

The Politics of Association: Ayers v. Kravis

By Max Holland

In a recent column in *The New York Times*, "[The Testing Time](#)," David Brooks argued that the presidential candidates ought to be expounding on how to stabilize global capital flows rather than engaging in nasty, guilt-by-association advertisements.

Tut-tutting is what Brooks is paid to do. Political practitioners, as opposed to lofty columnists, know better than to discard two of the most potent tools in their arsenal: guilt by association, and its opposite, honor by association. The connection may be misleading or fallacious, but few tactics are more powerful than associating a candidate with another human face that is widely reviled or esteemed. In this manner complex issues can be rendered instantly comprehensible.

And if the company a candidate keeps is one of the best ways to frame the choices in an campaign, a case can be made that the 2008 election figuratively pits an education professor named [Bill Ayers](#) (born 1944) against a Wall Street financier named [Henry Kravis](#) (also born 1944). Barack Obama [can be tied to Ayers](#) primarily because they served together on several boards back when the Democratic nominee was a community organizer in Chicago. And John McCain is linked to Henry Kravis because Kravis is one of the [largest individual contributors](#) and "[bundlers](#)" to the GOP nominee's campaign. The contest of Ayres v. Kravis will have a lot to do with whether Obama or McCain prevails in the November election.

Until recently, Obama only engaged in high-road association politics: presenting himself as Camelot's heir and seeking to keep McCain joined at the hip with George W. Bush, who will probably go down as the most unpopular president in modern history, befitting his standing as the worst. McCain, meanwhile, left association politics to surrogates so long as the race was tight and the conversation revolved around national security and Obama's relative inexperience. But now that the panic of '08 has put McCain's back against the wall, the GOP nominee has [dropped the pretense](#) of having others raise the Obama-Ayers connection. Obama has started to respond in kind, and will probably do more if McCain's new tack shows evidence of working.

If McCain somehow manages to turn the election into a referendum about [Obama's association](#) with Bill Ayers and a Weatherman's '60s disregard for capitalism, the Democrats' chances of re-taking the White House shrink. If Obama is able to maintain the focus on the Republicans' free-market fetish and disregard for capital, McCain is likely to be swept away.

Ayers's Disregard for Capitalism

Anyone who was politically sentient in the 1960s will recognize why an association with Ayers is fraught with danger for Obama. Ayers embodies the toxic, infantile politics of the decade baby boomers came of age. Like so many self-styled revolutionaries, Ayers was a son of privilege—his father would become CEO of Commonwealth Edison, the largest electric utility in Illinois—who presumed to know and speak for the working class and America's oppressed.

It is mind-boggling to re-read the sanctimonious and lefter-than-thou crap Ayers and his Weather Underground comrades, who never numbered more than a few hundred, labored over. The avowed goal of the Weathermen (who spontaneously took their name from a Bob Dylan lyric) was “a classless world,” meaning nothing less than the destruction of “pig Amerika's” capitalist, imperialist society.

“We are within the heartland of a world-wide monster The US empire . . . channels wealth, based upon the labor and resources of the rest of the world, into the United States,” read one declaration in June 1969. “[A]ll of the Holiday Inns, all of Hertz's automobiles, your television set, car, and wardrobe already belong, to a large degree, to the people of the rest of the world.”[\[1\]](#)

The Vietnam War underscored to the Weathermen that the United States was the moral equivalent of Nazi Germany, and thus the most extreme measures were justified in a state run by war criminals such as Lyndon Johnson and Richard Nixon. “Militancy was the standard by which we measured our aliveness,” as Ayers later put it.[\[2\]](#) In retrospect, it's hard to decide whether Ayers and his ilk were demented or delusional. But they were clearly narcissistic and odious.

If it were just a matter of a few radicals setting off bombs while vilifying “Amerika,” the Weather Underground would have been forgotten a long time ago. But stripped of the perverse rhetoric, the Weather mentality of denigrating the state, if not America itself, became a staple within an influential faction of the Democratic Party—what Republicans would gleefully seize upon as a “blame America first” mentality. This view alienated a large portion of the New Deal electoral coalition, mainly working-class whites, and brought about the eclipse of liberalism with its hard-won notions about the state's role in providing for the common welfare and America's role abroad.

It was no fluke that save for Jimmy Carter, who rode to the White House because of Watergate, Americans never again trusted a Democrat to be president during the cold war. Meanwhile, the party itself degenerated into a “progressive” faction, dominated by identity politics and ruled by race-hustlers like Jesse Jackson, and a business-dominated wing, all but indistinguishable from the Republican Party. Connecticut Senator Christopher Dodd is a case in point. With respect to the over-arching issues behind the crash of '08, there isn't a dime's worth of difference between how Dodd addressed them

during his 26-year-long tenure on the Senate Banking Committee and what a free-market ideologue would have done in his place. (Although that hasn't stopped Dodd from hypocritically presenting himself now as the people's tribune, and demanding that "American taxpayers deserve to know how we arrived at this moment.")^[3]

By claiming that Obama "pals around" with a founder of the Weather Underground like Ayres, John McCain isn't just trying to smear the Democratic nominee by tying him to a confessed bomber from the '60s. McCain is striving to remind the electorate that Obama is the scion of a political party that lost its way 40 years ago when it culturally abandoned the middle class and public sphere once championed by the New Deal.

Ayres's Opposite Number

So far, Obama's dip into negative association politics has been limited to highlighting the GOP nominee's links to Phil Gramm, the former Texas senator and free-market fundamentalist who is co-chairman of the McCain campaign, and Charles Keating, the disgraced former savings & loan executive who once sought favors from the Arizona senator.

Yet Keating, in retrospect, was simply your garden-variety businessman seeking special treatment. A true parallel to Ayres and his disregard for capitalism would be Henry Kravis and his disregard for capital, if a single person can be said to personify the transmogrification of the American economy over the last 30 years. Ivan Boesky, [Michael Milken](#), Kenneth Lay, Jeffrey Skilling, and, perhaps most recently, Lehman Brothers' Richard Fuld have all laid passing claim to being the poster boy for what has rightly been called "The New Gilded Age." Yet the problem has not been what is illegal, beyond the pale, and shunned. The problem has been what is legal, celebrated, and emulated. Here only Kravis has demonstrated true staying power.

From its very modest beginnings in 1976, Kravis's firm, [Kohlberg Kravis Roberts \(KKR\)](#) has exploited market fundamentalism to erect a private empire fueled by the substitution of tax-deductible debt for capital. Today, KKR's holdings make it one of the largest, US-based private employers in the world, second only to Wal-Mart, according to a report compiled by the Service Employees International Union. And at the top of this pyramid of preemptive indebtedness and self-serving equity sits Kravis, who in a given year can earn [\\$51,369](#) *an hour every hour of every day* for overseeing it all.^[4]

In all likelihood, market fundamentalism would not have become dominant but for the Democrats' demoralization. But that crackup, together with the economic malaise of the '70s, paved the way for idolatry of a supposed free market, unfettered by a meddling federal government. This ideology, which became firmly embedded during the Reagan presidency, inexorably led to a concentration of wealth and political power not seen at the very top since the turn of the 19th century. The "pattern of income growth in the past three decades has differed sharply from the pattern in the first half of the post-war era,"

as Princeton Professor Larry Bartels noted in a recent book, *Unequal Democracy*, and America has become vastly more unequal as a result.^[5] Or as a 2005 New York Times article put it, “The hyper-rich have emerged in the last three decades as the biggest winners in a remarkable transformation of the American economy.”^[6]

The New Gilded Age’s malefactors of great wealth, to borrow Theodore Roosevelt’s phrase, took different paths to amassing their fortunes. The one quality they had in common, however, was financial engineering. Kravis’s preferred technique was the [leveraged buyout \(LBO\)](#), which turned the buying of corporations into something very similar to the purchase of a house: with almost no money down, KKR and a small group of equity investors could capture control of virtually any corporation and turn it private. Cash flow was then diverted to paying down the mortgage, until the “[pot of gold](#)” was within sight—the moment when the company could go public again, and reward equity investors with a windfall profit. The social and economic benefits of LBOs have been next to nil compared to the stratospheric returns such transactions have generated for KKR, its investors, commercial/investment bankers, CEOs, accountants, and the law firms that draw up the documents. LBOs were accounting for almost 1/3 of all corporate merger and acquisition activity until the market meltdown.

Washington not only failed to act during three decades of finance capitalism, but has been in complete thrall to the likes of Kravis. At only one point, in 1988-89, when the greed became appallingly evident during Kravis’s buyout of RJR/Nabisco, was there something approaching public pressure on Congress and the Executive Branch to act. It was promptly and easily beaten back by a flood of Wall Street lobbyists combined with congressional Democrats’ indifference, if not complicity with a first Bush administration that was [indebted to buyout artists](#) like Kravis. Much more recently, in the summer of 2007, a proposal was made to close one of the tax loopholes that buyout firms like KKR exploit.^[7] The Democrat-controlled Congress beat a hasty retreat after a protest [led by Kravis](#) and other financial engineers, with Senators [Dodd](#) and [Charles Schumer](#) (D-New York) leading the way.

As recently as the summer of ’07, Kravis was proclaiming that firms like KKR had entered a “[golden age](#).” The frenzy to participate in LBOs had never been higher, as banks competed fiercely for a slice of the lucrative buyout business, leading to ever-lower standards for leverage. Within weeks tremors began to be felt in the financial markets, the credit squeeze followed, and suddenly, the Wall Street orgy that seemed like it would never end turned into a nerve-racking game of musical chairs, with everyone diving for the safe seats. The market for new LBO mega-deals, which KKR must continually engineer to satisfy its investors, has been frozen since the spring. And last month KKR reported a \$1.1 billion loss for the first six months of 2008, “as it was forced to writedown many of its biggest buy-outs,” according to the *Financial Times*.^[8]

The panic brought about by finance capitalism has reproved that the critical balance between fiduciary responsibility and entrepreneurial drive in the financial markets is “virtually impossible in the absence of government supervision and regulation,” as the noted economist Henry Kaufman has written.^[9] An unregulated financial market

inexorably leads to the excessive use of leverage by a few, which is a recipe for economic disaster for the many. Whether the worst meltdown since the Great Depression will be sufficient to break the stranglehold of free market ideology, however, is another matter. But there is no doubt Kravis will be leading and funding the fight to impede federal oversight and regulation when a new administration takes office next January.

Ayers v. Kravis

The course of the financial crisis over the next three weeks will determine which association proves stronger. Still, there are some distinctions within the associations that might come into play.

The behavior for which Ayers is rightly condemned took place when Obama was 8 years old. Though Ayers never paid his debt to society (the case against Ayers was dropped because of government misconduct), the most Obama can be reasonably accused of is having had a passing relationship with a former radical more than three decades after Ayers committed his last violent act. In contrast, it will be virtually impossible for John McCain to distance himself from Kravis's disregard for capital. The free market idolatry that gave rise to the New Gilded Age is the woof and warp of the Republican Party, now nearly devoid of the kind of moderates and liberals who acknowledged the irreplaceable role of the federal government in the economy.

In addition, the unreconstructed Ayers represents a distant opportunity cost at most for a majority of Americans. The late '60s may still reverberate for a large chunk of the electorate, but how different things might be today absent the Democrats' crack-up is an entirely hypothetical issue. Meanwhile, the brutal reckoning from 30 years of neo-*laissez faire* is a clear and present danger to the living standards of virtually every American. The profits were privatized, and reserved primarily for 1 percent of Americans, and now the costs are going to be socialized.

Even if Obama's association with Ayers is frowned upon, only the most hysterical observers would claim that Obama is some kind of stalking horse for a radical takeover of America, and that elevating Obama to the White House means that Ayers will soon follow. Ayers has no role in Obama's campaign, and the two men have not had a serious conversation since Obama became a US senator in 2005. But if a McCain administration were to take office, there is no doubt that Kravis's voice will be privileged in the highest councils of the administration, as it has been since George Bush the first. McCain's sudden conversion to populist rhetoric and discovery of greed on Wall Street will not outlast the campaign. Kravis does not invest heavily in a politician without expecting a superior return. That is true of all his equity bets.

There is one other distinction between Ayers and Kravis.

Washington Decoded

Ayers, as he insists on telling anyone who will listen, says the Weather Underground never bombed a government installation (which he calls a “[dramatic form of armed propaganda](#)”) without phoning in a warning, so that all the damage would be to property and not persons.

Kravis didn’t call ahead.

So who is the real radical?

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[1] Jeremy Varon, *Bringing the War Home: The Weather Underground, the Red Army Faction, and Revolutionary Violence in the Sixties and Seventies* (Berkeley, California: University of California Press, 2004), 50, 89.

[2] *Ibid.*, 87.

[3] “[Dodd and Countrywide](#),” *Wall Street Journal*, 10 October 2008.

[4] Andrew Ross Sorkin, “[A Movie and Protesters Single Out Henry Kravis](#),” *New York Times*, 6 December 2007; [Service Employees International Union](#), “[Winners and Losers: Fallout from KKR’s Race for Profit](#),” 6. As economist Henry Kaufman noted about the decapitalization of business via LBOs, “corporate debt never can be a full substitute for equity. Because debt entails defined corporate obligations of interest payments and repayment schedules, it is a preemptive factor in corporate cash flow that may limit management flexibility. The abuse of the debt-creation process contributes to corporate failures; and for society as a whole it increases the risk of eroding the essence of economic democracy.” Henry Kaufman, *On Money and Markets: A Wall Street Memoir* (New York: McGraw-Hill, 2000), 349.

[5] From the late 1950s to 2005, the share of total income going to the top 0.1 percent of income-earners more than tripled, from 3.2 percent to 10.9 percent. Meanwhile, the share of total income going to the top 1 percent of income-earners—a much larger, but still very affluent group—more than doubled, from 10.2 percent to 21.8 percent. Larry M. Bartels, *Unequal Democracy: The Political Economy of the New Gilded Age* (Princeton, NJ: Princeton University Press, 2008), 1, 8.

[6] David Cay Johnston, “[Richest Are Leaving Even the Rich Far Behind](#),” *New York Times*, 5 June 2005.

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[7] Andrew Ross Sorkin, "[A Professor's Word on Buyout Tax Battle](#)," *New York Times*, 3 October 2007.

[8] Sundeep Tucker and Martin Arnold, "[UK Private Equity Chief Hits Out At Pay](#)," *Financial Times*, 24 September 2008.

[9] Kaufman, *On Money and Markets*, 242.