

# A FABULOUS



## Clinton's 1990s and the Origins of Our Times

BY NELSON LICHTENSTEIN

# FAILURE



**H**illary Clinton's loss of the industrial Midwest to Donald Trump sealed her fate on Election Day 2016. This defeat, both narrow and catastrophic, had many architects, but one of the most consequential occupied the White House nearly 25 years before, when her husband faced an America whose stagnant economy, rampant deindustrialization, and giant trade deficit cried out for structural reforms to decisively break with Reagan-style laissez-faire and renew the allegiance of hard-pressed voters with the party of Roosevelt, Truman, and Johnson. But this was precisely what Bill Clinton failed to do.

Many recall the 1990s as a moment of economic triumph with increasingly low unemployment, 4 percent annual economic growth, a booming stock market, even a balanced federal budget by the end of the millennium. Economists Alan Blinder and Janet Yellen called those years the "Fabulous Decade" in 2001, while a 2015 opinion piece in *The New York Times* bore the title "The Best Decade Ever? The 1990s, Obviously." Although the Republicans had seized control of Congress in 1994, it is worth remembering that Ronald Reagan's vice president, George H.W. Bush, took only 37 percent of the vote in 1992 while that stalwart Republican, Robert Dole, won just 40 percent in 1996. Politics were clearly in flux. The Clintons therefore had the historical moment to recast not just trade, investment, and health-care policies, but the regulations, norms, and expectations that would govern a post-Cold War version of U.S. capitalism.

Their failure to take advantage of these fortuitous circumstances doomed any effort to build a more equitable economy or a political order powerful enough to sustain a dominant liberalism, a failure Donald Trump would one day seize. As he told an audience at a steel mill in Monessen, Pennsylvania, on June 28, 2016: "Globalization has made the financial elite who donate to politicians

very wealthy. But it has left millions of our workers with nothing but poverty and heartache. America became the world's dominant economy by becoming the world's dominant producer ... creating the biggest middle class the world has ever known. But then America changed its policy. ... We allowed foreign countries to subsidize their goods, devalue their currencies, violate their agreements, and cheat in every way imaginable."

Trump's rhetoric can never be taken at face value, but during the 2016 campaign he had an uncanny ability to capture the angst and id of those citizens and workers, many once solid Democratic partisans, now victimized and marginalized by the seemingly uncontrollable financial and economic transformations of the last few decades. With some justification, he called the Clinton era's North American Free Trade Agreement the "worst trade deal" in history, and has opposed China's entrance into the World Trade Organization. Indeed, Trump was the first actual presidential candidate of one of the two major parties—Ross Perot ran on a third-party ticket—to assert that trade policy was both cause and symbol of blue-collar malaise.

#### **BILL CLINTON AND HIS MOMENT**

Although conventional historical and journalistic thinking places Ronald Reagan at the center of the conservative turn in American trade and fiscal policy, we know that ratification of such a policy turn takes place only when the ostensibly hostile opposition party accommodates and then advances this transformation. And that is what the administration of Bill Clinton did—normalize key aspects of the Reagan economic worldview. As Clinton famously put it in his 1996 State of the Union address, "The era of big government is over." That declaration came after the Democratic rout in the 1994 congressional elections, but much of that policy shift toward the right came earlier, even before the GOP achieved legislative veto power.

This Clinton capitulation was not inevitable. The campaign's manifesto, "Putting People First," had been largely based on recent work by Robert Reich, Ira Magaziner, and other "Friends of Bill" who tilted left. Many of Clinton's advisers admired the economic statecraft

practiced in Germany, Scandinavia, northern Italy, Japan, and the East Asian "Tigers." For example, economist Laura D'Andrea Tyson had studied Yugoslav economic planning at MIT and had just published *Who's Bashing Whom? Trade Conflict in High-Technology Industries*, a book that argued for a tough trade policy if the United States were to prevent Japanese evisceration of those industries where the U.S. had been an innovative pioneer but lagged in low-cost manufacturing technique.

All of Clinton's advisers agreed with James Carville's campaign catchphrase, "It's the economy, stupid." Henceforth, the government would offer a forceful set of interventions both to boost aggregate demand, as in traditional Keynesianism, and also use structural policies to increase the productivity of capital and labor, protect core industry sectors, and enhance the equality of American life. Or so it seemed.

#### **THE CLINTONITES CONFRONT THE BOND MARKET—AND RETREAT**

But a revival and modernization of New Deal-style liberalism was stillborn at the dawn of the Clinton era. Just as Republican Dwight Eisenhower legitimized the New Deal by accepting many of its accomplishments, Bill Clinton ratified much neoliberal policy long before Newt Gingrich led the GOP to victory in the 1994 congressional rout or Clinton sought to triangulate with his opponents in 1995 and after.

Key economic advisers put in place during the transition, notably Robert Rubin, Larry Summers, Lloyd Bentsen, Leon Panetta, and Alice Rivlin, advanced a far more orthodox set of economic priorities than those on Clinton's "industrial policy" left. They would soon dominate. Despite his own initial opposition, President-elect Clinton was persuaded to give up a major economic stimulus package, including targeted investments, in exchange for the low interest rates his advisers thought the bond market would sustain if only the deficit were tamed by a combination of constrained social spending and higher taxes.

It was a tradition of Democratic presidents to appoint Wall Street-friendly Treasury secretaries, to reassure the financial markets. But under Roosevelt, Truman, and Johnson, these appointees lacked the power (or in the case of FDR's Treasury secretary, Henry Morgenthau,

the desire) to undercut the rest of the progressive program. Rubin, unlike the others, had begun his career in Democratic politics as a donor and fundraiser.

Clinton came face to face with the ideological power surrounding deficit reduction at a January 7, 1993, meeting at the governor's mansion in Little Rock. There, Rubin, just selected to head Clinton's National Economic Council (NEC), and Panetta, the new chief of the Office of Management and Budget, put forward the case for deficit reduction, sidelining proposals for the large, innovative stimulus that Clinton had advocated during the campaign. The deficit the Bush administration bequeathed to Clinton was roughly 40 percent higher than the estimate just a couple of months before. More important, stubbornly high long-term interest rates had convinced Wall Streeters, including Rubin, that a huge reservoir of investment money lay frozen and untapped. Interest rates on long-term bonds were now at above 7 percent. Lower interest rates would arguably free up investment and spending far beyond Robert Reich's proposed \$50 billion stimulus program.

But cutting the budget meant eliminating much of the social investment *raison d'être* promised during the campaign. Clinton campaign strategists like James Carville, Paul Begala, Stan Greenberg, and Mandy Grunwald, as well as Hillary Clinton and Ira Magaziner, were incredulous. There were no guarantees that shelving campaign promises would generate a positive response from the bond market, even if Federal Reserve Chair Alan Greenspan delivered easier monetary policy in exchange for deficit reduction. An appalled Clinton, confronted with reality according to Rubin, told his economic team, "You mean to tell me that the success of the program and my re-election hinges on the Federal Reserve and a bunch of fucking bond traders?" Carville would later remark that were he to be born again, he wanted to be reincarnated as the most powerful thing in the world, the bond market.

But it was Clinton himself who had appointed deficit hawks like Rubin and Bentsen, the new secretary of the Treasury, who in turn chose the orthodox Summers as a top assistant, later to succeed Bentsen as secretary. Not everyone in the Clinton White House accepted this logic.



Writing to Rubin and Clinton in early February, both Council of Economic Advisers Chair Laura Tyson and council member Alan Blinder argued that “deficit reduction at the expense of public investment is self-defeating.” Blinder and Tyson wanted a gradual, multi-year program to lower the deficit, combined with “a shift in government spending toward public investment programs.” Importantly, Tyson and Blinder argued that “any plan to bring down the deficit by large amounts—and hold it there—in the late 1990s and into the next century will require changes in our health care system.” Magaziner hoped that spending caps on health care and the introduction of a system of managed competition would indeed have a long-range impact on federal spending, possibly by 1996, mooted the need for other spending cuts.

But the Clinton left was outgunned. Rivlin at the Office of Management and Budget, as well as Bentsen and Roger Altman at Treasury, worried that an insufficiently tough deficit reduction plan would send the wrong political and fiscal signal to Wall Street. The OMB argued that “a more vigorous deficit reduction plan” than the one put forward by the CEA “is necessary” because of its belief “that the Fed and the bond markets will respond very favorably if we are aggressive enough in our deficit reduction plan.”

All this was a sophisticated wager that relied heavily on the mentality of a few thousand traders in New York, Tokyo, Frankfurt, and London. To this, Joseph Stiglitz, a member of the Clinton CEA, retorted in his 2003 memoir of the 1990s: “I have become convinced that the confidence argument is the last refuge of those who cannot find better arguments.” Financial markets, of course, are often mistaken, as the collapse of 2000 would prove. But at the very dawn of his administration, Clinton opted to trust markets more than activist government. This course would set the tone for later decisions defining Clinton as a neoliberal rather than the heir to FDR and LBJ.

Whatever their source, low interest rates by themselves could not actually encourage or direct investment in the most productive fashion. From the late 1990s onward, a failure to find profitable and productive investment opportunities has distorted the political economy. The trillion-dollar rise of corporate stock repurchases, along with the offshore stash of



**Going Right And Left:** President Clinton with Treasury Secretary Lloyd Bentsen and Labor Secretary Robert Reich

an equally large amount of corporate profits, constitutes an admission that productive domestic investment opportunities are simply not present or pressing in a deregulated, free-trade environment.

In their absence, capital flowed either offshore or toward a variety of speculative bubbles, encouraged by the repeal of the Glass-Steagall Act in 1999 and the financialization of an increasingly large share of the economy. And indeed, much of the boom of the late 1990s turned out to be a bubble. Hence the dot-com bust of 2001, the housing bubble of the first decade of the 21st century, and the subsequent financial collapse and Great Recession of 2008 to 2009. A tripling of the stock market since that collapse suggests that such speculation has not been eliminated. But the real cost—economic and political—of such an investment deficit has not been found on Wall Street, but rather throughout the nation, and not just in the old Rust Belt, but in municipal governance, higher education, health provision, and infrastructure.

#### **TRADE POLICY AND POLITICS**

Trade policy constitutes a version of industrial policy. The North American Free Trade Agreement had far less to do with trade than with

investment policy, ensuring that in Mexico, U.S. companies and banks could repatriate profits, extend U.S. patent and copyright protections, and once and for all end any Mexican government temptation to expropriate their property.

Initially, Clinton had tried to straddle the fence on a trade pact viewed skeptically by organized labor and most congressional Democrats. NAFTA had been negotiated during the Bush administration but required a legislative vote to go into effect. The Clinton campaign endorsed NAFTA in October 1992 but sought to make it palatable by including labor and environmental protections. These proved exceedingly weak, which turned the AFL-CIO and much of the Democratic Party base against the agreement. Aside from any long-term employment consequences—the “giant sucking sound” made famous by Ross Perot—Clinton made a disastrous political miscalculation when his administration chose to undermine labor-liberal unity and scramble the partisan landscape by pushing NAFTA through Congress with more Republican votes than Democratic.

This was the kind of mistake Reagan had never made. Although free trade was official Reagan ideology, his administration actually

orchestrated an ad hoc industrial policy that appeased key political and economic constituencies. Many complaints came from older industries like textiles, steel, auto, and motorcycles, long bastions of GOP or Dixiecrat support. They were being inundated by East Asian and especially Japanese imports. Reagan's Commerce Secretary Malcolm Baldrige and his deputy, Clyde Prestowitz, therefore challenged the free-trade orthodoxy still favored by the State Department, which was willing to sacrifice U.S. industries in order to sustain Cold War allies in Asia.

The Reagan administration slapped a quota on Japanese motorcycles during the first term that did much to save Harley-Davidson, after which Treasury Secretary James Baker negotiated a dollar devaluation in 1985, the so-called Plaza Accord, that made all manufacturing exports more competitive. Reagan's trade negotiators also pioneered a way forward in one of the world's most strategic industry sectors. Americans had invented the semiconductor, but a strategy of continuous innovation did not lead to manufacturing competitiveness. American chip makers were stand-alone enterprises, while in Japan, large, capital-rich companies invested in computer chips as but one part of a larger high-technology endeavor. By the early 1980s, they had penetrated the U.S. market to devastating result. Intel's Robert Noyce estimated that between 1984 and 1986, chip manufacturers lost \$2 billion and laid off 27,000 workers. In response, the Defense Department ponied up half a billion to fund a new research consortium, Sematech, in effect a government-sponsored cartel that dampened domestic competition and stressed manufacturing prowess. Meanwhile, Prestowitz and other trade negotiators adopted a tough bargaining posture that stopped Japanese dumping of its chips on the U.S. market and mandated that Japanese companies must purchase 20 percent of all their chips from foreign producers, most in the United States.

Clinton proved unwilling to build upon this Reagan-era precedent. Although his administration tried to open Japan to American products, agricultural ones in particular, this effort encountered fierce resistance from those rural agricultural interests that bulwarked

Liberal Democratic Party (i.e., conservative) rule there. It failed. But Mexico was another story. Unlike Japan, which was then the second-largest industrial economy in the world, Mexico's GDP was but 4 percent that of the United States. The U.S. had more of a free hand there, and ratification of the trade pact late in 1993 generated a template for U.S. approaches to globalization and the incorporation of many developing nations in that new order.

The Democrats were profoundly divided about NAFTA. Many in the administration, even liberals like Reich, thought globalization inevitable and that the best defense of American living standards would come through domestic investment in a high-skilled workforce, a hyper-productive set of industries, and the social and supportive physical infrastructure. Reich believed labor-intensive textile and apparel manufacturing would inevitably leave the United States. In their place would arise high-productivity, high-wage manufacturing and service industries, because "the fundamental fault line running through today's workforce is based on education and skills." The problem with this perspective was that while productivity, as well as education, was indeed low throughout most of Mexican—and Asian—manufacturing, key export-oriented firms in the developing world had demonstrated the capacity to produce high-quality goods with low-wage and poorly educated workers. Because of a devaluation of the peso in the early 1980s, Mexican wages in real purchasing power terms had actually declined some 30 percent by the end of the decade. "Why should companies invest in a high-skill, high-wage strategy in the Unit-

ed States," asked the widely quoted industrial relations expert Harley Shaiken in 1993, "when a high-skill, low-wage strategy is available in Mexico?"

House Majority Leader Richard Gephardt shared that outlook. He came out of a still industrial, still highly unionized St. Louis, and Gephardt harbored presidential ambitions—one reason why in the last years of the George H.W. Bush administration, he reluctantly and cautiously backed "fast track" authority, hoping that a new, more liberal administration might include labor and environmental side deals with real teeth. Bill Clinton kept such hopes alive when on October 4, 1992, he endorsed NAFTA, but insisted that the trade deal had to be part of a "larger economic strategy" designed to raise the incomes of American workers and protect their jobs and environment. During the next year, Gephardt worked



**The Great Piñata:** Clinton promotes NAFTA, to the chagrin of most Democrats.

JOE MARQUETTE / AP IMAGES

closely with the AFL-CIO to make NAFTA's labor clause something more than an assertion that each nation should enforce its own, often inadequate, labor laws.

"NAFTA, with the addition of the supplemental accord, is a groundbreaking agreement," U.S. Trade Representative Mickey Kantor said in announcing the completion of a NAFTA deal on August 13, 1993. "For the first time a free trade agreement covers workers' rights and the environment." The devil was in the details. The United States extracted a nonbinding commitment by the Mexican government to tie its minimum-wage structure to increases in productivity and growth in the Mexican economy. Fines for violation of labor rights were possible at the end of a long process of consultation, but the tribunal set up by NAFTA would have no power to compel a government to pay or penalize a particular employer. Within hours of the Kantor announcement, a coalition of labor union leaders, consumer advocates, and environmental groups had denounced the accord.

Gephardt too called the side agreements "not supportable," and in a speech to the National Press Club on September 21, 1993, he announced that he would vote against the pact. Gephardt argued that genuinely fair trade was a contradiction in terms when applied to nations whose social structures and economic policies were incompatible; the wage differential across the Rio Grande was 8 to 1. In the absence of significant outlays for retraining and job creation, Gephardt warned of "downward pressure on wage agreements, holding down our standard of living. And they face that argument not only from Mexico, but from China and other places around the world."

Labor-liberal opposition to NAFTA would therefore be staunch in Congress, backstopped by polls showing that a majority of Americans opposed the agreement. More importantly, the Clinton administration was at the very least divided on timing, with Hillary Clinton, among others, pushing for a postponement of the NAFTA fight until after the congressional health-care battle. But Bill Clinton pushed ahead. The White House set up a war room, headed by William Daley, a banker and youngest son of Chicago's legendary mayor. The administration soon pulled out all the

stops, making side deals to get the votes of representatives with citrus, flat glass, wine, and other interests that might be harmed by competition from Mexico. And when the flamboyant and erratic Ross Perot became the face of NAFTA opposition, the White House was not displeased.

The House passed NAFTA by a vote of 234 to 200 on November 17 and the Senate followed three days later with 61 in favor and 38 against. In both chambers, more Republicans voted for the trade agreement than Democrats, an ominous fissure in liberal ranks. Edward Kennedy backed Clinton, declaring, "All of the problems that working families face ... will be even worse if NAFTA is defeated." But other

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liberals like Senator Don Riegle of Michigan voted no, concluding, "This is a jobs program for Mexico, and my Lord, we need a jobs program for America." Clinton thought he had secured a marvelous bipartisan victory, but Rust Belt voters and their elected representatives spurned the trade compact. Clinton "seriously split the electoral base of the Democratic Party and has alienated swing voters," concluded Lawrence Mishel and Ruy Teixeira of the progressive Economic Policy Institute. More than two decades later, NAFTA was still a resonant and unpopular symbol for Trump to use against the Clintons.

Dozens of Rust Belt Democrats were defeated in the 1994 elections, dragging down others, including Tom Foley, the House Speaker, who had sided with the White House on NAFTA. Capturing the House for the first time in 40 years, GOP conservatives stepped into the pol-

icy vacuum engendered by liberal disarray. Newt Gingrich and a new cohort of freshmen Congress members moved the GOP decisively to the right, Perot ran for president once again, and on the extreme right pundit Pat Buchanan offered a foretaste of Donald Trump when he deployed culture war rhetoric to denounce a Bush-Clinton "New World Order" that stood for globalization, multiculturalism, and a devaluation of American nationality.

**MISJUDGING CAPITAL: FAILURE OF HEALTH INSURANCE AND LABOR LAW REFORM**

Although the Clinton left had been defeated when it came to a Keynesian stimulation of the economy or construction of a managed trade regime with Mexico and other nations, they believed reform of the immense health system as well as the increasingly calcified labor relations regime was still possible. In both instances, policy entrepreneurs like Ira Magaziner, Robert Reich, and Hillary Clinton thought American capitalism had been handicapped by declining productivity and embedded inefficiencies that required state action to redress. Both initiatives constituted an updated version of New Deal corporatism. Both failed in part because the Clinton administration misjudged the power and perspective of key sectors of American industry, especially the booming retail, fast-food, finance, and high-tech sectors, all of which were hostile to unionism and state regulation.

Its architects considered the Clinton health-care plan an ingenious hybrid of market competition and regulation. Regional "health alliances" would have overall ("global") spending caps on insurance and hospital costs, approaching some of the efficiencies of a single-payer system but preserving competition among private insurance companies. All large employers would have to provide health insurance, either directly or via the health alliances. Other workers and citizens would get subsidized insurance through alliances, from well-regulated insurers.

The sponsors made two serious miscalculations. First, they did not involve key legislative players in the early design of the complex hybrid bill, which proved too government-led for some and too far from single-payer for others. Second, they underestimated the ideologi-



cal opposition of organized business to a major expansion of the federal role, even if corporations stood to save some money.

The Clintons counted on support from business sectors that already provided health insurance: The new employer mandate would reduce their outlays by spreading insurance costs among all employers. American auto companies paid more for health insurance than for steel, but Walmart, Marriott, and thousands of other low-wage, service-sector firms shifted the health-care costs of their employees to the state, to charity, or to other firms' payrolls. Walmart, with nearly a million workers at the end of the 20th century, provided a health insurance package that was so burdensome and inadequate that less than 50 percent of its employees subscribed. "Right now, big companies pay all of the health costs of small companies that are not providing insurance," argued one pro-reform businessman. "It's another form of tax."

But American capitalism had transformed itself dramatically since the last era of health-care reform in the 1960s, and low-wage, low-benefit companies in the swollen service sector, especially restaurants and retailers, bitterly resisted employer mandates. A service-sector revolt generated something close to a coup within the U.S. Chamber of Commerce, which had initially favored Clinton's reform at the behest of many big, old-line manufacturing companies like Chrysler and Bethlehem Steel.

Likewise, a set of smaller insurance companies, who made money by "cherry-picking" the most healthy and profitable clients, feared that the system of "managed competition" championed by the Clintons would put them at a disadvantage in a fight over market share with the big five insurance firms of that era, which were willing to turn themselves into something close to a utility in return for millions of new government-mandated customers. Organized into the Health Insurance Association of America, these smaller firms sponsored the infamous but highly influential set of "Harry and Louise" TV ads of 1993 and 1994, which equated employer mandates and cost controls with a cumbersome and intrusive federal government.

The ideological stakes in this fight were graphically highlighted in late 1993 when journalist and sometime Republican adviser

Bill Kristol wrote a memo to GOP legislators and activists that remains perhaps the single most important document laying out the rationale for wall-to-wall conservative opposition to health-care reform, both in the early 1990s and in the years since 2009. Kristol argued that any Republican compromise with Clinton would not only "make permanent an unprecedented federal intrusion into and disruption of the American economy" but also advance Democratic electoral prospects because a successful Clinton plan "will revive the reputation of the party that spends and regulates, the Democrats, as the generous protector of middle-class interests." Republicans had to therefore "adopt an aggressive and uncompromising counter-

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strategy" to "delegitimize" the Clinton plan and bring about its "unqualified political defeat."

By the late summer of 1994, when the Clinton health plan expired in Congress, that failure proved an ideological victory for the likes of Bill Kristol and laid the basis for Republican capture of the House of Representatives for the first time since 1946. A long era of hyper-partisanship was upon us.

An effort to secure worker rights, not by reinforcing the right to unionize guaranteed in the oft-violated Wagner Act but by promoting greater labor-management collaboration, became the heart of the administration's policy on labor. A commission on the future of worker-management relations, chaired by John Dunlop, was the signature early initiative. Greater collaboration would presumably generate productivity gains and improved earnings to match, not just in the unionized

sector but in the workforce as a whole. But by 1993, Dunlop-style social bargaining was already a relic of an earlier time. Most corporations did not want dialogue with labor, much less with labor unions. They wanted control.

The key deal Dunlop and others, including some in the labor movement itself, hoped to pull off was an exchange: Companies would get the right to create workplace productivity and engagement organizations, softening the Wagner Act's ban on company unions, while real unions would get some labor-law reforms that might have made organizing easier. But this deal was doomed from the start. It won no traction from any wing of the employer community, neither old-line manufacturing, then being battered by imports, nor Silicon Valley, nor even unionized high technology companies like Xerox, whose otherwise liberal CEO, Paul Allaire, served as a Dunlop Commission member. And of course, the same labor-intensive, service-sector employers who sabotaged the Clinton health-care reform were even more adamantly hostile to any labor law deal that hinted at more employee voice. In the service sector, higher employee productivity was on the way, not via a new era of labor-management cooperation, but as new and more intrusive versions of electronic Taylorism made their way to the checkout counters, hospitals, eateries, and logistic hubs that were then leading the U.S. employment surge.

Once the health-care initiative collapsed and the Republicans won a decisive congressional victory in 1994, employers knew they held the upper hand. Jeff McGuinness, president of the management-side Labor Policy Association, which was actually one of the more moderate employer groups to engage with the commission, told the press, "All deals are off, all swaps, whatever deals there might have been are now off."

**FINANCIAL DEREGULATION**

While the reform of health provision remained stymied during the 1990s, a radical restructuring of American finance proceeded with little opposition. By the mid-1990s, nearly all of Clinton's advisers (notable exceptions being Joseph Stiglitz and Brooksley Born) repeatedly reassured him that the decision to let Wall Street dismantle regulatory pro-

tections erected during the Great Depression simply represented inevitable modernization. As John Podesta, who would soon become Clinton's chief of staff, put it in a 1995 memo, "The argument for reform is that the separation between banking and other financial services mandated by Glass-Steagall is out of date in a world where banks, securities firms and insurance companies offer similar products and where firms outside the U.S. do not face such restrictions."

The remarkable influence of Robert Rubin, in both the White House and on Wall Street, symbolized and encapsulated this perspective, to which the term "neoliberalism" was now firmly attached. Unlike Greenspan, a disciple of Ayn Rand, Rubin was an attractive and seductive personage—a Democrat whose charm, social liberalism, and persuasive intellect shielded him from criticism and enlarged his influence, not just in terms of one policy or another, but as ideological leader of a species of neoliberalism, dubbed "Rubinomics." He mentored a generation of Clinton-era policymakers, later with echoes in Obama appointees, creating a Democratic policy establishment that no longer took its cues from unions and consumer advocates, but saw an outlook congruent with Wall Street as synonymous with the general welfare. And the long boom of the 1990s, whatever its actual origins, seemed to ratify the wisdom of such an outlook and the statecraft that gave it legislative substance.

Although the Glass-Steagall Act was not formally repealed until 1999, the separation of commercial and investment banking had already been severely weakened by Federal Reserve rulings that increased bank size and allowed commercial banks, through subsidiaries, to underwrite many types of securities. In 1994, with the Democrats still in control of Congress, Clinton signed the Riegle-Neal Interstate Banking and Branching Efficiency Act that eliminated restrictions on branch banking and thereby increased the sway of the big banks. Then in 1996, the Fed allowed bank subsidiaries to earn 25 percent of their revenue from securities operations, up from 10 percent. And that same year, the Fed overhauled its regulations to make it easier for banks to gain approval to expand into new activities. The Clinton administration did

nothing to hamper this decay of bank regulations; instead, Rubin's Treasury pushed the White House to formalize the new banking investment regime by backing GOP deregulatory efforts in the Congress.

Repeal of Glass-Steagall late in 1999 spurred a wave of megabank mergers and enabled them to plunge headlong into the business of buying, securitizing, selling, and trading mortgages and mortgage-backed securities. Indeed, one such merger had already been carried out well before passage of the legislation, the \$72 billion deal which brought together Citibank, the biggest New York bank, and Travelers Group Inc., the huge insurance, brokerage, and financial-services company. The merger was in clear violation of Glass-Steagall, but such was the Wall Street confidence that Congress would repeal the old law that Travelers boss Sanford Weill and Citibank CEO John Reed had no hesitation in concluding negotiations. Repeal of Glass-Steagall in November 1999 was termed the "Citigroup Authorization Act" in some circles. Rubin, who had stepped down as Treasury secretary in July of the same year, had become chair of Citi's executive committee in October.

The only Clinton regulatory official who stood in the way was Brooksley Born, chair of the Commodity Futures Trading Commission. Her defeat and demise are telling. Born warned that the explosion of derivatives that took place in the 1990s created a gigantic moral hazard that was difficult for either government regulators or the banks themselves to measure. Unlike stocks, bonds, and options, no clearinghouse for derivative instrument trades actually existed; without a transparent record, such trades could become a source of dispute, uncertainty, conflicts of interest, and fraud. It was a "black" market. But Born's Cassandra-like warning was vociferously opposed by the Fed's Greenspan, by Rubin, and by Deputy Treasury Secretary Larry Summers. When word got out that Born proposed to issue a "concept paper" urging regulation of derivatives trading, Summers placed a furious call: "I have 13 bankers in my office, and they say if you go forward with this you will cause the worst financial crisis since World War II."

Four months later, in September 1998, the collapse of Long-Term Capital Management, which held a trillion dollars in derivatives,

would seem to have confirmed Born's apprehensions, but she nevertheless remained a near pariah on the Hill, at the Fed, and in the West Wing. At the behest of Rubin and Greenspan, Congress passed a moratorium prohibiting her agency from regulating most derivatives and in the waning days of his administration, Clinton signed the Commodity Futures Modernization Act, which exempted the most financially consequential derivatives from federal regulation. The fuse had been lit for the implosion that would engulf Wall Street and the world just a decade later.

**THE TRAGEDY OF THE** Clinton administration is that none of this was inevitable. Bill Clinton and most "Friends of Bill" were not neoliberals, yet they ended up presiding over a political economy that advanced that ideological and financial project. Their first instincts called for a novel form of managed capitalism, not markets, to revitalize the domestic economy, reform health care and labor relations, and ameliorate the social disruptions engendered by globalized commerce. But they caved before those, within the administration and without, who had a firmer set of ideological prescriptions. This was most notable in the emphasis on deficit reduction, in the seemingly gratuitous decision to drive NAFTA down the throat of a resistant Democratic majority in Congress, and the radical deregulation of financial markets.

The Clintons presided over a generational changing of the governmental guard, but not the emergence of a new social movement or the revitalization of an old one. They thought the solution to U.S. social and economic problems could be a corporatist "win-win," when in fact the answer was closer to "zero-sum." The prosperity that would come in the latter half of the decade was therefore built on a set of fortuitous circumstances without the institutional foundation necessary to make that half-decade of rising living standards capable of withstanding the external shocks and political reverberations that were sure to come in the new century. ■

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