

Capitalism's Best Pals: Liberals

By Robert L. Borosage

Corporate corruption is a “moral cancer that ... is threatening this great system and our economic health.” These “sins of omission, malfeasance and misfeasance” are “eroding shareholder value for all corporations and public confidence in critical elements of our economic system.” This is a “betrayal of capitalism” in which the “most fundamental principles of our market system were being flouted.”

Corporate scourge Ralph Nader? Mirthful muckraker Michael Moore? No, these quotes come from leaders of America's financial community—Pete G. Peterson, Blackstone Group co-founder and former U.S. Commerce secretary; John Snow, chairman and CEO of CSX Corp.; and Felix Rohatyn, a former Lazard Freres partner. All are calling for rapid, bold institutional and legal reforms to revive investor confidence.

But these financial giants are discovering that if they want to save capitalism from itself, they'll have to rely on liberals to lead the way. Despite the dire warnings from Wall Street, it is still business as usual in Washington. The scandals have merely stirred dozens of industry associations and hundreds of corporations into action to bottle up even watered-down reform. For example, Thomas Donohue, president of the U.S. Chamber of Commerce, issued an “action call” urging opposition to accounting reforms offered by Senate Banking Committee Chairman Paul S. Sarbanes. He accused the Maryland Democrat of having a “knee-jerk, politically charged reaction” to the Enron scandal. The American Institute of Certified Public Accountants, which gave \$14.7 million in campaign donations to both Democrats and Republicans during the last election cycle, according to the Center for Responsive Politics, denounced Sarbanes' reforms as a “de facto government takeover” of the profession.

The Republican majority in the House has been happy to pass legislation pre-approved by the business lobby. In the Senate, Phil Gramm (R-TX) has served as administration point person. Congressional Quarterly reported that he urged lobbyists to “stall, stall, stall” to avoid reform legislation. Gramm denies the charge.

The Bush administration's initial response to Enron's bankruptcy was to dismiss it. Treasury Secretary Paul H. O'Neill said the company's fall was evidence of the “genius” of capitalism. As the scandals have mounted, the administration has acknowledged, in the president's words, “some bad apples” in the corporate world but remains opposed to broad legal reform. Harvey L. Pitt, chairman of the Securities and Exchange Commission and the administration's lead on the issue, has rejected most of the proposed reforms, such as restrictions on stock options or conflict-of-interest limits on auditors or stock analysts.

New Democrats and Blue Dog Democrats—the corporate money wing of the party—have been reluctant reformers, at best. Senate Governmental Affairs Committee Chairman Joseph I. Lieberman (D-CT) has essentially punted, warning of the “twin dangers of doing too little and doing too much.” As Bruce Josten, executive vice president of the U.S. Chamber of Commerce, crows, reform Democrats “have problems on their side of the aisle, not just with Republicans.”

So, rescuing U.S. capitalism is left to liberals, just as it was after the excesses of the 1920s led to the stock market crash and the Great Depression. Sen. Edward M. Kennedy (D-MA) has pushed for pension reforms and legislation regulating stock analysts. Sarbanes' bill, among other things, would create a new regulatory board to monitor auditors and partly curb auditors' conflicts of interest by prohibiting some

types of consulting. Sen. Jon Corzine (D-NJ), former chairman of Goldman Sachs, has been the most vocal advocate of significant legislation, often joined by Sen. Barbara Boxer (D-CA), whose husband, Richard Blum, is a major investor. The two senators have introduced a bill that would allow employees to invest no more than 20% of their 401(k) funds in shares issued by their employers. At the state level, New York's liberal attorney general, Eliot Spitzer, exposed the conflicts plaguing stock analysts and embarrassed Merrill Lynch into a settlement.

But liberals don't have a majority in either house of Congress. So despite the continuing scandals and the economic damage they may cause, Corzine has warned, "it is unlikely that we will get strong reform unless there is a new event that captures the [public's] imagination." Even Martha Stewart's alleged insider trading and WorldCom's staggering \$3.9 billion exaggeration of profits—which is giving new impetus to Sarbanes' accounting reform bill and goading the president to speak out—may not suffice.

At the turn of the 20th century, when the country was debating what rules to impose on the emerging industrial economy, reformers faced a similar dilemma. The dominant corporate Republican majority, led by William McKinley and Mark Hanna, opposed new regulation. Muckrakers and political movements helped push through change at the state and local level, beginning with the eight-hour day, minimum wage, and basic fire and safety laws. Maverick Republican Theodore Roosevelt laid out a larger agenda and made some progress. But the market fundamentalists resisted regulation throughout the manic 1920s, until the stock market crash and the Great Depression catapulted Franklin D. Roosevelt and a reform majority to power.

The question is how to reform U.S. capitalism without having to endure another crash. For this to happen, alarmed financial leaders would be wise to ally themselves with reformers on Capitol Hill, however uncomfortable that may be for them, and mobilize the political clout represented by millions of small investors who have watched their 401(k) plans plummet in value. To dramatize the urgency of the matter, Sarbanes' Senate Banking

Committee should stage a televised hearing to establish just how perilous the current loss of investor confidence is and how ideologically resistant some segments of the business establishment are to reform. Then liberal Democrats and financial gurus would be wise to enlist the Republican maverick, Sen. John McCain (R-AZ), to help lead the fight for the core reforms on pension protection, auditor independence, stock options, accounting standards, and investment bank conflicts of interest.

With sufficient exposure, President Bush, already scrambling to limit the political fallout from burgeoning corporate scandals, might even begin to support meaningful legislation. But for this to happen, the conservative doyens of Wall Street must make public their common cause with the few remaining liberals in the Congress.

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