning of recorded history.

From Plato, who saw the impulse to do business as a threat to virtuous society, to Thomas More's views expressed in the epigraph to this introduction, doubts have endured about reconciling the pursuit of wealth and the pursuit of a just and equitable society. Within two centuries of More's *Utopia*, as England was recovering from a financial crisis called the South Sea Bubble (see chapter 3), the government of Prime Minister Sir Robert Walpole engineered a bailout of the shareholders of an enterprise called the South Sea Company, many of whom also happened to be members of Parliament. Two Whig critics of Walpole, John Trenchard and Thomas Gordon, wrote a series of 140 essays between 1720 and 1723 under the pseudonym "Cato" in which they bitterly attacked what they saw as the corruption of Great Britain's political class due to their too-close association with leading merchants like those who ran the failed South Sea enterprise. In so doing they revealed that a central, recurrent manifestation of the public-private power struggle would see government and business leaders coverage in what might seem a partnership but actually was more like a conspiracy to undercut the rights of citizens at large.

Trenchard and Gordon continued the theme framed by Plato and More when they wrote, "Very great Riches in private Men are always dangerous to States, because they create a greater Dependence than can be consistent with the Security of any sort of Government whatsoever … [they] destroy among the Commons, that Balance of Property and Power, which is necessary to Democracy." Later, they added scathingly, "It has been justly observed of Corporations, or Political Combinations of Men, that they have Bodies but no Souls, nor consequently Consciences."

Set aside conventions of usage, capitalization, and punctuation, and their critiques unerringly presage those of the past few years. Almost three hundred years ago they asserted, for example, "The last parliament were as much Representatives of the South-Sea Company as of the rest of the Kingdom." In 2009, the U.K. newspaper *The Guardian* published a column that was among many at that moment with a very similar message, stating, "By all accounts the UK government has bowed to corporate interests and meaningful reforms have been postponed … It is often claimed that Britain has the best democracy that money can buy."

Trenchard and Gordon observed that "Companies … alter the Balance of our Government, too much influence our legislature and are ever the Confederates or Tools of ambitious and designing Statesmen." *The Financial Times* carried a column at around the time of Taibbi's article stating, "The influence of finance over political life was reinforced by money. Wall Street bankers regularly appeared at the top of the giving lists for the political parties … Now is the time for change … Wall Street and the City need to be grown up about this. They might not like the prospect of losing their grip on government and exposing themselves to new ideas. But unless they do, they might just find that the page has indeed been turned and they are no longer on it."

In fact, for all the freshness and urgency of the financial crisis that, at the time of this writing, still buffets the globe, we find a wide array of today's great issues uncannily foreshadowed in events and commentaries from the past. Central elements of our contemporary political debates recur throughout history. Take globalization, for example, and read the stated concern of one of Trenchard and Gordon's admirers, Thomas Jefferson, who wrote a generation later, "Merchants have no country. The mere spot they stand on does not constitute so strong an attachment as that from which they draw their gains." How does that sound in the context of today's debate when even a pro-market publication such as *BusinessWeek* wrote just a couple of months before the fall of Bear Stearns, "In effect, U.S. multinationals have been decoupling from the U.S. economy in the past decade. They still have their headquarters in America, they're still listed on U.S. stock exchanges and most of their shareholders are still American. But their expansion has been mainly overseas."

The echoes of history remind us that much of what we are grappling with today is not just about today's players or today's big companies or today's attitudes but is really about the tension between the age-old desire for a perfect society and the equally ancient impulse to obtain wealth and the influence it brings. They also upend some of the assertions of today's leaders that they are somehow following in the footsteps of their often-cited ideological heroes.

"Leave-it-to-the-markets" conservatives who argue that they are the only true keepers of the spirit of freedom's forefathers would be made as uneasy by rereading Adam Smith's clear statements of discomfort with the power of big corporations. They might also be made more than a little uncomfortable by discovering the close ties between champion of personal liberties and property rights John Locke and the slave trade. (For more on this, see chapter 2. For more on Smith, see chapter 3.) Jefferson later also wrote, "I hope we shall crush in its birth the aristocracy of our moneyed corporations, which dare already to challenge our government to a trial of strength and bid defiance to the laws of our country." Lincoln, another venerated figure, also cited with an epigraph in this chapter, expressed a similar view. So too did other American presidents, both Democrats and Republicans, from Theodore Roosevelt to Woodrow Wilson, who lamented the rise of big corporations and the huge power they had accumulated. Wilson wrote, "We are in the presence of a new organization of society. Our life has broken away from the past."

Within a few years of Wilson's comments, U.S. Supreme Court justice Louis Brandeis would write in his opinion for the case of *Louis K. Liggett Co. et al. v. Lee*, "Through size, corporations … have become an institution … an institution which has brought such a concentration of economic power that so-called private corporations are sometimes able to dominate the State. Such is the Frankenstein monster which states have created through corporation laws." And soon after, Franklin Roosevelt would write, "The liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it comes stronger than their democratic state itself. That, in its essence, is fascism—ownership of government by an individual, by a group."

Like every generation, we live in a moment that is constantly shaped by the interaction between a past most of us have forgotten and a future no one knows. We have only two useful tools in negotiating such circumstances. The first is to ensure that we understand the past, especially when there is so much evidence to suggest that it contains important lessons for our own time and much to suggest that some of the most important issues of our era have roots that extend back centuries. The second is that we then utilize what we have understood from studying that history to see what is different about today and likely to be different about tomorrow.

The objective of this book is to provide some of that perspective, to set this roiling moment in context and then to look forward at what is new and even unprecedented about the future that is unfolding.

An Essential Relationship in Search of an Elusive Balance

Any such study of the evolution of public and private power demonstrates that both have been repeatedly guilty of deep excesses and both have offered undeniable and enduring benefits. Both have evolved in tandem over time, sometimes seeking to crush each other, sometimes feeding deep mutual dependencies, sometimes allies, sometimes rivals. And such a study suggests that for all societies the most persistent and central challenge associated with this power struggle is defining a proper balance between public and private power.

It is also clear that since 1980, in the United States that balance has been lost. The results have been so damaging that they threaten America's ability to lead both economically and politically. They have, as many from the Chinese government to Joe Stiglitz have accurately concluded, undercut American legitimacy. And they have opened the door for other nations with different models that offer a different balance of public-private power and a different set of associated values to set the terms for the next great period in international social and economic development. The distortions that have taken place within the United States have been packaged and sold worldwide like toothpaste or shampoo by the federal government and other representatives of the U.S. system. And like many other products similarly marketed, they come with misleading claims.

The first of these is that democracy and free markets are somehow two sides of the same coin, both not just promoting but institutionalizing opportunity for the average citizen. While both have undeniably vital and complementary roles to play, this assertion goes too far. The reality is that markets promote efficiency, which in turn rewards scale, which in turn leads to a concentration of economic and therefore political power. (Indeed, the term "markets" implies a degree of organization or social purpose that is regularly offered as a cover for activities that amount to little more than the narrow, sometimes rapacious pursuit of self-interest in ways that harm rather than benefit the greater population.) The second distortion is that striking a blow against the allegedly "overreaching" power of government is a victory for personal freedoms, when in fact it often simply clears the way for power to accrue elsewhere, to private institutions that are less accountable than governments and whose interests do not align with most people's … and sometimes to private institutions well equipped and even designed to co-opt the application of power on behalf of the public.

Based on these misconceptions, policies have been promoted and adopted that have had the effect of weakening governments and putting massive segments of the population at risk. Some of these are prescriptions that have been known under the rubric of the "Washington Consensus"—promoting in the name of "liberalization" a retreat or withdrawal of government from the marketplace that has enabled major corporations to gain an unprecedented foothold on the global stage and to play the central role in defining the great historical trend of our time, globalization. Other elements of this liberalization have included opening the door to waves of financial "innovation" that have had massive unintended consequences, from the financialization of core commodities that enables speculators to push higher the price of basic foodstuffs and energy, to the proliferation of derivatives that have swamped all other forms of value-bearing instruments on the planet including, many times over, government-issued money itself. These "liberalizations" have therefore reduced in substantial ways the power of governments to fulfill their historically accepted obligations to their people while at the same time shifting power to those often invisible, largely unaccountable, typically (although not exclusively) private actors who possess the greatest means to influence market outcomes.

Studying history, however, also enables us to see that the rebalancing—the tug-of-war—between public and private power is not just a recent trend, not just a part of a consensus formed in Washington or anywhere else during our lifetime, but has gone on for centuries, and the result has been a gradual, sweeping, systematic redefinition of the role of the state and an unmanaged, not terribly well understood remaking of the international order that impacts the interests of billions. Whether those changes result in a healthy, equitable balance; a backlash against private power in the form of autocracy, communism, or fascism; or, alternatively, in a system where the power of states continues to be undercut both from within and from without by private forces with agendas that are blind to national interests, remains to be seen. It is one of the great pregnant questions of our time.

We have moved from a system in which nation-states were the fundamental building blocks of global society to one in which their most fundamental powers are both constrained and evolving. New global challenges exist far beyond the ability of any one individual nation to respond to them. The basic characteristics that made a state a state—such as the ability to control borders, print and manage a currency, levy taxes, project and use force, or even make and enforce laws—have been chipped away to the point where states are unrecognizable today compared to how they behaved in the past. It is important to understand to what degree this erosion of state prerogatives is the result of natural historical forces and to what extent it is the result of the ongoing political efforts of private actors seeking to constrain or reshape the role of national governments. It is also essential to understand how growing government budgets do not necessarily reflect enhanced government power, as when those budgets merely reflect the meeting of obligations and prior commitments rather than any exercise of choice of influence by leaders or electorates.

Within this altered international system, some states are so diminished they hardly measure up to our old ideas of what a state is supposed to be or do. They are now just semi-states. And the reality is that this category of diminished actors is so large that it encompasses perhaps 70 to 80 percent of all the countries on the planet. At the same time, private actors have grown so large that perhaps two thousand of them are more influential than those 70 to 80 percent. These private actors are a new class of supercitizens, entities that can marshal and project to their advantage the economic, human, natural, or political resources that once were available only to nations. Ask why the world can't or won't address concerns from global warming, to embracing new forms of energy, to containing global diseases, to regulating global derivatives markets, and you will see the not-so-invisible hand of these megaplayers. These enduring private actors, which were built on an idea once created to serve national interests—the idea of the corporation—have morphed into a group that plays a leading role shaping national and international priorities often without regard for the interests of any one society anywhere—a group with the money and power to institutionalize their ideologies and serve their interests by successfully supporting efforts to translate their ideas into laws or, alternatively, carefully carve out legal and regulatory voids.

Losing Our Way by Losing Perspective

A personal reason led me to write this book. I am drawn by both conscience and curiosity to figure out where we went wrong. I mean this in two ways. In the first instance, I approach this as a former government official who had an international economic portfolio during the Clinton administration. I was among those traveling the world advocating free trade, free markets, and the rising tide of globalization during the salad days of the 1990s boom. Subsequently, I have come to the conclusion that we underestimated the dislocations associated with these processes, just as we overestimated the virtue of private actors to whom we thought we could bequeath major economic and social decisions by “leaving it to the markets.”

This is not to repudiate the benefits that global trade and economic liberalization have brought to the world, or to minimize the profound failings of most experiments in centrally planned economies. Rather, it is simply to note the fact that during the years from 1980 to 2008, during which free-market ideologies spread rapidly around the world and governments pulled back from traditional regulatory roles, the benefits of rising income levels worldwide were accompanied by growing inequality. As I noted in my last book, *Superclass*, the gap between the bottom fifth of society and the top fifth grew larger during that period than it had been at any time in history, and it continues to grow worse in many nations, including the United States, today.

In a world in which the richest one thousand people have assets that are equivalent to the wealth of the two billion poorest, or in which the reckless overreach of superpowerful financial corporations can trigger global recessions that impoverish hundreds of millions, or in which giant energy producers can influence climate policies that put the planet itself at risk, it is urgent that we constantly reassess how we balance the legitimate desire to grow the global economy and the moral responsibility of doing so with some semblance of fairness.

I do not think it is entirely an accident that during the era of the rise of corporate powers, nations have come to regularly measure their success in terms of a gross metric of wealth creation rather than in terms of their higher objective of improving the general well-being of their citizens. In the same way, we must ask how, during the financial crisis, although big banks caused great damage to society—often as a direct result of misrepresentation, concealment, and rapacious pursuit of their narrow self-interests—they were able to wield the power both to be rewarded for their wrongdoing in the form of bailouts and, for the most part, to avoid prosecution. It is a phenomenon that seems closely related in its roots to the recent decision by the U.S. Supreme Court to enable corporations to spend more to influence the outcomes of elections, which further gave supercitizens an unfair advantage over “ordinary” citizens. It is not so much that justice is blind, but that we have established its price.

This is related to the second half of my “Where did we go wrong?” question: Where did the certainty that “leave it to the markets” was the right answer to so many questions come from? Were we convinced or co-opted by decades of extraordinary U.S. success and the creation of the most prosperous economy in the history of the world? (Not a small thing, of course. But it is a title that has been held by many nations throughout history.) Were we too focused on the recent past, blind to what was happening elsewhere? Were we, in this respect too, missing broader historical trends, the historical perspective that is particularly useful at times like these that are fraught with emotion and that are seen as possible breaks from the past?

Much of value has already been written on the subject covered by this book. But many previous books either were too colored by their time or have been, to a degree, for all their considerable merits, overtaken by events that variously undercut or amplify points they made.

In the 1970s, Richard Barnet and Ronald E. Muller's *Global Reach* asserted that "corporations are far from the 'engines of development' that they claim to be, abusing their leverage and duping their customers." They went on to say that multinationals undermine the "power of the nation-state to maintain economic and political stability within its territory." Their view was echoed in other books of the era, notably Raymond Vernon's *Sovereignty at Bay*. Vernon believed that the relationship between multinational companies and national governments was inherently fraught with tension. He argued that managing the tension would be of special importance going forward but that it had tilted in favor of multinationals in a way that was likely to produce a backlash. This was due in part to the fact that at the time, big global companies were seen primarily as American enterprises, a trigger for some of the pushback they felt.

Between the 1970s and the 1990s, a major transformation occurred. The welfare state and the intellectual currents of the midcentury were supplanted by the market-driven ideas of Ronald Reagan, Margaret Thatcher, Milton Friedman, and other proponents of the Chicago School of economics. Globalization had come to be seen as a defining trend of the time, aided as it was by technological breakthroughs in information and transportation technologies. And of course, the primary economic-political struggle of the twentieth century, between capitalism and communism, had also been resolved. State-dominated economies were destined for the ash heap of history. And the literature of the times reflected that perspective, notably Daniel Yergin and Joseph Stanislaw's *The Commanding Heights: The Battle for the World Economy*. Their book masterfully told the story of how the private sector and the forces of the market had, since the Second World War, seemingly achieved decisive superiority in their rivalry with the state. Smaller but equally influential books such as John Micklethwait and Adrian Wooldridge's *The Company: A Short History of a Revolutionary Idea* were infused with a certain degree of triumphalism. Anglo-American capitalism's apotheosis had inspired the literary component of that premature victory celebration mentioned earlier. Even Vernon, writing his last book, *In the Hurricane's Eye: Troubled Prospects for Multinational Enterprises,* in 1991 acknowledged how much had changed to the advantage of multinational enterprises.

Another thread among writers interested in this topic has been visible in the recent profusion of books seeking to interpret the rise of big emerging markets such as China, India, and Brazil, and what this might mean for America, the West, and corporate interests. These have ranged from Ian Bremmer's *The End of the Free Market: Who Wins the War Between States and Corporations?* to John Kampfner's *Freedom for Sale: Why the World Is Trading Democracy for Security*. And of course there have been a host of other books on the lasting impact of globalization on government and society, including two of Thomas L. Friedman's terrific books, *The World Is Flat* and *Hot, Flat, and Crowded,* as well as Anne-Marie Slaughter's smart and provocative

New World Order.

There is considerable overlap between these other books and mine, and indeed, even though I have benefited greatly from the work of all these other authors and learned much from them, it was striking to me that in the case of all but *The Company*, the focus was primarily on the recent, rather than the remote, past. But as I read through them all, it seemed to me that the roots of all the big questions posed by recent circumstances reached much farther back in time.

I can't help but recall that the question of properly framing our own moment in history came up in one of my very first interviews for this book. I was meeting with Lawrence Summers while he was still President Barack Obama's chief economic adviser. I asked him whether the recent economic crisis had produced a political sea change that would reverse the more market-friendly trends of the past thirty years.

He shifted in his seat and didn't answer for a bit. "You know," he began, "I think that's why I would have made a terrible journalist. While I understand the impulse to see every development as a watershed, as a big turning point, I tend to see things more in a longer-term historical context, as a product of slower-moving fundamental trends." I remember thinking this was the kind of attitude that might lead to actually missing watersheds when they happen. But while I believe the Obama team has been guilty of clinging to old economic formulations for too long and not recognizing or responding to fundamental structural changes and flaws in our economy, Summers's overall instinct on this particular point matched my own views. It was an antidote to the kind of temporal narcissism from which we all suffer: the desire to view the period in which we live as a unique moment in history, above and apart from all that have come before.

From the Age of the Vikings to a Looming Reckoning

The first section of the book that follows starts at a genuine watershed in history, this one ancient, with the story of the rise of the oldest corporation still in existence. That company, born a thousand years ago in the age of the Vikings amid the rolling hills of medieval Sweden, will serve for us as a kind of "everycompany," a character to which we will regularly return because its history serves as such a useful touchstone over the centuries during which corporate power evolved and grew. Part I then looks at four pivotal years and eras in which revolutionary thinking transformed the world and our views of public and private power. The first such year is 1288, the year in which the oldest corporation's first stock transaction was recorded. This period allows us to consider the pivotal power struggle that preceded and in some ways presaged that between companies and states: the contest between church and state. The next period we'll consider centers on 1648, the year of the Treaty of Westphalia, a development important to the emergence of the modern nation-state. The third key year is 1776, the year of the American Declaration of Independence and Adam Smith's *Wealth of Nations*. The final year examined in the first part of the book is 1848, a year of political revolution in Europe and the year of *The Communist Manifesto* as well as the arrival of Andrew Carnegie in America, and of the acceleration of the Industrial Revolution. The purpose of this section is to investigate the development of our foundational ideas about the relative and specific roles of governments and private enterprises.

Next, the middle section of the book, “The Contest: The State Constrained, the Corporation Unbound,” explores several of the most significant powers and privileges that have historically defined the role of the state and its special status. These privileges range from the right to legitimately use force to the right to print money or to control borders. This section examines how in each case history has worked to diminish and in some cases erase those prerogatives, often with the active collaboration of private sector actors who directly benefited from the changes. It will also consider how the private sector began to take advantage of the power vacuums created by each new constraint on the state.

The final section, “The Reckoning: Forging a New Order,” examines where we are today in this time of financial crises and uncertain relationships. This section looks at the recent events in the trends revealed in the first two parts of the book and looks forward. It explores what it means to live in a world of a comparative handful of traditional major powers, of semi-states that are now only shadows of what states once were, and of a rising class of private powers, massive, influential, enduring supercitizens with global interest and growing clout with roles far greater than any ordinary, individual participants in society. It also looks at how companies, in order to adapt, are behaving more like countries, and how countries, likewise, are behaving more like companies. This section will also look ahead and describe how companies and countries must adapt their strategies to this new reality, what seems to be working and what does not, and how our theories and international structures must also be updated to reflect the new order.

In concluding, the final chapter will explore the coming ideological reckoning among the competing capitalisms, each of which seeks a different balance between public and private power often guided by very different social goals and views of the roles not only of states and companies but also of individuals and communities.

It should be noted that one could write a very different version of this book using as primary touchstones, for example, developments in China, Japan, or India that paralleled and often preceded those in the West. For the purposes of this story, in light of the fact that many of the inner workings of modern capitalism developed in the Western world, I have tilted the balance slightly in the direction of Europe and the United States—although much of the final portion of the book deals with the rise of Asia and with the likelihood that Asian views on the balance between public and private power as well as on the overall organization of society are likely to be ever more important, indeed central, in the years ahead.

Naturally, no single volume can hope to cover such a complex issue as thoroughly as the subject warrants. But with some luck, through spending a little time exploring history in the company of some of its most interesting actors—including, very shortly, an inquisitive Swedish goat—we can gain some new insights into the current challenges we face and thus perhaps come to a few good conclusions about how to repair our fractured, fragile international system and the nation-states in which we live, and how to avoid the consequences suffered in the past during those eras when rules and realities did not align.