'Transaction Man' explains how finance capitalism became pervasive

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By Glenn C. Altschuler

Americans, the philosopher John Dewey observed, find it difficult to abandon their faith “in some wholesale belief. We continually reason as if the difficulty were in the particular system that has failed and as if we were on the point of now finally hitting upon one that is true as all the others were false.”

In “Transaction Man: The Rise of the Deal and the Decline of the American Dream,” Nicholas Lemann (a staff writer at The New Yorker, a professor at Columbia University’s Graduate School of Journalism and the author of, among other books, “The Big Test: The Secret History of the American Meritocracy”) applies John Dewey’s insight to a “succession of grand conceptions” during the past century for how to organize the economy of the United States to produce a good society.

Focusing on three relatively unknown visionaries — New Dealer Adolf Berle, Harvard Business School economist Michael Jensen, and LinkedIn founder Reid Hoffman — Mr. Lemann assesses the efficacy of their all-inclusive theories: government regulation of large corporations; market-driven, transaction-based finance capitalism; and a “networked” society of “uncollared workers,” in which conventional business organizations become extinct.

These days, Mr. Lemann argues, the transactional mentality is so pervasive and faith in core institutions has declined so precipitously that solutions relying on government bureaucracies, private corporations or established interest groups cannot get traction. “In the manner of someone who thinks the cure for a hangover is another drink,” Mr. Lemann writes, Americans continue to embrace “innovation, disruption, destructuring and individualizing.”

Filled with fascinating details about the lives of small-town automobile dealers, hardworking inhabitants of a working-class neighborhood in Chicago, and derivatives traders, as well as consequential policies and policymakers, “Transaction Man” is an informative account of the forces that have transformed the economy and society of the United States.

Using ideas he helped develop, Mr. Lemann indicates, Mr. Jensen, an arrogant man unable to get along with people in his personal or professional life, became the leading public advocate for and justified of the techniques — mergers and acquisitions, including hostile takeovers, leveraged buyouts, and private equity as ways in which formerly public held companies could be acquired; and enormous increases in CEO compensation — that have
enabled finance capitalism to dominate economies throughout the world. According to Mr. Jensen, debt was healthy; it created “a crisis atmosphere” in which managers were forced to shrink bloated staffs and overhead, eliminate unsound investments, and get rid of assets more valuable outside the company.

In the 2000s, we learn, Mr. Jensen became taken with the philosophy of Werner Erhard, the founder of human-potential movement est, tried to give up “being an [expletive]” and had second thoughts about Wall Street. Markets weren’t always rational, he now claimed; finance capitalists created malign incentives for corporate executives to misrepresent the conditions of their companies. No longer convinced that behavior could be altered by changing incentives, Mr. Jensen advocated bringing about a benign revolution by changing who people were — by getting them “into integrity.” He wasn’t surprised by the Great Recession of 2008, but, Mr. Lemann implies, it was too late.

“Transaction Man” is distinguished more by Mr. Lemann’s engaging and, at times, surprising stories about his well-chosen cast of characters than by the originality of his analysis. This conclusion applies as well to his discussion of the weakening of support for national government management of the economy in the last quarter of the 20th century. And to Mr. Lemann’s chapter on the shift “from awestruck admiration of the big new internet network companies to resentment and suspicion” accompanying a recognition that the benefits of the new system “belong mostly to the companies themselves and not the users of their products,” who are experiencing fewer conventional jobs, less job security, and fewer benefits in the “gig” economy, as well as a loss of privacy.

Having laid out the failures of these “grand conceptions,” Mr. Lemann proposes pluralism, a process in which organized interest groups contend for power, and “no one, good or bad, ever gains control,” as a better “master concept.” He acknowledges that well-financed interests tend to get what they want and that petty but passionately held concerns often trump efforts to address concerns like climate change. He claims, however, that when progress is made interest groups have usually been involved — that coalition building is better than individual “transactions.” He might be right, but getting there won’t be easy.

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