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## Introduction

At the dawn of Bill Clinton's presidency, the management and reform of American capitalism stood at the top of his agenda. One could glimpse the progressive and expansive promise of a newly empowered generation when on December 14 and 15, 1992, the Clinton transition team assembled more than three hundred of the nation's leading economists, executives, politicians, and policy entrepreneurs in Little Rock for an "economic summit." Almost all agreed with strategist James Carville's now-famous catch phrase, "The Economy, Stupid," first posted on a wall of the Clinton campaign's "war room."<sup>1</sup> It was time for the government to offer a forceful set of initiatives designed to increase the productivity of capital and labor, transform key industry sectors, and enhance the quality of American life. "We must revitalize and rebuild our economy," said the president-elect, but "we clearly face structural problems that today threaten our ability to harness the energies of all of our people."<sup>2</sup> On display was an adventuresome range of ideas about what to do now that the Democrats once again controlled the White House and the Congress after nearly two decades of frustration, defeat, and economic dislocation under every president since Richard Nixon. There were plenty of corporate chieftains in attendance, not so much to balance the academics and think-tank liberals with a more conservative outlook as to demonstrate that the underperformance of the American economy was so debilitating that they too had a stake in efforts to rehabilitate industries and enterprises, especially those threatened by new competitors abroad and burdened by out-of-control health care expenses at home.

Those assembled would not make any decisions, but the conclave was more than just a well-choreographed show. Bill Clinton was an engaged and expert ringmaster. For nearly ten hours each day, he sat in a

swivel chair at the head of a large oval arrangement of tables, taking notes, asking questions, and offering his views about topics ranging from infrastructure to interest rates, technology and taxes, and energy and the environment, plus trade policy, health insurance reform, and the economic impact of chronic budget deficits at the federal level. As the *New York Times* observed, Clinton was “teacher, student, preacher, the President-elect played all the parts well.”<sup>3</sup> Even Republicans were impressed. “After four years of watching the Bush team amateurs, it’s fun to watch the pros play again,” said Martin Anderson, one of President Reagan’s domestic policy advisers.<sup>4</sup> Although no one compared the 1992 Clinton victory to FDR’s election sixty years before, there seemed to be an ideological and generational coherence to the Clinton cadre that evoked a fresh set of hopes and aspirations. James Tobin, who had served on President John Kennedy’s Council of Economic Advisers, told the Little Rock conferees, “The excitement of this transition reminds me of the transition to the Kennedy Administration in 1960, which I enjoyed as well.” And Robert Kuttner of *The American Prospect*, who would soon become disenchanted with the Clinton White House, told the same assemblage, “Words fail me in describing what an extraordinary event this is. . . . This is a magical moment.”<sup>5</sup>

The reforms explored at the Little Rock economic summit were tangible and within an ambitious grasp. It did not seem impossible for Clinton and his allies to make health insurance nearly universal, to stimulate not just economic growth in general but specific industries and occupations that were socially and ecologically important, to manage trade so as to preserve factories and jobs, to enact a welfare reform that did not repudiate a New Deal entitlement, and even to regulate Wall Street finance. Structural reforms of this sort promised to break with Reaganite laissez-faire and renew the allegiance of blue-collar voters to the party of Roosevelt, Truman, Kennedy, and Johnson.

Moreover, during the 1990s the Clinton administration had the good fortune, and perhaps the actual skill, to preside over an economy that grew at a steady 4 percent a year. The economist Robert Gordon called it the “Goldilocks economy” because it was neither too hot nor too cold.<sup>6</sup> Real wages were rising, the stock market boomed, and for a few

years at the end of the decade the federal budget actually ran a surplus. High tech was flying high, likewise real estate and finance. Declared *Fortune* in 1997, “Job prospects are terrific. Unemployment is lower than it’s been in nearly a quarter century. Business sales and profits are growing handsomely.”<sup>7</sup> Liberal Keynesians Alan Blinder and Janet Yellen, both of whom served in the administration, called those years “The Fabulous Decade.”<sup>8</sup>

Today, however, Clinton’s presidency wins little respect. Few liberals want to return the Democratic Party to that era because so many see his presidency as a betrayal of the progressivism that was once the hallmark of the New Deal and the Great Society. Bill Clinton was the first Democratic president since FDR to win two consecutive terms, but that accomplishment seems merely a product of his accommodation to an ideology that privileged trade liberalization, financial deregulation, and privatization of government services, while tolerating the growth of class inequalities. President Clinton has been labeled “the Democratic Eisenhower,” the popular leader of a political party whose electoral success was predicated upon a wholesale accommodation to the ideology of its opponents. Clinton’s 1996 declaration that “the era of big government is over” seemingly ratified Reaganite conservatism and in the process transformed Republican politics and policy into a hegemonic ethos that liberated global finance and eviscerated Keynesian liberalism.<sup>9</sup>

This general view made it easy enough for journalists and academics to simply declare the administration of Bill Clinton a neoliberal project and leave it at that. Lily Geismer, noting that the president described himself as a “new kind of Democrat,” emphasized that he took a “market-based approach” to virtually all social and economic issues. Gary Gerstle wrote that after losing Congress in 1994 Clinton became “America’s neoliberal president par excellence.”<sup>10</sup> The journalist Ryan Cooper thought that “neoliberal ideas held hegemonic sway among the Democratic elite,”<sup>11</sup> while the *Guardian*’s George Monbiot concluded his story on the rise of neoliberalism by asserting, “The man who sank Hillary Clinton’s bid for the presidency was not Donald Trump. It was her husband.”<sup>12</sup>

The word “neoliberalism” is a “linguistic omnivore,” as Daniel Rodgers reminds us.<sup>13</sup> Although hardly in use during the 1990s, it became

shorthand in the next decade for the liberalization of trade, the deregulation of finance, the privatization of government services, reductions of taxes on the rich, and the evisceration of the labor movement and the welfare state. That the Clinton administration embarked on this path is without doubt. His presidency not only saw passage of the North American Free Trade Agreement (NAFTA) in 1993 but also the end of a New Deal entitlement in the welfare reform of 1996 and protests against the World Trade Organization (WTO)—and in particular against US support for China’s entry to that organization—in the 1999 Battle of Seattle, which put environmentalists and union labor on the same side of the barricade. This book explores these Clinton administration forays, but it also illuminates some overlooked initiatives that trended in the same market-oriented direction: the effort to “reinvent” government championed by Vice President Al Gore, the deregulation of the telecommunications industry, the rise of a gargantuan market in financial derivatives, and the insistence during the financial crisis that wracked Mexico, East Asia, and other countries that the free flow of global capital, largely from Wall Street and London, would not be abridged regardless of the social or political consequences.

But the neoliberal project was never a seamless unfolding of an all-encompassing ideology, springing full blown from the mind of a Friedrich Hayek or Milton Friedman. Nor was it a Wall Street scheme foisted upon the nation through blunt financial power. Neoliberalism contrived to “fail-and-fall forward” declared the sociologist Jamie Peck, in a “churning and contradictory process.”<sup>14</sup> The capitalist world “stumbled towards neoliberalization” through a series of “gyrations and chaotic experiments,” wrote David Harvey, who more than anyone made the word popular. Harvey recognized that neither Bill Clinton nor Tony Blair was entirely a true believer, emphasizing the degree to which these two “Third Way” politicians found themselves in a political world where “their room for maneuver was so limited” that they could not help but advance the neoliberal project, if sometimes against their own better instincts.<sup>15</sup> As Stuart Hall famously put it, “Hegemonizing is hard work.”<sup>16</sup>

Bill Clinton's path to power was not driven by an ideology that can be securely labeled "neoliberal." Much of his economic and social policymaking would eventually reside there, but the crucial question—and the central subject of this book—is the how and why of that transmutation. What was contingent and what was driven by the logic of politics and political economy, both global and domestic? Within the country, the Congress, the administration, and the mind of Bill Clinton himself, much was left unsettled between the time the Arkansas governor burst upon the national political scene in the 1980s and the chaotic aftermath of the election between George W. Bush and Al Gore in December 2000. Ideas and proposals were subject to intense debate, first among the ever-growing "Friends of Bill" and then within the White House, among Democratic officeholders, and in academe, think tanks, foundations, journals, and the Democratic Party in all its manifestations. "The lingua franca of this network was the language of policy, the specifics of governmental activism," wrote the journalist and White House aide Sidney Blumenthal, who first met the Arkansas governor at one of the "Renaissance Weekend" talkfests that Bill and Hillary attended almost every New Year's Eve in the 1980s. Blumenthal saw Clinton approaching new ideas and proposals like they were "jazz riffs," which he played "until he felt he had improvised the right composition. And then he would start again."<sup>17</sup>

When Bill Clinton came to power, none of his partisans, from the White House on down, were Cold War triumphalists. Many agreed with Senator Paul Tsongas, Clinton's most formidable opponent in the Democratic primaries: "The Cold War is over: Germany and Japan won." That there were other "varieties of capitalism" in the world—more competitive, dynamic, and socially cohesive than the version championed by Ronald Reagan and Margaret Thatcher—would prove a powerful motivating impulse for an effort to "manage" American capitalism during the first years of his presidency. Clinton had come from a poor, Southern, rural state, and he spent the bulk of his energy as governor seeking some way to attract industry, raise wages, and increase worker skills and education. He was therefore amenable to an "industrial

policy” that deployed state policy, not just the market, to target economic development. Clinton’s appointment of three of the highest-profile advocates of such a program—Robert Reich to head the Department of Labor, Laura Tyson to serve as chair of the Council of Economic Advisers (CEA), and Ira Magaziner to be in charge of the administration’s ambitious health reform—was an indication of the degree to which the label “neoliberal” fails to capture the original ideological and policy thrust of his administration.

Clinton and his team sometimes found support among elements of the business community who saw a decline in profitability and international completeness as a problem that demanded a solution from an activist government. Chrysler’s Lee Iacocca once declared that he was ready to become a socialist if that doctrine could reduce his company’s bloated health insurance costs. Thus, Clinton and Ira Magaziner banked upon the support not only of liberals and organized labor but of an important slice of the business community—largely unionized manufacturers and big insurance companies—to muscle the health reform scheme through Congress. That scheme was a far more radical and market-regulating proposal than anything advanced by Barack Obama fifteen years later.

Likewise, Robert Reich thought high-tech industry could lead the nation toward policies that would create a far better educated workforce and might even be willing to accept a greater degree of unionism if, in return, companies had a free hand in boosting productivity and skills through new forms of German-style work organization. This would prove an illusion, but Reich was not alone in proposing that the government incentivize a “responsible” corporate leadership to avoid mass layoffs and excessive executive salaries. In similar fashion, trade policy also constituted a species of “industrial policy” since it was of vital importance, for ill or boon, to specific economic sectors and industry groups. Thus, in dealing with China, trade officials protected Hollywood and Silicon Valley from rampant pirating of their intellectual property (films and software). But the Office of the US Trade Representative, initially under the adept leadership of Mickey Kantor, an old Friend of Bill, also achieved agreements that enabled China to flood the

United States with consumer products advantaged by low wages and an undervalued yen, thus decimating many of the heartland towns and cities where toy, apparel, furniture, and appliance factories had once thrived. However, the American capacity to reshape the global economy had its limits. Much to the displeasure of Treasury Secretary Robert Rubin, a former Goldman Sachs executive, Wall Street did not win the open investment door in China that it had long sought. China was becoming an imperial power, one where neoliberal rules, especially those made in America, did not always apply.

This book explains why and how Clinton's expansive agenda ended in failure and why that failure haunts us still. The failure was actually twofold. In the first instance, Clinton faced defeat when seeking to enact progressive reforms, from health insurance to labor rights, not only because of fierce opposition from Republicans and conservatives but also because the political and economic terrain upon which he hoped to construct a more progressive America was growing smaller and more fragile. Clinton confronted a changing economy that was restructuring many of the old political and social categories—creating, for example, bitter divisions within the business community, eviscerating the labor movement, and heightening Wall Street influence. Clinton partisans thought a technologically advanced “new economy” would demand—and fund—a more highly skilled workforce, far greater employment opportunities, and a higher standard of living. But that Panglossian thinking was belied by the harsh dynamic still at work in the world of American capitalism. Reform-oriented manufacturers carried far less political and economic weight than either low-wage, low-benefit, anti-union firms like PepsiCo and Marriott or the Wall Street financial titans who championed capital mobility at all costs. Great fortunes were created in both Silicon Valley and booming northwest Arkansas, the latter home to Wal-Mart and Tyson Foods, but these avatars of the new economy were hardly allies when it came to either industrial policy at home or managed trade abroad.

The global terrain also tilted toward the right. The end of the Cold War had transformed the economic world in two decisive ways. First, the potential labor force available to make things had just about doubled

with the opening of Eastern Europe and East Asia to export manufacture. That would generate a nearly irresistible demand to globalize production that had once been solely domestic. And second, the end of the Cold War had left no actually existing alternative to some sort of capitalism. There were “varieties” of capitalism, but the competitive absence of any other noncapitalist system, authoritarian or democratic, now constrained even an imaginative quest for a viable, radical alternative to the status quo. The lack of alternatives had the pervasive impact of shifting economic discourse toward market solutions.<sup>18</sup>

But an even greater failure may well have arisen from what the Clinton administration did accomplish: creating a surplus in the federal budget, downsizing the government workforce, enacting an ambitious crime control law, passing NAFTA, constructing a pathway for China to join the WTO, and deregulating both Wall Street finance and America’s vast telecommunications infrastructure. Wall Street boomed and unemployment dropped, but in the end none of these reforms moved the nation toward the economic stability, social equality, and global democratic resurgence that the president and his chief economic advisers had promised. Trade with China, they had prophesied, would undoubtedly create the conditions for a free press, the entrepreneurial freedom, and the autonomy, both individual and organizational, necessary to sustain a robust civil society in that ancient nation. A democratic effervescence was sure to accompany all those new cell phones, stock markets, and supermarkets.

Moreover, virtually every legislative victory scored by the Clinton administration, especially in the years after 1994, was achieved over the strong objections of a substantial portion of his own party. On any issue that involved an expansion of the welfare state or progressive taxation, the Democrats stood well to the left of the Republicans—and increasingly so after the rightward lurch of the GOP when Newt Gingrich became Speaker of the House in 1995. But on many other Clinton initiatives, especially those involving trade and financial deregulation, the White House relied on Republican votes, while a large fraction of the Democrats, sometimes even a majority, stood in opposition to their own president. Democratic Party loyalty saved Bill Clinton during the

impeachment crisis of late 1998, but his contradictory effort to win a measure of bipartisan support on highly contentious issues made him a dreadful party leader.

“Managing” the economy is usually thought of as a project of progressives, but Wall Street and its allies were even more potent and ambitious during the Clinton administration. Neoliberalism, whatever its form, was not *laissez-faire*. It required the deployment of sovereign power on a scale just as far reaching as that of any proposed by those on the left side of the polity. During the Clinton years two institutions of federal governance—the Federal Reserve and the Treasury Department—were powerful, nearly unaccountable managers of both the domestic American economy and that of the nation’s trading and investment regime abroad. The Fed was virtually a fourth branch of government, a “central planner that dare not speak its name.”<sup>19</sup> To accommodate Chair Alan Greenspan’s requirement that the federal budget deficit decline in rapid and sustained order, Bill Clinton and his advisers cobbled together an austerity budget in 1993 that abandoned one progressive campaign promise after another. Then, in 1994, Greenspan’s Fed unexpectedly raised interest rates, wreaking havoc from Orange County to Mexico, but two years later the Federal Reserve let the rates fall, despite full employment and a roaring stock market. That sustained American prosperity but also created a series of “asset bubbles” that distorted and endangered huge sectors of the US economy. This “asset price Keynesianism” helped advance the late 1990s boom, but it would prove unsustainable after the turn of the new millennium.<sup>20</sup>

Meanwhile, the Treasury Department became the most important institution of governance in the Clinton administration. The deregulation of Wall Street finance and the forced draft transformation of foreign economies from Mexico to South Korea and Indonesia came under the leadership of Wall Streeter Robert Rubin, a welfare state liberal who nevertheless argued that the mobility of capital in all of its baroque forms was the key to the low interest rates and booming asset values that he thought would ensure investment, profits, and full employment. At home, Treasury had a virtual free hand, especially in the second half of the 1990s, when the president was consumed with reelection, scandal,

and impeachment. Abroad, Treasury pursued a strong-arm strategy during the Asian financial crisis against the opposition of the State Department, the CEA, and Bill Clinton himself. At home, another Treasury project, the “modernization” of American finance, facilitated even more mergers on Wall Street, while creating conditions for an explosion of derivatives, those highly volatile securities whose multitrillion-dollar collapse in 2007 and 2008 helped inaugurate the most severe financial crisis since the Great Depression.

Ideology, illusion, and interest shaped the Clinton presidency and the shifting economic structures over which it presided. If Clinton and like-minded Friends of Bill were hardly neoliberals when they first occupied the White House, they had moved far in that direction by the time they departed. But this shift in policy and rhetoric was not merely a product of defeat at the hands of corporate enemies and political foes. It was also bred by the set of seductive illusions explored in this book. The Clinton administration’s assumption that a new world of technology and markets would lay the basis for both an era of prosperity and progressive statecraft proved sorely mistaken. Instead, the financialized capitalism that Bill Clinton came to champion generated inequality and crisis, opening the door to retrograde forces they had barely imagined. The path toward the management of a capitalist polity would prove far more difficult than Clinton’s partisans could imagine, but it is only by grappling with the obstacles they faced and the choices they made that we might avoid such failures in the future.

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