

Book Review

Rana Foroohar

Makers and Takers: The Rise of Finance and the Fall of American Business

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Reviewed by Howard A. Doughty

American capitalism may have been a magnificent example of what Karl Marx praised in the ascendancy of the *bourgeoisie* and its unique engagement with the industrial revolution to transform the decadent, creaky, complacent and inefficient political economy of England into the dominating global power that it once was. America, however, took the innovative British mode of production further. Without the need to accommodate an antique aristocracy or much in the way of a paternalistic desire to make a miserable life endurable for the working classes (and the slaves), Americans created a country which their progeny never tire of calling the greatest nation in the history of the world and a “shining city on a hill” which serves as the a beacon and a goal to which all sensible nations should aspire.

Recently, of course, the United States has been experiencing a discomfiting crisis of confidence. The American Empire has been rather solidly rocked by disasters of military adventurism, first in South-east Asia and now in the Middle East. Even “winning” the Cold War brought little lasting joy and, more recently, internal cultural tensions, residual hatreds and a notable problem in the distribution of wealth with the fabled “1%” accumulating virtually all the economic benefits of (post)modern society. For the rest, the perils of deindustrialization and the rise of seemingly permanent casualized labor force have upset the expectation that each generation would improve upon the American dream. Paradoxically, at the peak of their power, Americans lost much of their self-assurance. One pertinent symptom of the malaise can be seen in the recent presidential election. Instead of a triumphal nation making the best of its wealth, status and enormous opportunity to do good for itself and others, the USA is internally divided both ideologically and materially. The gap between rich and poor is wide and growing; anger, resentment and cynicism are afoot in the land.

This is the situation. *Makers and Takers* is an attempt to diagnose the illness. It is a well-crafted, well-researched, well-written and mainly successful attempt to make sense of the situation in which Americans and, by necessary extension, the rest of us find ourselves. Rana Foroohar did not undertake an easy project.

The first problem she faced was sorting out the enormously complex and contradictory issues that underlie American economic problems. Although in some respects the American economy has recovered from its abrupt collapse in 2008-2009, the recovery is neither broad nor especially deep. In other respects, the American economy has been in some trouble for about four decades. Why chronic problems of inequity, inadequate private investment, trade deficits, high rates of personal and government debts and other signs of difficulty should bedevil the

United States is difficult to understand. The US, after all, came out of World War II as the only major power standing. It then embarked on a thirty-year arc of success. It became bigger, richer and technologically more advanced than any of its putative competitors. It enjoyed previously unprecedented prosperity which it managed to share more equitably than at any time in its past. It may not have perfected the “middle class” or the “American dream,” but it largely defined the phenomenon. Loosely translated into observable indicators, it was seen as the ability to purchase a new car every few years, to afford a single-family suburban home, to send kids to college and to feel sure that the next generation would succeed even better than the last.

Foroohar demystifies the decline in America’s economic prominence, showing that the competitive threats come not from the outside—migration or China—but from within our borders. She explains how finance has permeated every aspect of our economic and political life, and how those who caused the financial crisis wound up benefiting from it.” – Joseph A. Stiglitz

Since about 1980, however, the beaming optimism has soured some. Although the ideology of neoliberalism promised even greater opportunity and growth, the lives of Americans have not noticeably improved except, of course, for the plutocracy or, if you prefer, the kleptocracy or even the kakistocracy. America has lost much of its manufacturing industries (though family farms have industrialized, with harsh consequences for all concerned). Full-time employment in white-collar jobs from office staff to semi-professionals has been transformed into “casual” work, leaving the opportunity for genuine careers out of reach for many young people, including college graduates. Meanwhile, hedge fund managers are thriving and even (or especially) the people whose undoubtedly unethical and arguably illegal behaviour brought the nation and the world to the brink of financial collapse are thriving, while the millions (yes, millions) who lost their homes and jobs are merely discounted as collateral damage from an unpleasant glitch in the “system.”

As it happens, Ms. Foroohar understands all of this—the theory and the practice, the underlying and the superficial issues, the broad effects and the technical complexities—as well as just about anyone else currently writing about the American economy. And even though the odd Nobel Prize-winning public intellectual may have more official expertise than Foroohar (I am thinking of Joseph E. Stiglitz and Paul Krugman), she needs to yield little in terms of basic knowledge and *explainable* understanding.

Foroohar’s second problem was making her case to a broad public which has considerable difficulty coming to grips with the elemental vocabulary of economic thought. It would not surprise me if the vast majority of citizens could not come up with a coherent definition and explication of money, compound interest, futures, hedge funds, hyper-inflation, the marginal propensity to consume, or even the difference between debt and deficit—never mind provide summaries of the main ideas of Friedrich Hayek Friedman or John Maynard Keynes, or where to find Bretton Woods on a map.

Foroohar, however, is blessed in a number of ways. As a result, she is almost perfectly positioned to “get it right” or as right as it can be gotten in perilous times. An Iranian-American who was raised in Indiana, she has an advantage over most economists in that her university training was in English Literature. These blessings allowed her to come to the job with an

exposure to real life (between the coasts) and the ability to write cogently about how the *real* elites in corporate offices manage to control the boundaries of possibility for the real lives of their compatriots. Others, equipped with MBAs and Doctorates in Economics or intense executive experience in the corporate world, had a different perspective. They carried on living with alternative approaches and expectations until, at last, they couldn't and therefore plunged their country and much of the world into a genuine crisis that was as bad as anything experienced since 1929.

“Stein’s Law: If something cannot go on forever, it will stop” – Herbert Stein, ca. 1980

Rana Foroohar’s personal and academic background is, of course, not uncommon and no one imagines that just any English grad from the mid-west could do what she has done in this book. What matters more is that she has managed to get work as a London-based foreign correspondent and then as an economics and foreign editor at *Newsweek*. Then, she gained experience as an economic analyst on television (CNN) and radio (NPR). She is now assistant managing editor at *Time* magazine and has published in the estimable *New York Review of Books*. In short, what she lacks in formal academic Economics and a daunting Wall Street or US Treasury Department résumé, is more than compensated for by her gritty journalistic history and what HR departments call her excellent communications skills. In short, she can think, write and she lives in Brooklyn.

As for the book itself, she manages to weave research and statistics, revealing insights gained through personal interviews and a constant and well-attuned ear for the kind of language and expression that will communicate distilled but not distorted messages to the intelligent laity. Her main theme is something that most of us know almost intuitively, but she puts forward in a straightforward and penetrating manner.

In a Wall Street nutshell, the main fact in the Reagan-Clinton-Trump era has been the arc of spectacular misdirection away from the mostly progressive domestic values of the Truman-Johnson-Carter presidencies. The United States could boast a healthy economy if measured by growth; that growth was reflected in the price of stocks, the Gross National Product and the average income of Americans. Obvious injustices persisted. Labor peace was not absolutely guaranteed. Society experienced some cultural growing pains. However, time’s arrow was pointed upward. Progress was pretty much assured.

The upbeat message was continued and actually revitalized by the ascension of Ronald W. Reagan into office and the cheerful assurance that America was open for business. Latent issues of poverty and concerns about equity were set aside as the mantra that “a rising tide floats all boats” signaled an era of even greater expansion. Those who might have to wait to enjoy the benefits of increased incomes were told that the exploding wealth of the owners of the means of production would soon “trickle down” to the working classes and to the poor as surely as gravity pulls down rain from the sky. It was also said that the real “makers” of economic health were the “job creators,” the corporate executives and investors who were the risk-takers. They were said to have created the jobs and the opportunities of those who were willing to work in the fields, the factories and the expansive service industries. In this perspective, of course, the “takers” were

the indolent, largely uneducated and overly entitled recipients of state support who suck money from the taxpayers and add nothing of value to the nation.

“There are 47 percent of the people who will vote for [President Obama] no matter what. [They] are dependent upon government, who believe that they are victims, who believe the government has a responsibility to care for them, who believe that they are entitled to health care, to food, to housing, to you-name-it.” – Presidential candidate Mitt Romney, May 17, 2012

Foroohar breaks this myth open like a flimsy *piñata*, pointing out that the reality is almost exactly the reverse. For one thing, real employment opportunities are created and real risks are taken by small entrepreneurs, not enormous and mainly global corporations who are too busy hoarding their money in untaxable overseas accounts. As well, government support in the form of corporate welfare makes small-fry welfare cheats look like what they are, tiny drains beside massive sewers. This well-known refrain, however, is familiar and is sung to little effect by trade unionists, anti-poverty activists, and unorganized and unschooled people working part time in discount department store while their billionaire employers bust their unions and complain that a \$15/hr wage is unsustainable.

The author exposes the claim that “the market knows best” as a myth. More importantly, she shows that the belief that an economy, unconstrained by excessive government regulation and unfettered by enormous public expenditures on education, health care and social assistance will be both rational and fair: it is not just mythological; it is wizardly as well. The key to understanding the current crises (for there are a number of them) in the American economy is to be found elsewhere. It is the recognition of the reality and the implications of a “financialized” economy.

American businesses have an historical record of employing people to grow crops, extract natural resources, design, manufacture, transport, sell and service products, and provide socially useful skills in education, health and the multiple facets of culture. They were actually *about something*. At the end of the day, tangible commodities and immaterial but valued assets were added to the common weal. Today, a disproportionate amount of wealth is generated (or lost) through monetary manipulation, speculation and “corporate financial wizardry” in the form of investment decisions and corporate restructuring. These activities have nothing to do with productivity and everything to do with asset management. They are directed toward altering the quality of pixels on a computer’s screen which represent investment portfolios and what she calls the “financial instruments of mass destruction”. The paper or, more accurately, the “paperless” economy appears as a video game with prices rising and falling with very little reference to people who are working in real places in real time. Wealth generation becomes a “virtual” Ponzi scheme, while real children go hungry and real families are put on the street.

Now, no one (and certainly not Rana Foroohar) imagines that investments, stock markets, savings and loans managers, institutions that adjust the money supply and coordinate currency exchanges are unnecessary, much less morally repugnant. As long as a capitalist—or any sort of foreseeable—economy provides a monetized framework for the production and distribution of goods and services, a financial sector is an essential element in trade and commerce. What is

toxic in the United States of America and again, by extension, in the entire global economy is the degree to which finance not only controls credit, investment and money supplies, but has also insinuated itself into the larger economy to the point where it has become a substitute for the authentic economy. In this sense, finance is not a maker, but a parasitic taker. It is not business, but a destroyer of business.

Foroohar's story, it must be emphasized is about the American economy, but it is not just about the narrowly economic aspect of American life. She successfully shows how the financial sector exercises broad control over political life, legal relations, personal lifestyles and the lived experience of everyone who is at the short end of the financial stick. Her obvious targets include those financial conglomerates that were "too big to fail," and the financial engineers who ran the economic train off the fiscal tracks. She also reveals the fate of powerful businesses such as Kodak, Xerox, Hewlett-Packard and the barely salvaged automobile manufacturers Ford and General Motors, all of which fell and not all of which were restored by the intervention of otherwise hated government "interference in the economy."

"Things could be very different. History has shown that the takers don't always trump the makers." – Rana Foroohar.

As for ordinary citizens who may or may not have retained their jobs and their homes in the Bill Clinton enabled and George Bush destabilized financial meltdown, she details not just the fact that financial institutions commandeered the commodities markets, inflated the housing bubble, and purloined worker-financed retirement plans for their own short-term advantage.

As ignoble as all this sounds and as deplorable as it most certainly is, Foroohar is not simply concerned with making moral judgements. That can be done with equal power and effect by any group of unemployed workers at a coffee shop or by homeless people at a shelter. The real value of Foroohar's book is that it goes beyond pointing accusatory fingers at the likes of Citigroup, Goldman-Sachs, Pfizer and others, or telling stories of undeserved pain and suffering endured by individuals and families in the interest of providing undeserved luxury for a tiny fraction of the population counter to the ideals of even the primary apologists for once revolutionary capitalism.

Blended with her analysis and explanations is a short course on business law and governance from the early days of establishing corporations as legal and economic entities. These late-comers to private ownership and free market exchange were entities which the fount of all free-market enthusiasm, Adam Smith, denounced for social irresponsibility and a threat to the free enterprise system, and he was quite right on both counts. And, Foroohar doesn't stop there. She clearly and concisely explores issues from the deforming of business education to the folly of statistical business models, and from the slow-grinding horror of scientific management which began as a complement to the destruction of the artisanal trades and is now eating away at even high prestige professions.

Makers and Takers has something for everyone who wants to understand better the flaws in the contemporary economy, the discreditable ethical and empirical assumptions of the neoliberal ideology that has dominated global governmental thinking for over thirty years, and thereby to learn what needs to be done to redeem the society that has been taken from the makers and given to the takers without proper compensation or even a hint of remorse.

In order to build upon this solid base, a second book will be required. It will be one that provides a clear, critical and tactical path forward—a manifesto, if you will. Whether Rana Foroohar has such a venture in mind, or whether that task will be taken up by others is not a matter of concern at the moment. She does, however, close her contribution with a teasing glimpse of what a full-blown alternative might look like. In a simple point form inventory of essential reforms, she offers the following:

- Simplification and transparency of the financial system;
- Reduction of debt and growth of equity;
- Reconsideration of what companies are *for*;
- A new growth model;
- The empowerment of *makers*.

The essential details are to be found on pp. 315-326 of the book, but no one should skip to the end before thoroughly ingesting the first 314 pages. Meanwhile, anyone who worries that this is merely another “leftist” screed should not be dissuaded from reading *Makers and takers* on that false account. Rana Foroohar writes as someone who appreciates and applauds American business. Hers is not a call for it to be overthrown or destroyed; on the contrary, she shows how and why it might be restored and redeemed. The threat to capitalism, it seems, does not come from its external enemies (to the extent that there are any left), but from within its own frame of power. Shortly before assuming the presidency, Barack Obama said of himself: “I’m a free market kind of guy.” So is Rana Foroohar. In her account, the “enemy” of American capitalism is a particular distortion within American capitalism. Or, as the cartoon character Pogo Possum put it almost a half-century ago: “We have met the enemy, and they is us.”

About the Author:

Howard A. Doughty teaches Cultural Anthropology and Modern Political Thought at Seneca College in Toronto, Canada. He can be reached at howard_doughty@post.com