

ECHOES FROM THE GILDED AGE



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In political terms, the little town of Osawatimie, Kansas, has long punched well above its weight. Founded in 1854 by anti-slavery campaigners and the setting, in August 1910, for a momentous populist speech by ex-president Theodore Roosevelt, the town was deliberately chosen last December by President Obama for a key policy speech. Though separated by a century, both speeches expressed a remarkably similar approach to addressing the ills created by economic and political developments during earlier decades.

“One of the chief factors in progress is the destruction of special privilege. The essence of any struggle for healthy liberty has always been, and must always be, to take from some one man or class of men the right to enjoy power, or wealth, or position, or immunity, which has not been earned by service to his or their fellows. That is what you fought for in the Civil War, and that is what we strive for now.”

Ex-US President Theodore Roosevelt
August 1910

Barrack Obama was clearly inspired by Roosevelt’s message and believes that the US should indeed still be striving. The 40 years after the end of the Civil War (1865) witnessed a remarkable transformation of America into the world’s leading economy. However, there was also a distinct downside to the achievements of this so-called ‘Gilded Age.’ The monopolistic policies of mighty trusts such as Standard Oil hampered competition and, as in the period 1981-2007, the benefits of this flowering of innovation and entrepreneurship accrued disproportionately to an extremely wealthy elite. Increasing inequality and poverty generated intense discontent and a sense of unfairness. Roosevelt’s 1910 declaration echoed the views of other reformers, particularly those of the Populist Party. Whilst acknowledging the virtues of wealth generation, he attempted to deal with the iniquities arising from a period of dramatic economic expansion. To this end, he advocated reducing the power of monopolies, together with reforms such as an 8-hour day, unemployment insurance and minimum wages for women, all to be paid for by higher taxes on wealthy citizens. These policies clearly involved the extension of Federal government powers at the expense of the corporate sector, something which the wealthy elite, then as now, viewed as contrary to American values. However, the financial panic in 1907, like its later manifestation a century later was only resolved by government intervention, a fact which revealed the limits of individualism as well as the practical value of government involvement. The 1907 crisis also led directly to the creation of the Federal Reserve in 1913.

The principles of fairness and efficiency resonate as clearly in 2012 as in 1910 (and during the Great Depression of the 1930s). The current era of globalisation, like its predecessor of 1870-1914 has generated great wealth and has been accompanied by significant technological progress and innovation. However, it has also given rise to great excesses (booms and busts) and increasing inequality. In the US, for example, following a series of tax concessions since the early 1980s, the share of total national income enjoyed by the richest 1% of the population had risen from 9% to 23%, a level last seen in 1929. Meanwhile, the ‘middle classes’ have seen their wages stagnate and have suffered from diminishing social mobility. Throughout the industrialised world, public perception of such unfairness, hitherto subdued, has been magnified since 2008 by the ongoing financial and economic crisis. Through often expressed incoherently, recent protests from London to New York have focused on the over-mighty corporate sector, the gap between the incomes of the elite and the so-called middle classes (the 1% versus the other 99%) and (in particular) the role and remuneration of bankers. Much of the blame has been heaped on globalisation and such is the level of discontent with the ‘system’ that the very structure of capitalism is now up for discussion. Even the Financial Times has responded to this sense of unease with its high profile series ‘Capitalism in Crisis’.

“We can either settle for a country where a shrinking number of people do really well while a growing number of Americans barely get by, or we can restore an economy where everyone gets a fair shot, and everyone does their fair share and everyone plays by the same sort of rules.”

US President Barack Obama
State of the Union Address
January 2012

‘If there are sacrifices to be made, and there will be, then it will be for the wealthiest to make them.’

Francois Hollande
French presidential candidate
January 2012

Obama’s State of the Union Address and the recent manifesto of French Socialist presidential candidate Francois Hollande must be seen in the context of forthcoming elections their respective countries. However, there are significant similarities in the direction of policies. Both bemoan rising inequality and are dedicated to using the tax system to reverse it by concessions to the ‘middle classes’ to be paid for by higher tax on the wealthy (‘Buffett’s rule’ in the US).

Both advocate promoting domestic manufacturing as the focus of a new economy and both make protectionist noises (criticism of outsourcing, higher tariffs on imports from countries with poor environmental standards, and the creation of a Trade Enforcement unit in the US to investigate unfair trading practices). Though both criticise the banks, acknowledging their disruptive impact and the need to regulate them more tightly, Hollande goes much further than Obama, calling the world of finance 'a faceless government and my true adversary.' In addition, Hollande has pledged to renegotiate the recently-agreed Eurozone compact, a move which would pitch France directly against Germany and greatly exacerbate the Eurozone crisis.

Both sets of policies make substantial concessions to populist demands, drawing on earlier precedents. Even allowing for rhetorical flourish, Hollande's policy slate is most radical and contrary to the current political consensus. In fact, he appears to be following the contrarian approach initially adopted by President Mitterrand on his accession to power in 1981. This proved unworkable and economically damaging, forcing a humiliating reversal by Mitterrand under pressure from financial markets. In the USA, to a much greater extent than in France, the electorate is deeply divided, with the forces of opposition determined to reverse Obama's alleged adoption of European welfare state policies and prevent him from being in a position to take more radical steps. All leading Republican candidates present the coming election as a 'make or break event' in defence of American values and individual liberty against an over-mighty state. Protests against inequality are dismissed as 'the politics of envy,' whilst the marked recent pick-up in campaign contributions from wealthy Republican backers reveals how far they will go to counter potential threats to their vital interests. Even if Obama is re-elected for a second term, his path is likely to be hampered by a Republican majority in Congress.

The expression of radical intent by Obama and Hollande has been presented as a 'calling into question key elements of the whole globalisation construct into question' (Rachman). The previous era of globalisation was indeed brought to a close, though it took the forces unleashed by the First World War to achieve this. Looking back at other aspects of Theodore Roosevelt's New Nationalist programme, what stands out is the slow progress of its implementation. Republican governments in the 1920s were committed to laissez-faire policies, resulting in a final flourish for the 'gilded age.' President Coolidge declared that the 'business of government was business', an attitude which fuelled the fires which brought about the Great Crash of 1929 and the subsequent Great Depression. Only the collapse of the whole business structure and desperate state of the economy enabled President FD Roosevelt (a distant cousin of Theodore Roosevelt) to further his cousin's policies. Extended state involvement, control of the banking system and greater equality were established forces in America which lasted until the 1980s. Over the second 'gilded age' (1981-2007), Reagan and successive presidents adopted policies which reduced government involvement, favoured capital at the expense of labour and allowed individuals and corporations to engage in wealth generation without regard to the rise in inequality. In this, globalisation, particularly the rapid expansion of Chinese manufacturing, also played a crucial role.

'Politicians need to persuade people that globalisation and free trade are still good, even when they are blamed for higher unemployment and stagnant wages.'

Lord Mandelson

January 2012

The so-called Davos consensus, which emphasises the virtues of globalisation but not its downside, is said to be under siege. Business and governments are clearly aware of the discontent that has arisen as a result of stagnant wages, austerity programmes and diminishing opportunities for employees (particularly the young). The recent tide of protest, though incoherent, has gone much further, turning increasingly towards criticism of the 'system' and the unfairness and inequality it has created. Defenders of globalisation, such as Peter Mandelson, rightly defend its constructive aspects but they are hampered by its association with corporate excesses and inequality. The coming elections in France and the US could have important policy implications. Commentators would do well to study the two Osawatomie speeches and to reflect on the discontents they addressed.

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SOURCES:

P. Augar, The Greed Merchants, H. Brogan, The Penguin History of the United States, Citigroup, The Economist, Financial Times, G. Rachman, Zero-Sum World, The Times, World Economic Forum, Davos.

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