The New York Review of Books

Big Money Rules

Diane Ravitch

December 7, 2017

I grew up in the 1950s, an era when many believed that our society would inevitably progress toward ever greater economic equality. Desperate poverty would recede, it was assumed, as new federal programs addressed the needs of those at the very bottom of the ladder and as economic growth created new jobs. The average CEO at the time earned only twenty times as much as the average worker, and during the Eisenhower administration the marginal tax rate for the highest earners was 91 percent. Today, the goal of equality appears to be receding. The top marginal tax rate is only 39 percent, far below what it was during the Eisenhower years, and most Republicans would like to lower it even more. Employers now make 271 times as much as the average worker, and half the children in American schools are officially classified by the federal government as low-income and eligible for free or reduced-price lunch. Union membership peaked in the mid-1950s and has declined ever since; the largest unions today are in the public sector and only about 7 percent of private sector workers belong to a union.

Despite these alarming developments, however, politicians who support the deregulation of business and champion pro-employer legislation—from state legislators to members of Congress—have a firm electoral foothold in most states. During the 2016 presidential campaign, candidate Trump promised to support basic government services like Medicare and pledged to bring back jobs that had been outsourced to other nations. However, once he was president, Trump endorsed health care bills that would have left millions of low- and lower-middle-income Americans without health insurance, and his insistence on reducing corporate tax rates suggests his determination to act in the interest of wealthy elites.

Two recent books—Nancy MacLean's *Democracy in Chains: The Deep History of the Radical Right's Stealth Plan for America* and Gordon Lafer's *The One Percent Solution: How Corporations Are Remaking America One State at a Time*—seek to explain several puzzling aspects of American politics today. Why do people of modest means who depend on government-funded health care and Social Security or other supplements to their income continue to vote for candidates who promise to privatize or get rid of those very programs? Why do people who are poor vote for politicians who promise to cut corporate taxes?

Both books follow in the path of Jane Mayer's *Dark Money: The Hidden History of the Billionaires Behind the Rise of the Radical Right* (2016), which documented an astonishing effort by the Koch brothers, the DeVos family, and other billionaires to purchase politicians in support of such goals as the elimination of welfare programs and the privatization of health care and education. Lafer's describes how in recent years those goals have been achieved in state after state. MacLean's book—which set off a heated dispute among historians and economists when it appeared in June—aims to describe their historical, theoretical, and academic underpinnings.

At the center of *Democracy in Chains* is the work of the Nobel Prize–winning economist James M. Buchanan, who died in 2013. Buchanan is associated with the doctrine of economic libertarianism: he is widely credited as one of the founding fathers of the "public choice" model of economics, which argues that bureaucrats and public officials serve their own interests as much as or more than the public interest, and he was the leading figure in the Virginia School of economic thought. He trained many economists who came to share his libertarian views, and his acolytes have protested MacLean's view that he had "a formative role" in the evolution of an antidemocratic "strand of the radical right."

MacLean discovered Buchanan by chance. About a decade ago, she began researching a book about Virginia's decision to issue state vouchers that would allow white students to attend all-white schools, avoiding compliance with the *Brown* v. *Board of Education*decision of 1954. While studying the writings of the voucher advocate Milton Friedman, she came across Buchanan's name. She started reading his work and visited a disorganized archive of his writings and papers at the Fairfax, Virginia, campus of George Mason University, where she found materials scattered in boxes and file cabinets. In uncatalogued stacks of papers she came across personal correspondence between Buchanan and the billionaire Republican donor Charles Koch. What she pieced together, she writes, was a plan "to train a new generation of thinkers to push back against *Brown* and the changes in constitutional thought and federal policy that had enabled it." This was indeed a bold project: most mainstream economists in the postwar era had long accepted Keynesian doctrines that affirmed the power of the federal government to regulate the economy and protect the rights of workers to organize in unions. Buchanan's rejection of governmental actions that he thought infringed on individual liberty and his defense of states' rights gave intellectual ammunition to those who opposed both Keynesian economics and federal interventions in the states to enforce desegregation.

In 1956 Buchanan founded a research-and-design center at the University of Virginia to combat what he called "the powerful grip that collectivist ideology already had on the minds of intellectuals" and the "increasing role of government in economic and social life." Three years later, as the state of Virginia sought a way to avoid racial integration in schools, Buchanan and a colleague proposed using tax-funded vouchers to avoid compliance with the *Brown* decision. This would destroy public education and preserve racial segregation, since white children could use publicly funded vouchers to attend all-white schools.

During his years at UVA, Buchanan collaborated with such "old-fashioned libertarians" as Frank Knight of the University of Chicago, F.A. Hayek, Ludwig von Mises, and other partisans of the Austrian School who railed against socialism and championed the virtues of individual self-reliance and economic liberty. In 1969, after a brief and unhappy stint at UCLA, he took his center—now called the Center for Study of Public Choice—with him to Virginia Tech. Thirteen years later he brought it to George Mason University, where it remains today.

GMU had been founded in 1957 in a shopping mall in suburban Washington as a two-year college. Buchanan was its prize catch. When he was hired in 1982, he came with a team of colleagues and graduate assistants and attracted what the school's senior vice-president later called "literally millions of dollars" in funding from corporate-friendly political interests, such as

Charles Koch and the Scaife Family Charitable Trusts. The economics department and the law school of GMU were devoted to advancing his ideas.

By the mid-1980s, MacLean argues, the center had become a channel through which scholars were funneled into "the far-flung and purportedly separate, yet intricately connected, institutions funded by the Koch brothers and their now large network of fellow wealthy donors," notably the Cato Institute (whose founding seminar Buchanan attended) and the Heritage Foundation (which gave him a welcoming reception when he arrived at GMU). Stephen Moore, the research director for Ronald Reagan's Commission on Privatization who later served on *The Wall Street Journal*'s editorial board, was one of GMU's early master's degree recipients. Three of Buchanan's first doctoral students at the school went on to work in the Reagan administration, which made the reduction of federal authority one of its primary goals.

In MacLean's account, Buchanan was responding to the threats that democratic institutions posed to the preservation of wealth in America. Early American democracy had limited this threat by confining the franchise to white male property owners. But as voting rights were extended, the nation's elites had to reckon with the growing power of formerly disenfranchised voters, who could be expected to support ever more expensive government programs to benefit themselves and ever more extensive ways to redistribute wealth. MacLean asserts that Buchanan supplied his benefactors with arguments to persuade the American public to go along with policies that protect wealth and eschew federal programs reliant on progressive taxation.
If everyone is motivated by self-interest, he argued, government can't be trusted to do what it promises. Indeed, it cannot be trusted at all. Bureaucrats can be expected to protect their turf, not the public interest. Every politician, Buchanan wrote, "can be viewed as proposing and attempting to enact a combination of expenditure programs and financing schemes that will secure him the support of a majority of the electorate." For Buchanan, this was reason enough to endorse economic liberty, freedom from taxes, and privatization of public services, such as schools, Social Security, and Medicare. In MacLean's view, those proposals promised a return to the kind of political economy that prevailed in America at the opening of the twentieth century, when the mass disenfranchisement of voters and the legal treatment of labor unions as illegitimate enabled large corporations and wealthy individuals to dominate Congress and most state governments alike, and to feel secure that the nation's courts would not interfere with their reign.

Charles Koch well understood the power of academic experts, and he directed millions of dollars toward developing what are now called "thought leaders" to defend his self-interested political and economic vision. Buchanan was one of those academics. Koch bypassed Milton Friedman and his "Chicago boys," MacLean writes, because "they sought 'to make government work more efficiently when the true libertarian should be tearing it out at the root.'" Instead, in the early 1970s, he funded the Libertarian Party and the Cato Institute, designed to advocate for what MacLean summarizes as "the end of public education, Social Security, Medicare, the U.S. Postal Service, minimum wage laws, prohibitions against child labor, foreign aid, the Environmental Protection Agency, prosecution for drug use or voluntary prostitution—and, in time, the end of taxes and government regulations of any kind." Koch also funded the libertarian Reason Foundation, which advocated for privatizing all government functions. Another Koch-backed organization, the Liberty Fund, hired Buchanan to run summer conferences for young social scientists.

Buchanan's challenge was to develop a strategy that would enlist the public's support for the ideas he shared with Charles Koch. This challenge was especially daunting in the case of Social Security. Overwhelming majorities of Americans supported Social Security because it ensured that they would not be impoverished in their old age. In an influential 1983 paper, Buchanan marveled that there was "no widespread support for basic structural reform" of Social Security "among *any* membership group" in the American political constituency—"among the old or the young, the black, the brown, or the white, the female or the male, the rich or the poor, the Frost Belt or the Sun Belt." Pinochet's Chile—which Buchanan visited for a week in May 1980 to give what MacLean calls "in-person guidance" to the regime's minister of finance, Sergio de Castro—had privatized its social security system, and libertarians hoped to do the same in the United States. We now know that the privatization of social security in Chile was a disaster for many, but the libertarians were unshakable in their enthusiasm for market solutions and ignored the risks.

Buchanan laid out the strategy needed to divide the political coalition that supported Social Security. The first step was to insist that Social Security was not viable, that it was a "Ponzi scheme." If "people can be led to think that they personally have no legitimate claim against the system on retirement," he wrote in a paper for the Cato Institute, it will "make abandonment of the system look more attractive." Then those currently receiving benefits must be reassured that nothing will change for them. "*Their* benefits," as MacLean puts it, "would not be cut." Taxpayers, in turn, would have to be promised, as Buchanan says, "that the burden of bailing out would not be allowed to fall disproportionately on the particular generation that would pay taxes immediately after the institutional reform takes place." Cultivating these expectations would not only make taxpayers more ready to abandon the system; it would also build resentment among those who expect never to get payments comparable to those receiving the initial bailout.

President Trump with charter and private school students at the White House, May 2017

After they announce the insolvency of Social Security, Buchanan argued, the system's critics should "propose increases in the retirement age and increases in payroll taxes," which would, MacLean writes, "irritate recipients at all income levels, but particularly those who are just on the wrong side of the cutoff and now would have to pay more and work longer." Calls for protecting Social Security with progressive taxation formulas would emphasize the redistributive character of the program and isolate progressives. "To the extent that participants come to perceive the system as a complex transfer scheme between current income classes instead of strictly between generations," Buchanan predicted, "the 'insurance contract' image will become tarnished" and its public support will be compromised.

Critics of MacLean claim she overstates her case because Buchanan was merely presenting both sides of the issue. But it is indisputable that Cato and other Koch-funded policy centers favor privatization of government programs like Social Security and public education. The genius of their strategy was in describing their efforts to change government programs as "reforms," when in fact they were intended from the outset to result in their destruction. This rebranding depended on think tanks amply funded by Charles Koch, his like-minded brother David, and other ideologically friendly sponsors. Charles Koch funded the James Buchanan Center at GMU with a gift of $10 million. The libertarian philosophy funded by Koch and developed by Buchanan has close affinities with the Tea Party and Freedom Caucus of the Republican Party, which oppose federal spending on almost anything other than the military and has placed its members at the highest levels of the Trump administration, including Vice President Mike Pence and Mick Mulvaney, the director of the Office of Management and Budget.

MacLean's argument that Buchanan knowingly engineered a strategy for the wealthy to preserve their hold on American democracy has prompted intense resistance. She has been repeatedly attacked on libertarian blogs, historical websites, and even in *TheWashington Post*. The attacks are sometimes personal: Steve Horwitz, a libertarian economist who called MacLean's book "a travesty of historical scholarship," earned his degrees at GMU, where Buchanan was one of his professors. Most of her prominent critics—Michael Munger, David Bernstein, Steven Hayward, David Boaz—are libertarians; some receive funding from the Koch brothers. They accuse her of unjustly berating a legitimate area of economic inquiry and overstating the evidence against Buchanan in support of her position. Other critics have come from the political center. The political scientists Henry Farrell and Steven Teles, for instance, have argued that MacLean overstates the extent to which Buchanan and his supporters were "implementing a single master plan with fiendish efficiency." MacLean has replied to her critics that her book demonstrates that Buchanan was part of a much larger movement.

MacLean's reputation will no doubt survive. She has written a carefully documented book about issues that matter to the future of our democracy and established the close and sympathetic connections between Buchanan and his far-right financial patrons. However fierce they might be, her critics have been unable to refute the central message of her important book: that the ongoing abandonment of progressive taxation and the social benefits it gives most people is undergirded by a libertarian economic movement funded by wealthy corporate benefactors. The dismantling of basic government functions by the Trump administration, such as Betsy DeVos's efforts to privatize public education, shows the continuing influence of Buchanan's libertarian ideas. Gordon Lafer's *The One Percent Solution* is a worthy companion to *Democracy in Chains*. Lafer does not write about Buchanan and the Virginia School, but he meticulously demonstrates how the Koch brothers and the Supreme Court's *Citizens United* decision of 2010 have influenced elections and public policy in the states. He opens his book with a revealing anecdote about Bill Haslam, the Republican governor of Tennessee. In 2015 Haslam wanted to expand his state's Medicaid program to include some 200,000 low-income residents who had no health insurance under the Affordable Care Act. He had just been reelected with 70 percent of the vote. Republicans, who controlled both branches of the state legislature, approved of Haslam's plan. The public liked the idea. But then the Koch brothers' advocacy group Americans for Prosperity sent field organizers into the state to fight the expansion, ran television ads against it, and denounced it as "a vote for Obamacare." The Medicaid expansion proposal was defeated by the legislature.

Lafer reviews bills passed in the fifty state legislatures since the *Citizens United*decision removed limits on corporate spending in political campaigns. He identifies corporate influences on state-level decision-making and finds that those same policies provided a template for corporate lobbying in Congress. His most striking discovery is the "sheer similarity of the legislation—nearly identical bills introduced in cookie- cutter fashion in states across the country." What Lafer documents is a coherent strategic agenda on the part of such business lobbies as the National Association of Manufacturers and the National Federation of Independent Business to reshape the nation's economy, society, and politics—state by state.

The many goals of this agenda can be summed up in a few words: lower taxes, privatization of public services, and deregulation of business. The lobbies Lafer studies oppose public employee unions, which keep public sector wages high and provide a source of funding for the Democratic Party. The tobacco industry opposes anti-smoking legislation. The fossil fuel industry wants to eliminate state laws that restrict fracking, coal mining, and carbon dioxide emissions. The soft-drink industry opposes taxes on sugary beverages. The private prison industry advocates policies that increase the population of for-profit prisons, such as the detention of undocumented immigrants and the restriction of parole eligibility. Industry lobbyists oppose paid sick leave, workplace safety regulations, and minimum wage laws. They support "right to work" laws that undermine unions. They oppose teachers' unions and support the privatization of education through charter schools and vouchers.

These are not sporadic efforts to affect state policy. There is an organization that coordinates the efforts of industry lobbyists and turns their interests into legislation. It is a secretive group formed in 1973 called the American Legislative Exchange Council (ALEC). It is sponsored by scores of major corporations, which each pay a fee of $25,000 (or more) to be members. Lafer lists the group's current and past corporate members, including Alcoa, Amazon, Amoco, Amway, AT&T, Boeing, BP, Chevron, Coca-Cola, Corrections Corporation of America, CVS, Dell, Dupont, Exxon Mobil, Facebook, General Electric, General Motors, Google, Home Depot, IBM, Koch Industries, McDonald's, Merck, Microsoft, Sony, the US Chamber of Commerce, Verizon, Visa, and Walmart. In addition to these corporations, two thousand state legislators are members of ALEC—collectively one quarter of all state legislators in the nation. They include state senate presidents and house speakers.

ALEC writes policy reports and drafts legislation designed to carry out its members' goals.[*] It claims, Lafer writes, "to introduce eight hundred to one thousand bills each year in the fifty state legislatures, with 20 percent becoming law." The "exchange" that ALEC promotes is between corporate donors and state legislators. The corporations pay ALEC's expenses and contribute to legislators' campaigns; in return, legislators carry the corporate agenda into their statehouses…. In the first decade of this century, ALEC's leading corporate backers contributed more than $370 million to state elections, and over one hundred laws each year based on ALEC's model bills were enacted.

The keynote speaker at ALEC's lavish annual conference in Denver earlier this year was Betsy DeVos, who used the occasion to belittle public schools and unions and to tout the virtues of school choice. She quoted Margaret Thatcher that "there is no such thing" as "society," only individual men and women and families. This position supports a vision of America in which the country's citizens express themselves individually as consumers rather than collectively as, for example, voting majorities or empowered unions. When they fall victim to fires, hurricanes, or earthquakes—or, for that matter, when the economy collapses—these individual men and women and families can expect to be on their own.

Lafer contends that ALEC and its compatriots are engineering what he calls "a revolution of falling expectations." They have cynically played on the resentments of many citizens, purposefully deepening antagonism toward government programs that benefit unspecified "others." Many people are losing their economic security while others are getting government handouts. Why should others get pensions? Why should others get health insurance? Why should others have job protections? Why should unions protect their members? "We are the only generation in American history to be left worse off than the last one," reads a post from the Kochs' advocacy group Generation Opportunity urging young people in Michigan to vote down a ballot proposal to raise the state's sales tax. "We are paying more for college tuition, for a Social Security system and a Medicare system we won't get to use, $18 trillion in national debt and now an Obamacare system—all that steals from our generation's paychecks."

It is ironic that this fraudulently populist message, encouraging resentment of government programs, was funded by billionaires who were, Lafer writes, "willing to spend previously unthinkable sums on politics." The *Citizens United* decision allowed a tiny percentage of the population, the richest, to direct vast amounts of money into political campaigns to promote privatization, discredit unions, and divert attention from the dramatic growth of income inequality. "For the first time ever," Lafer writes, "in 2012 more than half of all income in America went to the richest 10 percent of the population."

This concentration of wealth has produced a new generation of megadonors: "More than 60 percent of all personal campaign contributions in 2012 came from less than 0.5 percent of the population." In 2010, Republicans swept state legislatures and governorships; they used their resulting advantage to gerrymander seats and attack the voting rights of minorities. Even state and local school board elections became the target of big donors, like the anti-union Walton family, the richest family in America, who poured millions into state and local contests to promote charter schools, more than 90 percent of which are non-union.

ALEC and likeminded organizations are particularly interested in discrediting labor unions. Lafer gives much attention to understanding why this is. Corporations want to eliminate unions to cut costs. Republicans resist them because they provide money and volunteers for Democrats. Getting rid of them also reduces employee health care costs and pensions. But, Lafer argues, the greatest threat posed by unions is that their very existence raises the expectations of those who are not in unions. When they function well, unions have the power to raise wages, reduce working hours, and demand better working conditions. Stifling this power and making every worker an at-will employee lowers the expectations of the nonunionized workforce.
Quite simply, Lafer argues, labor unions are the only political bodies that can impede the efforts of ALEC's members to roll back minimum-wage, prevailing-wage, and living-wage laws; to eliminate entitlements to overtime or sick leave; to scale back regulation of occupational safety; to make it harder for employees to sue over race or sex discrimination or even to recover back wages they are legally owed; and to replace adult employees with teenagers and guest workers. In education, technology corporations are using their influence to replace teachers with computers as a cost-saving device, a move opposed by parents and teachers' unions. Corporations, libertarians, and right-wing politicians pursue these goals even in states where unions are weak or nonexistent. The rise of the "gig economy," in which every employee is a

self-employed contractor with no collective bargaining rights, advances this trend, empowering big employers who put a monopolistic downward pressure on labor costs.

Reading these two books together is not a happy experience. They give reason to fear for the future. But they also remind us why it is important to join with others and take action. An informed public is a powerful public. The best counterweight to the influence of big money on politics is the ballot. When you see the strategy that libertarians, billionaire donors, and corporations have devised, you understand why low voter turnout is their ally and why high voter turnout is the only way to save our democracy.