

A POPULIST VISION FOR THE TWENTY-FIRST CENTURY

WITH A NEW PREFACE BY THE AUTHOR



DEMOCRACY AT RISK

RESCUING MAIN STREET FROM WALL STREET

JEFF GATES

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Rescuing Main Street
from Wall Street

*A Populist Vision for
the Twenty-First Century*

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“Written with uncommon clarity and candor, *Democracy at Risk* should be read by everyone who is concerned with liberty and equitable distribution of power and wealth. The more prosperous and powerful you might be, the more important it is to pay attention to what Jeff Gates has to say.”

—Dee Hock, Founder and CEO Emeritus, VISA;
author, *Birth of the Chaordic Age*

“*Democracy at Risk* argues for widespread ownership of capital resources in an era of massive disparities of wealth that subordinate democracy to plutocracy. Gates is a practical man, which means he offers politically practical and financially feasible ways toward a broad-based prosperity around the world. His facts will enrage you into higher expectation levels for what a modern economy should look like and be for.”

—Ralph Nader

“Put [*Democracy at Risk*] in front of every student who’s studying economics, every politician and every financial journalist for their consideration. . . . At the center of this book is the cry to hold on to what is silently slipping through our fingers—democracy.”

—Anita Roddick, OBE; founder, The Body Shop

“*Democracy at Risk* is a highly original, gutsy, carefully thought through work that offers practical alternatives for a new economics and politics—and in the process reclaims populism from demagogues who have used it to divert people from the core issues Jeff Gates so thoroughly documents. This is an important and timely book.”

—Riane Eisler, author, *The Chalice & The Blade*,
Tomorrow’s Children, and *Sacred Pleasure*

“*Democracy at Risk* invites—no, compels—us to open our eyes to what seems to be an ominous contrast between the capitalism of today and the fundamental ideals of an inclusive democracy. It is, at the very least, a wake-up call—if you can speak of an exploding stick of dynamite as a wake-up call. Yet, the solutions offered leave us gratefully optimistic that a truly democratic capitalism is in fact attainable—but that there is not a moment to waste.”

—Jacob Needleman, author, *Money and the Meaning of Life*

“We all know that in the transition to the 21st century there are many paradigm shifts. Jeff Gates’s book helps to understand the new direction.”

—Professor Klaus Schwab, Founder & President,
World Economic Forum/Davos

“In this provocative study, Jeff Gates addresses a rich array of problems of fundamental human significance, and suggests approaches to them that should stimulate serious thought, and committed action, on the part of people who view the present world, and the possibilities for a better future, from many different perspectives.”

—Noam Chomsky, author; professor,
Massachusetts Institute of Technology

“At a time when the need is great, Jeff Gates offers us a populist vision for the twenty-first century.”

—Lawrence Goodwyn, author, *Democratic Promise:
The Populist Moment in America*

“Jeff Gates is a new kind of populist. He makes some folks uncomfortable by wanting to correct a capitalism in which the wealth of the wealthiest 1% exceeds what 95% of Americans have to live on. But he also wants to make capitalism worth conserving—by making it more civilized and more democratic, by making owners of all those who contribute to its success. *Democracy at Risk* is a tough diagnosis, with a fresh and future-oriented prescription attached.”

—Harlan Cleveland, President, World Academy of Art and Science;
former U.S. Ambassador to NATO; coauthor, *Birth of a New World* and
The Global Commons

“Jeff Gates is an insider who knows how wealth and the investment system really works—and it fills him with rage. Beneath his righteous anger, there’s a deep sadness for what has happened to our democracy and also the conviction that it doesn’t have to be that way. This is populist thunder that entralls and educates and also ought to mobilize us.”

—William Greider, author, *One World, Ready or Not:
The Manic Logic of Global Capitalism*

“With passion and precision, Jeff Gates reminds us that capitalism does not have to be an exclusive system. We make the rules! Here, from the man who helped bring us employee stock ownership is compelling commonsense for how we can make capitalism work for all of us by “ownerizing” it. Mind expanding. Hope inducing. And we need both!”

—Frances Moore Lappe, author, *Diet for a Small Planet* and *Rediscovering America’s Values*; coauthor, *The Quickening of America*

“Gives us hope that capitalism and humanism are not necessarily mutually exclusive.”

—Paul Krassner, editor, *The Realist*

“Jeff Gates is a phenomenon. He is turning the economics searchlight on ownership and demanding to know why the morally unbearable maldistribution of wealth and income is taboo in classical and contemporary economics. Jeff has achieved this focus, in two books two years apart, to the profound benefit of economics and democracy. He comes straight from top-of-the-mark work on Capitol Hill for Russell Long and the Senate Finance Committee to the crisis for democracy in which we Americans are all now mired, whether we want to be or not. American democracy is in great danger, if it’s not already over the cliff, and Jeff Gates is making his special heroic effort to help save it and free enterprise. Can it be done? I don’t know.”

—Ronnie Dugger, founder, Alliance for Democracy; former editor, *The Texas Observer*; author, *The Politician: The Life and Times of Lyndon Johnson* and *On Reagan: The Man and His Presidency*

“Meticulously documents the need for broadening capital ownership in the United States—not only for overall efficiency and social development—but to fully release the talents and motivations of all our citizens in growing a more prosperous, just and ecologically sustainable society.”

—Hazel Henderson, author, *Beyond Globalization and Building a Win-Win World*

“In the aftermath of the citizen uprising against the World Trade Organization in Seattle, the need to bring democracy to our economic systems is clearer than ever. Gates reminds us that without democracy in our financial world we can’t really expect to have real democracy anywhere. *Democracy at Risk* puts forth a series of bold and practical proposals to redesign democracy and capitalism to be things the earth and future generations can afford. After Seattle, I think the world is ready to listen.”

—David Brower, Founder and Chairman, Earth Island Institute; author, *Let the Mountains Talk, Let the Rivers Run*

“In *Democracy at Risk*, Jeff Gates has presented us with an urgent and passionate polemic in support of a renewed democracy based on broadly shared ownership and economic power. He calls for an immediate populist insurgency to bring about a democratic sharing of wealth and power, and a broadening of the criteria of success to include the host of environmental, educational, cultural, community, intergenerational and global concerns which have the potential to threaten, or to enhance, the future of our civilization and, indeed, of our planet.”

—Lynn R. Williams, president, United Steelworkers of America (retired)

DEMOCRACY AT RISK

ALSO BY JEFF GATES

*The Ownership Solution: Toward a Shared
Capitalism for the Twenty-First Century*

For the children

He will turn the hearts of the fathers to their children.

—BOOK OF MALACHI

Acknowledgments

The first draft of this book originated with a pair of two-week stays at Mesa Refuge, a writer's retreat in Point Reyes, California. I am particularly grateful for their gracious hospitality and the encouragement to settle in there to write "on the edge." Though many contributed to shaping both my thinking and my analysis, a particular thanks goes to several especially helpful people, including Peter Barnes, Bob Buchele, Harlan Cleveland, Chuck Collins, David Ellerman, Larry Goodwyn, Russell Long, Chris Mackin, Loren Rodgers, John Simmons, and Ed Wolff.

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The standard disclaimer applies: Any mistakes or omissions are my own. I am responsible both for what is said and how it's said.

Preface to the Paperback Edition

The basis of optimism is sheer terror.

—OSCAR WILDE

Revolutions are born of adversity. Systemic change often proves impossible until a system proves itself unquestionably dysfunctional. If it ain't broke, don't fix it. Unless it's certifiably busted, why change a system in which so many have vested so much for so long? That's why my optimism grows with each passing day, as I hope yours will too as I chronicle how "the system" *is* broken—and how in your informed participation lies the key to fixing it. Though this book anticipated much about the 2000 presidential election, that was not its purpose. My goal is to chronicle the dangers to democracy that accompany today's *de facto* merger of political parties, particularly when both have geared their economic policies not to democratic principles and to the needs of future generations but to the peculiar appetites of Wall Street. Rest assured, I take no pleasure in foretelling key aspects of what I consider the 2000 non-election.

When writing this book in 1999, I had no idea that Ralph Nader would rely on my manuscript to rebrand the U.S. Green Party as "the party of the new populism" and mount a presidential campaign using its themes. Nor did I imagine that I would be a candidate in a special election for Georgia's U.S. Senate seat vacated by the death of Senator Paul Coverdell. Nor did I anticipate that I would be roughed up and arrested for requesting admission to a debate for a federal race in which I was on the ballot. Yet, in retrospect, that too is consistent with the steady rise in antidemocratic forces identified in these pages. Democracy is rapidly mutating into something dramatically different from what the founders envisioned.

Though Democrat Al Gore attempted (as predicted) to portray himself a populist, he failed miserably (as predicted). Certainly the rich-get-richer policies advanced by him and by Bill Clinton undercut any credible claim to that mantle, except in comparison with the policies espoused by Republican George W. (“Dubya”) Bush. Both parties have long embraced a policy mix that further enriches the few while leaving most everyone else behind—as I document. As critics were quick to note, both Bush and Gore were “corporate candidates” happy to espouse policies far more relevant to financiers than to families.

In this new preface to the paperback edition, I want to leave you with reason for both optimism and concern. I invite you to join me in pondering whether the events of 2000 qualified as a democratic election. And, if not, what reforms will restore some semblance of genuine voter choice? For that purpose, we needn’t turn to Florida’s flawed voting, or even to the U.S. Supreme Court ruling that halted a recount. Critics such as James K. Galbraith cite those events as evidence that we Americans now inhabit not a constitutional republic but a corporate democracy, with a governing structure to match: “It is a system whereby a Board of Directors—read Supreme Court—selects the Chief Executive Officer. The CEO in turn appoints new members of the Board. The shareholders, owners in title only, are invited to cast their votes in periodic referenda. But their franchise is only symbolic, for management holds a majority of the proxies. On no important issue do the CEO and the Board ever permit themselves to lose.” (*The Texas Observer*, January 19, 2001) You need not endorse this analogy to agree that the 2000 presidential election was not democracy’s finest hour—not the process, not the way the process was financed, not the media coverage, and certainly not the caliber of the candidates offered.

The Non-Election

We didn’t have a presidential election in 2000. Elections are meant to be periodic efforts to guide our progress in this 225-year-old experiment in the pursuit of happiness. Their purpose is to periodically consider, tease out, and identify policy alternatives, confident that citizens possess the critical capacity to make an informed choice. That’s why a system designed to endure “for the ages” requires ongoing robustness in its political discourse to ensure that we confront our

problems instead of passing them on to future generations. Only the enemies of liberty would suggest otherwise. And that, I fear, is what we now face.

No *functioning* democracy would choose the results chronicled in the first few chapters of *Democracy at Risk*, especially when those results are not inevitable but policy induced. A functioning democracy would particularly shun today's concentration of wealth and income, and the ongoing environmental devastation. Yet how does a candidate with those concerns inject them into the debate when the electoral process has been closed to all but these twin parties? I found my answer the hard way at a debate venue held in a public auditorium in Albany, Georgia. There, I approached WALB-TV station manager Jim Wilcox to inquire why I wasn't included in an election-year event that was billed as a debate but was limited to the nominees of the two dominant parties. The format has always been limited to the top two candidates, he patiently explained, and "we know that works because *one of them always wins*." I couldn't have put it better myself. Only after hearing this nonsensical response did I—with television cameras rolling—stand up in the audience after the "top two" were introduced, announcing simply, "My name is Jeff Gates. I am on the ballot November the seventh. I respectfully request admission to these proceedings." With that, three people (including Wilcox) grabbed me, rammed me through two sets of theater-style doors, and, cursing at me, threatened me with a beating. I was then handcuffed, and while the "top two" engaged in the predictable combination of name calling and issue avoidance, I was fingerprinted, mug shot, and locked up in the county jail.

Special elections in Georgia are nonpartisan; no party affiliation is noted on the ballot. After Paul Coverdell's death in the spring of 2000, Governor Roy Barnes appointed former governor Zell Miller, his political predecessor, to fill the vacant Senate seat, pending the November general election. Sporting a political brand name and posing as what now passes for a Democrat in the South, Miller had earlier announced that he was finished with politics. After the announcement of his candidacy for the seat that he was temporarily filling, I called his campaign manager, Tim Phillips, whom I knew from his handling of Max Cleland's successful Senate campaign in 1996. Having just seen a newspaper report that the night after his Senate swearing-in ceremony Miller had collected \$220,000, I congratulated Phillips on how quickly his client had settled into

Washington's fund-raising groove. He quickly corrected me, explaining that those funds weren't raised during his first dinner but over grits and sausage at his first *breakfast*. I knew then that I was in deep trouble.

In truth, the race was over before it began, determined not by free and open debate but by brand-name recognition, by a cowed and closed-down media, and, most crucially, by access to cash. That's the harsh reality, given the role that commercial media now plays in reaching the voting public. Miller and I had met several times before the campaign at political events held on the lawn of Ann Cox Chambers, whose mansion lies directly across the street from the governor's mansion, occupied by Miller for eight years. Chambers, a member of the Forbes 400 and principal shareholder in Cox Communications, the state's dominant media conglomerate, had earlier served as a Jimmy Carter-appointed ambassador, a traditional political perk for major fund-raisers.

Fund-raising posed for me a fourfold quandary. The first was how to solicit funds as a political unknown and as Georgia's first-ever "Green" in a statewide federal race. The second was raising funds *as a populist*. Having worked in Washington for a dozen years (1980–1992), I knew firsthand the favors that large contributors often expect in return. Third, I knew that any funds I raised for media advertising would further enrich a family already rich beyond the dreams of Midas. Finally, I knew that political viability mandated that I make large payments to a media-owning clan that already wielded political power completely out of proportion to what's appropriate in a nation devoted to political equality. In short, I realized early on that debate in our erstwhile democracy has become profoundly dollar-dependent. It didn't help that the Greens had a dicey reputation, or that they were organizationally challenged and dependably penniless—though they raised my registration fee (\$4,101). Those circumstances set the background against which I launched a seat-of-the-pants statewide campaign in the largest state east of the Mississippi.

Miller, on the other hand, was a seasoned political operative with proven fund-raising skills, collecting more than \$5 million in just three months. His name recognition ensured early on that none of Georgia's Republican members of Congress would risk a safe seat to run against him. Instead, former Senator Mack Mattingly was enticed out of retirement as the GOP's sacrificial candidate—which also

helped maintain the illusion of a two-party race. Early on, Miller announced his intention to represent both parties, a pledge he quickly fulfilled as the first Senate Democrat to break ranks with his party (in a chamber split 50–50 between Demopubs and Republicrats), when he cosponsored conservative Republican Phil Gramm’s introduction of Dubya’s massive tax cut for the well-to-do.

In truth, Democrats lost the South a long time ago. As Louisiana Senator Russell Long told me when we worked together in the 1980s, Lyndon Johnson knew that the South was destined to become a Republican stronghold when he pushed Kennedy’s civil rights legislation of the 1960s, a hugely unpopular program in a region long known to vote reliably democratic.

Miller’s strong approval rating was based on his support for the Hope Scholarship, a popular program funded by the state lottery, which in Georgia, as in other states, has proven hugely successful in redistributing money from low-income blacks to middle-income, college-bound whites. That program proved consistent with Miller’s criminal justice policy that, from 1986 to 1996, boosted Georgia’s African American imprisonment rate for drug offenses by 5,499 percent, even though research confirms that drug treatment costs one-fifteenth as much as incarceration for the same reduction in societal cost. By tripling the number of jail cells and promptly filling them, Miller was able to maintain Georgia’s ranking as third nationally in inmate population, trailing only Texas and Louisiana. As you might imagine, some of my best campaign venues were Black churches. A late endorsement came from the state’s gay community, a constituency that Miller had long denied even the dignity of a meeting.

Financing a Faux Election

Georgia’s Jimmy Carter, former U.S. president, sullied his hard-earned reputation for monitoring the fairness of elections abroad when he declined to activate a team to oversee—or at least critique—the U.S. election process, in which corruption is now subtle, endemic, and institutionalized. For instance, as a member of the Commission on Presidential Debates, one can only marvel that no one at his Atlanta-based Carter Center looked into why Green Party presidential candidate Ralph Nader was denied admission—*as a spectator*—to the overflow auditorium at the first presidential debate in Boston. Or why he was refused access to the University of

Massachusetts Boston campus, where he had agreed to offer commentary on the debate for Fox News. These incidents suggest that, in truth, the so-called debate instead was the closed-access filming of a political infomercial—a Demopublicocratic joint venture, or a “joint appearance,” as the two parties artfully describe these staged events in the commission’s founding documents.

That realization should come as a relief for those who tuned in to what was advertised as a series of genuine presidential debates. Now we know better. The League of Women Voters withdrew its sponsorship, complaining that this two-party collaboration had become a parody of democracy because of the restrictive rules insisted on by the dominant parties. But then, dual-party politicking was all that the events were ever meant to be. When the Commission on Presidential Debates was formed in 1987, GOP chair Frank Fahrenkopf and Democrat Paul Kirk (both remain as cochairs) conceded then that the commission’s goal was to “strengthen the two-party system” (after all, one of them always wins). That stance was confirmed when Nader (on the ballot in forty-four states) was banned from the general vicinity of the debate and constrained even from alerting television viewers that another perspective is possible.

Does reform suggest that taxpayers be forced to fund politicians’ campaigns in lieu of corporate sponsors, as some incumbents suggest? I’m not so sure. As I discovered, incumbents are typically quite well financed, albeit invisibly. Much of the cost of elections is already taxpayer funded; you just can’t see it. Vast swaths of America’s private sector are propped up by Washington. The annual tab for this invisible network of corporate welfare tops \$125 billion, according to *Time* magazine’s award-winning November 1998 exposé documenting the “free” in free enterprise (my research suggests that the yearly tab is closer to \$1.5 trillion). Incumbents learn early on that a portion of the support they grant *from* Washington flows back *to* Washington as campaign contributions from assisted firms and their grateful shareholders. Genuine reform requires an “ownership impact report,” which tracks government subsidies to the recipients and then matches the subsidies against lists of political contributors. Absent such an ownership report, we have no way of knowing what portion of federal campaigns is *presently* publicly funded.

Also, before we divvy up any alleged budget surplus with yet another round of tax cuts and defense contracts, true reform mandates that we identify who pocketed the nation’s policy-induced financial

prosperity in the 1980s and 1990s. Without this information, we can't answer the most basic question: An economic boom *for whom*? From 1980 to 2000, *our* elected policymakers voted to boost *our* national debt from \$900 billion to more than \$5,700 billion. We've yet to see an accounting of what we voters received in return for the credit we extended. Nor have we seen an accounting of which Americans benefited. Matching that list against campaign contributors should be easy. According to Federal Election Commission records, less than 0.25 percent of Americans give \$200 or more to political campaigns—yet at least \$3 billion was spent during the 2000 election cycle. Bill Clinton reportedly raised more than \$1 billion over his political lifetime. Firms factor much of the cost of their political activities into their normal business expense and pass that along to consumers. As a political phenomenon, campaign finance is subtle, multidimensional, and deeply embedded in the everyday workings of the economy. That's why reform mandates an up-to-date tally of just *who* actually harvested the financial benefits of the 1980s and 1990s. Policymakers are happy to take credit for this credit-stimulated prosperity, but just *whose* prosperity are we talking about?

Money and Media

Does reform require that taxpayers finance political campaigns? Or does it require easier access to the media by other voices? If “big money” already has too much sway, large dollops of taxpayer money may not be the answer. The switch to taxpayer-funded campaigns also strikes me as naive and mechanistic: Change *X* to get *Y*. Eliminate *this* source of funding and get *that* result. The challenge is far more complex, the corrupting influences far more nuanced and comprehensive.

Moreover, the prospect of Uncle Sam writing a check to today's media moguls is not one I relish, particularly when Washington recently gave broadcasters free digital TV licenses worth as much as \$70 billion on the open market, according to the Federal Communications Commission (FCC). Now those broadcasters want the public to pay them to provide an opportunity to air conflicting views on issues of public importance—*on the public's airwaves*? That's keen chutzpah, I'll concede, but hardly the best use of taxpayers' funds. And hardly consistent with the FCC's Fairness Doctrine governing the terms under which they're granted exclusive use of our hugely profitable airwaves.