

Superclass: The Global Power Elite and the World They are Making

David Rothkopf talks about his book *Superclass*, April 28, 2008, University of Chicago Center for International Studies

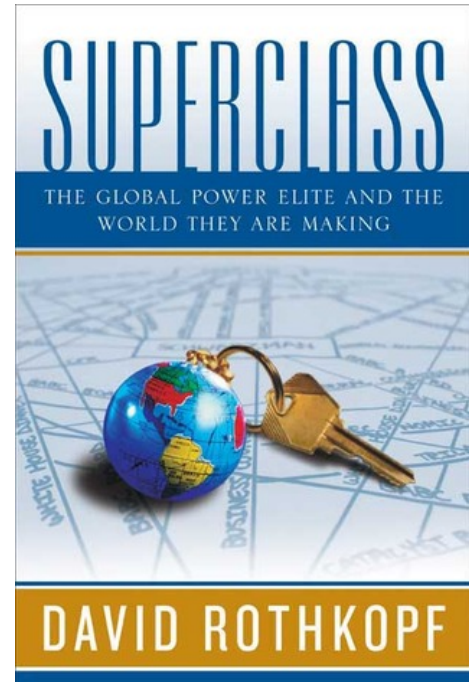
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Let me start by saying this is not one of those books about the richest of the rich. It's not one of those books about how a few people live lives of unimaginable luxury. Some of those people in the book are the richest of the rich and some of them do live those kinds of lives of unimaginable luxury, but this is a book about globalization and it's a book about power and the changing nature of power in the world.

And the real thrust of the book came because when I was doing my last [book] ... *Running the World*, somebody would always stand up in the audience and they would say, "That's the trouble with you people in Washington. You think *you're* running the world." And the book was on how foreign policy was made in the White House, but the title was more or less ironic because I don't actually think the United States or anyone in the United States is running the world. But when the time came to do another book, there'd been so much interest in this particular idea I thought, "well, who *is*, if anybody is? And, how is the power structure of the world changing?"

And I thought back a little bit on a book that I studied when I was in college called *The Power Elite*, which was by a Columbia Professor [C. Wright Mills] ... and the professor looked at the interlocking power structure of the United States in the 1950's. And what he found was that the people who ran the business community, the people who ran the political community, and the people who ran the military – the people who ran other influential communities in the United States – were very very small group.

Many of them knew each other. Many of them came from one group to the next group. There was what he described as an interlocking directorate. Of course when he was writing this book in 1956 at Columbia University, the President of the United States was Dwight Eisenhower, who had previously been the President of Columbia University. And prior to that, had been the Supreme Allied Commander in Europe and so was a perfectly good example of this interlocking directorship. And four years later, Eisenhower would give a speech when he was leaving office on the Military Industrial Complex. And he too saw this coalescing of power.



But what struck me was that if Mills were writing the book today, he'd be writing about a completely different group of people. It's not that there aren't elites in the United States – there clearly are. But the elite of the elite, the most powerful people in the world, are part of a new kind of community. Although there have always been elites in the world, this new community is different from what's happened in the past in a lot of really important ways. Notably, they are a global elite. They are the most globalized community on earth. They are the community that is driving globalization.

But they are different in other ways as well. For example, if you were to look at international elites 30 years ago, what you'd find was that primarily the international marketplace or the international arena was dominated by people from public sectors – people from governments. But today the international elite is dominated by the private sector. In fact, when I looked at this group, 60% of them were from the private sector.

I also found an amazing concentration of power. I mean, really mind-boggling. When Mills wrote the book in 1956, the defense budget of the United States was very big – it was the Cold War – it was so big, in fact, that the defense budget of the United States was greater than the annual sales of every major company in the United States added up. So it gives you a sense of how big companies were relative to the government. Today, the defense budget of the United States is bigger in real dollar terms than it has been in any time since 1944, which is a real achievement when you consider that was during a World War. But it's smaller by 50% than the annual sales of just the two largest companies in the United States: Walmart and Exxon.

Exxon is so big, as a company, that its annual sales are roughly the equivalent of the GDP of the 19th largest country in the world. Its annual profits are bigger than the GDP of Bahrain and Yemen added up together. The biggest companies in the world, because markets seek scale—because that's what you know markets seek efficiency and scale gives you efficiency. The biggest companies – the 250 biggest companies in the world have sales that are the equivalent of one third of global GDP. The 50 biggest financial institutions in the world control 48.5 trillion dollars in assets. One third of all the assets on the planet! So it's very very big big organizations. If you looked at the world and you divided it, you just said I want to take the biggest organizations—and let's use as a rule of thumb, organizations that have annual sales greater than 50 billion dollars a year or GDP great than 50 billion dollars a year—of course, I know that GDP and annual sales are not anything like each other, but it gives you a ... kind of a thumbnail sketch – 106 of them are companies. Sixty of them are countries. In other words, the biggest companies in the world are bigger and economically more powerful than all but a handful of countries in the world. And this has never happened before. ...

This kind of consolidation – this concentration of power – has happened in a lot of other areas as well. It's happened in defense. There are only 30 or 40 countries in the world that have weapons of mass destruction. There are only 20 countries in the world that have missiles. There are only nine or ten, depending on how you're counting, countries in the world that have nuclear weapons. There are only three countries in the world that have air forces with over a thousand

members in them. There is only one country in the world that has the ability to truly wage a global war or war in space. And that country – the country in which you live – spends more money on defense than every other country in the world added up together. Okay? That country's allies in NATO spend 85% of all the money in the world that's being spent on defense. The top ten defense contractors in the world – which are responsible for most of the major defense sales in the world – are all located in NATO.

But you see this concentration everywhere. In religion – there are 4300 religions in the world. The top 20, however, are the only ones with over a million adherents each. There are only 2 with over a billion adherents. And so as you look at this group, you see this kind of 20/80 rule, this Pareto Principle. ... And it's reductive. So, ... within every 20, there's another 20 integral(?). And so there's always a smaller and smaller group that is really in charge.

And when you see it – look at the group of companies that are out there, you see this *strikingly*. Not just in terms of ... those 250 companies or those 50 financial institutions, but if you just take ... the boards of the top five of those 50 companies and the senior management – maybe 70 people. Those 70 people also serve on the boards of 150 of the largest companies in the world and 25 of the largest universities in the world. So it's a very very close-knit community.

And what's happened in the global era, is that that community has gone on to the global stage – particularly the private community – and seen that what differentiates this era from all others is not just the power of this elite, but that there's no countervailing force.

Throughout history – in fact much of history is the story of the rise of the elites, they overreach and then they're offset. In Ancient Greece; I look at it in China; I look at it in the United States in the period of the Robber Barons. In the Robber Baron Period, the John D. Rockefellers of this world rose up. He controlled 90% of the oil market in the United States through Standard Oil, and then Ida Tarbell and Theodore Roosevelt and the other “trust-busters” came in and they said, “We have to break them up.” And there were laws to do that. Because these super empowered Robber Barons were still operating under an umbrella of national sovereignty and there were ways of off-setting them and breaking up their power.

But that doesn't exist on the global stage. They aren't operating under the umbrella of national sovereignty. In fact, many of them have recognized that they operate *over* it. So that companies can now play countries against one another and say I'm not gonna invest in your country – unless you change your laws to suit me, unless you reduce your taxes, unless you make more lax your environmental regulations. And so the whole power balance of the planet has shifted and this group has stepped into the void. They've stepped into that place in the kind of no-states-land of the global economy. And they filled the void with information clusters of people.

And and we've seen – you know you can't think of a better example of how this works than in the recent financial crisis. Recent is probably not the best word – the *current* financial crisis. Because we've just seen the beginning of it, and I think we're going to see over the course of the next year or two successive shock after shock after shock in global financial markets. And

we can get to that – we can talk about that at the end if you want to but what happened was the global financial elite said, “Hey look, we want to operate on this global stage without all these regulations. We’ll self-regulate.”

And you know [this] is kind of interesting since if you ask one of these people to get into self-regulating taxi cab or brush their teeth with self-regulating toothpaste, they wouldn’t think of doing it. But they said, “No, we’re better than that. Let us go out there and we’ll self-regulate.” And there has been this profusion of markets in all sorts of new kinds of complicated securities. Where the risk is so hard to identify, in fact in derivatives markets, which are 30 to 40 *trillion* dollars by the most conservative estimate. You can’t even tell who the counterparty is in the deal. So you can’t know what the risk is in the deal. Which is what the minimum requirement for any investor ought to be. But there’s been this profusion – and mortgage-backed securities were a big part of this thing...

But the real demonstration of the of the power of this group came when first they were able to shrug off national governments getting too into the regulation of these global markets and then when there was a crisis, they were able to pick up the phone and get the national governments to come in and start cauterizing the wound of investment banks long before they were doing anything substantive for people who actually owned homes. And the argument was, “well this is a systemic risk.” But it’s the same system. At one end of the system are people taking out mortgages on their homes and on the other end, there are people who have packaged them together and are trading components of them. But they had the power to say, “stay out,” and then the power to go to people who didn’t regulate them, who had no actual responsibility for them, and say, “help us out, here!”

Interestingly, the even greater power comes when you look at how the system was managed during the crisis. Tim Geithner, who I talked to, who I knew in the Clinton administration, is the president of the New York Fed. And he said, “My greatest power at this point, because you know governments don’t have that much cash to go into markets and stop the bleeding of a big market when there’s trillions and trillions and trillions of dollars going through it everyday, is convening power.” So he has a conference room down the hall. And he gets together representatives of the 14 biggest financial institutions—and in fact Lloyd Blankfein the CEO of Goldman Sachs calls them the 14 families in a kind of whimsical reference to The Godfather ... I don’t know if you find that as funny as he might have. But but you know they get these people together and they say, “Look, we need your help. Collaborate with us.”

Governments have to ask the big financial institutions to collaborate in order to solve a crisis like this. They can’t tell them to. They can’t intervene. They don’t have authority. You know, governments are like your dog in your yard with the invisible fence. You know, every time they get to the border, they start to yelp because ... sovereignty only goes so far. And so you end up in a situation where the private sector is able to set the rules, influence the outcome, and you know I haven’t even gotten into the ability of people in these institutions to influence politics.

We in the United States live in the most perverse political system in the world in some respects, because it's so dependent on money. I mean, it's great to turn on the TV and read about the Indiana primary or read about the North Carolina primary, but you don't get to *be* in those primaries unless in 2007 you won the money primary. You were viewed by people as being credible. Even the Barack Obama campaign and other campaigns that use grassroots funding can't play the game unless they've got big bundlers and people bringing cash in. They've got to go to the same people and ask for their advice.

You also see the revolving door phenomenon that Mills talked about in spades in *this* world. The Treasury Secretary of the United States who presided over this – Hank Paulson, very sophisticated guy – was the CEO of Goldman Sachs. His predecessor as the CEO of Goldman Sachs was the Chief Economic Advisor to George Bush. *His* predecessor as the CEO of Goldman Sachs was the Chief Economic Advisor to Bill Clinton *and* the Secretary of the Treasury. *His* predecessor, who was an underachiever, was just the Senator from New Jersey and then the Governor of New Jersey. Another former Goldman Sachs alum is now the president of the World Bank. The list goes on and on and on. There is a very very small community – and every ex-Treasury Secretary of the United States right now is serving on a board of a hedge fund. I mean, you want to talk about concentration of power? 30 – 50% of all equity trading in the world is controlled by 10,000 hedge funds. But 85% of all the assets of those 10,000 hedge funds are controlled by 300 hedge funds. And 60% are controlled by 100 hedge funds. So there is a tiny tiny group that really is dominating how markets move.

Is that power beyond economics? Well, sure it is. Because how do CEO's get paid? CEO's get paid based on the return their stocks make. And the return their stocks make is based on this trading. Which is left to a tiny group of people. And we've seen the interlocking nature of the leadership in the business community.

And so you've got this remarkable period in which for the first time in history elites have floated above national sovereignty and they're out in a space where there's no countervailing force. And they're able to use their influence to move us more and more in a variety of directions.

(Transcribed for Catalyst Project by Sara Kerastas)