polish 2(174)'11
sociological
review
ISSN 1231 – 1413

JANINE R. WEDEL
George Mason University

Beyond Conflict of Interest: Shadow Elites and the Challenge to Democracy and the Free Market*

Abstract: A new breed of power broker debuted with the diffusion of global authority, the growth of privatization, and new information technologies in the late twentieth and early twenty-first centuries. The success of these "shadow elites" stems from their ability to break new ground with regard to conflict of interest. They conflate official and private interests without violating the law. They test *both* governments' rules of accountability and businesses' codes of competition. Moving nimbly between official and private spheres, and sometimes erasing the distinction, these players can wield more power and influence than lobbyists, interest groups, "kitchen cabinets," and other influencers in democratic society. Largely beyond public input, they challenge the principles that have defined modern states, free markets, and democracy itself. Conventional categories are ill-suited to describe these operators and conventional means of holding them to account are also ill-equipped to do so.

Keywords: Conflict of interest; accountability; democracy; free market; shadow elite; power; influence

Introduction

"There is no conflict of interest, because we define the interest."

A new breed of power broker has come to prominence. The success of these power brokers is due to their ability to break new ground with regard to conflict of interest. They conflate official and private interests without violating the law. They pose a double threat, testing *both* governments' rules of accountability and businesses' codes of competition—and thereby challenge principles that have defined modern states, free markets, and democracy itself.

These "shadow elites" are the chief protagonists in a new system of power and influence that debuted with the diffusion of global authority, the growth of privatization, and new information technologies in the late twentieth and early twenty-first centuries (Wedel 2009: Chapter 2). Shadow elites have ushered in a whole new world of challenge as they make, shape, and pronounce on public decisions in fields from national security and foreign policy to science, health, and the environment to finance and the economy. Moving nimbly between official and private spheres, and sometimes erasing the distinction, these players can wield more power and influence than

* Acknowledgement: I wish to thank Andrzej Zybertowicz, Piotr Stankiewicz, and the participants in the Toruń workshop for stimulating this article and for their very helpful comments on it.

lobbyists, interest groups, "kitchen cabinets," or other standard bearers of influence in democratic society.

The new breed of power broker is able to play such a big role in public decisions because they are today entrusted with information (and roles and responsibilities) that once would have been in the hands of governmental or international authorities. The developments mentioned above have delivered huge amounts of official information into their hands. And, while supposedly working on behalf of those authorities, as, say, consultants, they can acquire information and use it for their own purposes, escaping notice in the process.

I first became aware of the potential of unofficial information to power and shape formal institutions as a young social anthropologist in Poland under martial law in the early- to mid-1980s. It was an environment of shortage and distrust of the state. With official information widely discredited, the most important asset was word-of-mouth information, which could not be gleaned without trusted sources who could point to who, how, and where. To obtain scarce information, resources, and privileges, people mobilized semi-closed networks in and outside of formal (economic and bureaucratic) institutions. "Dirty togetherness," a sociologist's reference to the cliquishness and close-knit networks of family, friends and other trusted associates (Podgorecki 1987: 57–78), enabled survival.

As the region's communist regimes collapsed in 1989 and the Soviet Union broke apart in 1991, a dirtier togetherness took hold among well-placed operators—now not merely to survive but to thrive.[1] The unraveling of state control, combined with the privatization of many state-owned national resources (aided by Western models, sponsors and consultants) presented ideal conditions for long-standing informal groups to move in and both substitute for and transfigure official structures. Groups, known, for instance, as "institutional nomads" in Poland (Kamiński and Kurczewska 1994: 132–153) and "clans" in Russia and Ukraine (e.g., Kosals 2006: 1–36, Kosals 2007:67–85; Kryshtanovskaya 1997a, 1997b, Kryshtanovskaya and White 1996, Soskin 1999, Turchynov 1996, Wedel 2001: Chapters 3 and 4) positioned their members at the state–private nexus, rose to fill leadership vacuums, and sometimes acquired state-owned wealth at firesale prices. They governed via close-knit networks snaking through state and private organizations and venues, virtually closed to democratic process.

While such governing is obviously much more intense in states moving rapidly away from central planning than in stable democracies such as the United States, another variant has been evolving in the United States, albeit more gradually. The reconfiguring of the balance between state and private interests, combined with a hollowing out of the regulatory and monitoring functions of the state, have created new opportunities for players to shape public policy agendas in pursuit of their own interests—employing ways and means not altogether dissimilar from those I ob-

[1] The principle operating here is this: When a centrally planned state that had owned virtually all the property, companies, and wealth breaks down (and no authoritarian stand-in is put in its place), a network–based mode of governing and business arises to loosely replace it. The state-private nexus becomes the epicenter of governance and policy activity (e.g., Wedel 2009: Chapter 3).

served in Central and Eastern Europe in the 1990s and beyond. The new breed of operators—shadow elites—have been observed in the United States, as well as much more widely.

Although the shadow elite phenomenon has sweeping implications, it defies description in conventional terms. Conventional social science frameworks, from "interest groups" and "lobbyists" to "state vs. private" are ill-suited to describe the new breed of players, much less their innovations at the state-private nexus. Conventional means of holding these peripatetic players to account are equally ill-equipped to do so, and they are largely beyond public input.

This paper aims to: (1) outline the transformational developments that gave rise to shadow elites; (2) illustrate the shadow elite *modus operandi* that defines the new power brokers and differentiates them from those of the past; and (3) note their implications for democracy. My thinking has been shaped by my observation of communist and post-communist environments. In fact, Central and Eastern Europe has proved an ideal training ground for examining governing, power, and influence in the United States and beyond.

The Evolution of the System[2]

The collapse of communist regimes and "command economies" helped usher in the new system of power and influence that arose in the late twentieth and early twenty-first centuries. The new system is the product of an unprecedented confluence of four transformational developments.

The first is *the redesign of governing*, spawned by the rising tide of government outsourcing and deregulation under the "neoliberal" regimes of Reagan and Thatcher in the early 1980s.[3] These administrations promoted privatization, deregulation, outsourcing, and free trade. As these prescriptions were being advanced around the world by the international financial institutions, the communist regimes of Eastern Europe collapsed in 1989.

The subsequent *end of the Cold War*—of relations dominated by two competing alliances—became the second driving development in the reconfiguring world. The end of the Cold War intensified the first development and opened up new, sparsely governed, arenas on a global scale. New playing fields without rules and referees—or sham ones—offered profitable targets for all manner of players that thrive on ambiguous borders. Self-organizing networks and entities surged, ranging from borders

[2] For further detail and supporting documentation, see Wedel 2009: 23–45, 73–109.

[3] Streamlining the state is part of a grab bag of ideas and policies often referred to as "neoliberalism," a term I employ sparingly because it can describe considerably different policies, not to mention differing local adaptations to them. Geographer Wendy Lerner (Lerner 2007) notes that "neoliberalism" is used to explain a diversity of political projects across the global North and South—from welfare state restructuring to structural adjustment programs. Lerner observes that "neoliberalism doesn't necessarily travel in the directions we assume, take on the forms we expect, or have the consequences we expect." She clarifies that, while neoliberalism should not be confused with "neoconservatism" (a movement that began in the United States roughly four decades ago), neoliberal and neoconservative concepts are sometimes intertwined.

controlled by smugglers and corrupt officials; to human rights policies set by transnational networks; to commerce regulated by money launderers and financial sectors organized by wizards of finance.

The third transformational development is *the advent of evermore complex technologies*, especially information and communication technologies. These technologies lend themselves to new forms of power and influence that are neither bureaucratic nor centralized in traditional ways, nor are they generally responsive to traditional means of accountability (e.g., Rycroft and Kash 1999).

The fourth transformational development—the *embrace of truthiness*—was made possible by these new information technologies and related changes in media ownership and structure. The term "truthiness," coined by comedian Steven Colbert, is defined as "the quality of preferring concepts or facts one wishes to be true rather than those known to be true" (Colbert 2006).[4] Frank Rich, the *New York Times* columnist, has traced the origins of truthiness to the mid-1990s "when you simultaneously had the rise of the cable-news networks and the rise of the Internet, the rise of networks covering finance and Court TV—this whole apparatus that's in place now" (Rich cited in Peyser 2006).

Performing, as in theater, is required in today's public sphere; the "substance" is often more in the performance than in what is said. Truthiness allows people to play with how they present themselves to the world, regardless of fact or track record. And they often get away with it. Appearances of the moment have become all important. As comic Jon Stewart quipped: "You cannot, in today's world, judge a book by its contents." For in a truth-is-what-you-make-it, rather than fact-based, world, the "reality" of the moment trumps empirical facts.

The interaction of these four transformational developments provides ample opportunities for shadow elites to weave new institutional forms of power and influence, in which official and private power are interdependent and even reinforce each other. It allows them to do so with minimal public input or even notice.

* * *

The fruits of these transformational developments are manifested in federal governing and policy in the United States today. There, a new era of blurred boundaries is marked by the growth of "shadow government,"[5] including a great upsurge in the contracting out of crucial government functions, and a proliferation of quasi-government organizations and advisory boards, among other developments.

---

[4] Stephen Colbert's concept of "truthiness" bears some similarity to the French philosopher Jean Baudrillard's notion of "simulacra" (Baudrillard 1995). Baudrillard argues that today's society is constructed around "simulacra," which (then) become reality. Simulation, unlike pretense, and like "truthiness," produces real intuitive feelings, emotions, or symptoms in someone, and, therefore, blurs the difference between the "real" and "imaginary." The connection between simulacra and truthiness has been made by several other scholars. See, for example, Rubenstein 2008: 12.

[5] *Shadow Government* is the title of a 1976 book by Guttman and Willner.

With regard to shadow government, today three-quarters of people working for federal government are directly employed by private companies (Light 2008a).[6] The outsourcing of many government *functions* is now routine (Verkuil 2007, Wedel 2009: Chapter 4). These are functions deemed so integral to government that only federal employees should carry them out. Yet contractors run intelligence operations, control crucial data bases, choose and oversee other contractors, and draft official documents. Government bailouts and stimulus packages are managed and overseen by contactor firms that can hardly be said to be disinterested. In report after report, government investigators have raised questions about who really sets policy and whether government has the information, expertise, institutional memory, and personnel to manage contractors (or is it the other way around?).[7]

Just as government information and authority have been fragmented through the contracting out of its functions, institutions such as the Foreign Service, whose members serve at U.S. diplomatic missions around the world, and other well-established modes of representation have weakened, while the use of special envoys and quasi-official consultative bodies has proliferated. Quasi-government organizations—"federally related entities that possess legal characteristics of both the governmental and private sectors"—"have grown in number, size, and importance in recent decades" (Moe and Kosar 2005: D1).[8]

Quasi-government entities with ambiguous status, as I learned in Central and Eastern Europe, can serve as vehicles through which private interests direct state resources and functions, thereby enlarging the unaccountable use of state power and resources. When such bodies proliferate, an unaccountable state sphere expands (Kamiński 1996, Kamiński 1997, Wedel 2004a: 221–29).

---

[6] In 2008 Light calculated that the contract workforce consisted of upwards of 7.6 million employees, or "three contractors for every federal employee" (Light 2008a).

Light compiles the most reliable available figures on contractors. The number of contract workers as compared with civil servants, uniformed military personnel, and postal service employees increased steadily over the last two decades. In 1990 roughly three of every five employees in the total federal labor force (including contractors) worked indirectly for government—in jobs created by contracts and grants, as opposed to jobs performed by civil servants, uniformed military personnel, and postal service workers. By 2002, two of every three employees in the federal labor force worked indirectly for government and, by 2008, the number was three out of four (Light 1999).

[7] Many such investigations have been conducted by the Government Accountability Office (GAO), the U.S. government body charged with monitoring how taxpayer dollars are spent, and by inspectors general of specific government agencies. To offer but one example, the huge government contractor SAIC suggested the idea of a biosurveilance shop in a study it conducted for the Department of Homeland Security. The agency subsequently bought the idea of such an operation, decided to contract it out, and awarded SAIC the contract (O'Harrow 2007).

In addition to the virtual outsourcing of policy work, the explicit outsourcing of information operations is increasingly the norm. Three-quarters of information technologies are contracted out, including systems integration, almost always an inherently governmental function. (The three-quarters estimate, by the market research firm INPUT in Chantilly, Virginia, was reported in *Government Executive* 2003. The Acquisition Advisory Panel, a government-mandated, typically contractor-friendly task force made up of representatives from industry, government, and academe, similarly assesses that "Most, if not all, agencies have contracted out major portions of their information technology and communications functions" [Acquisition Advisory Panel 2007: 399].)

[8] Former Vice-President Dick Cheney's Energy Task Force and former First Lady Hillary Rodham Clinton's Health Task Force are examples of such boards.

With so much governing *outside* government, crucial decisions affecting the public are increasingly made in consulting firms and boardrooms, as well as in nongovernmental organizations (NGOs) such as think tanks. The blending and blurring of institutional missions and relationships among government, business, think tanks, and even media is a signature feature of governing and policy today, making transparency more difficult. More opportunities are available for actors and entities, often as guardians of (or entrusted with) official information and public policy, to surge beyond standard roles and responsibilities. They can pursue—and consolidate—their own private interests, rather than those of the public, and do so unnoticed. Shadow elites use these opportunities to the nth degree.

The intensification of executive power in the United States after the end of the Cold War (e.g., Howell 2007: 267–382, Pfiffner 2007a, Pfiffner 2008) provides yet another favorable condition for the consolidation of power. Shadow elites position themselves for maximum efficiency—both to take advantage of a fragmented system and to benefit from centralized power.

Shadow Elites

To understand the most crucial drivers of change in transitional Central and Eastern Europe one has to look beyond formal institutions like government agencies, political parties, or NGOs. For power and influence resided not in these organizations, but in the players and social networks that operated in, around, and among them. This is not altogether different from the operations of shadow elites in the United States.

Shadow elites operate either as individuals, whom I call "flexians," or as part of a longstanding, exclusive group, a "flex net." These players, both individually and collectively, actively create conflict of interest to serve their own agendas, and sometimes even erase it as they fuse state and private power. The *modus operandi* of these players lends them their effectiveness.

Flexians range from household names to much lesser known players. They know no *particular* ideology, politics, or nationality.

Take, for instance, Richard Perle, a former assistant secretary of defense under President Ronald Reagan. Perle surfaces at the epicenter of a head-spinning array of business deals, consulting, and influencing roles and ideological initiatives, consistently courting and yet skirting charges of conflict of interest.

In the first term of George W. Bush, Perle accepted chairmanship of the Defense Policy Board, a Pentagon advisory body with a mixed state-private character that provides its members access to classified information and top-secret intelligence reports. During the run-up to the Iraq war, Perle used the Board as a policy platform from which to call for the overthrow of Saddam Hussein—a cause for which he had long been working.

Quasi-government official Perle gave talks throughout Europe in which he advocated the invasion of Iraq. While Perle was neither a registered lobbyist nor an authorized spokesperson for the U.S. government, he "was making remarks as if he were an official inside the U.S. government," according to the chief of staff to the secretary of State Colin Powell. Powell privately grumbled that "Perle is doing a lot of proselytizing around the world." The secretary instructed his chief to compile a dossier of Perle's speeches and activities, of what Perle was saying and to whom. As the chief of staff put it, "The Germans, French, Brits, and Japanese perceived him [Perle] as an official purveying official U.S. policy… I had to bring on an extra staff person to keep up [the dossier]. It turned into five notebooks… and they were big notebooks too! One was four inches thick," he said.[9]

During the same time frame, Perle allegedly also used his position on the Board to lobby (but, again, not as a registered lobbyist) on behalf of companies in their dealings with the U.S. government. He represented the telecommunications firm Global Crossing Ltd. in support of its proposed sale to a foreign firm, for which he was investigated by the Pentagon (Labaton 2003, Silverstein and Neubauer 2003: 1).

Again, using his position on the Board, Perle also allegedly offered defense-related clients sensitive information gleaned through his position on the Board (Silverstein and Neubauer 2003). He took part in a Goldman Sachs conference call in which he counseled investors on opportunities connected to the war in Iraq (Silverstein and Neubauer 2003).

Perle allegedly also angled for investment funds from a Saudi national who was endeavoring to influence U.S. policy toward Iraq (Hersh 2003).

One role (chairman of the Defense Policy Board) thus enhanced Perle's usefulness and potential influence in other roles (unauthorized spokesperson for the U.S. government, unregistered lobbyist, business consultant, businessman), as well as his financial opportunities. The Pentagon investigated some of his consultancy activities, but Perle wriggled his way out of trouble.

In addition, under the rubric of another role—a resident fellow at a Washington think tank, the American Enterprise Institute—Perle promoted a tanker deal in a co-authored *Wall Street Journal* op-ed piece (Donnelly and Perle 2003) from which he stood to profit. He was identified simply as a resident fellow at the AEI (Hilzenrath 2003: E01, Hartung 2003). An uninformed reader would believe Perle is a disinterested public intellectual and neutral observer.

In this case, Perle cloaked his interests, which were ostensibly motivated by one role (advocating a policy to make money), under the rubric of another (AEI fellow).

Consider another player, Robert Rubin, President Clinton's Treasury secretary between 1995 and 1999, who exhibits certain flexian features. Rubin has circulated among perches at Goldman Sachs, Harvard University, the Department of Treasury, and Citigroup, among others.

While at Treasury, Rubin helped create a deregulated environment on derivatives trading that would serve him and his future employer. He bears considerable responsibility for repealing regulatory laws that allowed banks to expand into diverse new businesses, to get bigger and bigger, or, in today 's parlance, "too big to fail." He fought to repeal the Depression-era Glass-Steagall Act (paving the way for the

[9] Author's interview with Lawrence B. Wilkerson, June 12, 2009. See also Wedel 2009: 183–186.

merger that became Citigroup) and to remove legal obstacles to investment in the risky derivatives market (later judged to be a significant factor in the economic collapse of 2008–2009). As Citigroup's director beginning in 2001, Rubin enjoyed the benefits of the deregulatory environment he had helped create in the 1990s as a public official, earning $126 million in his time there. Rubin helped lead Citigroup to such "success" that it had to be bailed out by the U.S. government in 2008. The *New York Times* reported in November 2008 that Citigroup had lost $65 billion and that 75,000 jobs (out of 375,000 a year earlier) had been cut or were slated to be cut (Dash and Creswell 2008).[10]

While at Citigroup, Rubin also tried to prevent a potential hit to his company's fortunes by calling a Treasury department acquaintance, seeking help for Enron, a debtor of Citigroup.[11]

Even as his role in the economic collapse was starting to draw some scrutiny, Rubin found new public opportunity once again, when President Obama came to office. Having served as an advisor on Obama's Transition Economic Advisory board, Rubin became an unofficial economic advisor to the president. He also was co-chairman of the Council on Foreign Relations.

Truthiness offered Rubin an hospitable environment. In January 2010, he wrote a long essay on "Getting the Economy Back on Track" in the weekly magazine *Newsweek*. Counseling the public on economic recovery, he did not explain or acknowledge—let alone apologize for—the key role he played in getting the economy off track in the first place, as Treasury secretary or as a Citibank official for nearly a decade. Though he had held top jobs at Citigroup and Goldman, he described his career in a most vague way: "many years involved in financial matters." *Newsweek* lists him as a former Treasury secretary, co-chairman of the Council on Foreign Relations, and a fellow of the Harvard Corporation. Corporate titles are conspicuously absent. As one observer writes: "Given that the piece is about the economic meltdown, it is revealing that his bio fails to include his nearly ten years at

[10] Some of Rubin's former Goldman Sachs colleagues were deeply involved in the 2008 bailout. Then-Treasury Secretary Hank Paulson had also run Goldman Sachs. Paulson reportedly held a meeting with Goldman's board just before the bailout, one that was not recorded and was described as "social" (Sorkin 2009).

Crucial meetings also were held in the offices of (now-Treasury Secretary) Timothy Geithner, then the head of the New York Federal Reserve Bank. The decision was taken to pay, in full, the counterparties of the Financial Products division of A.I.G., the huge insurance firm. As economist Robert E. Prasch (Prasch 2010) writes: "This decision overwhelmingly favored the interests of Goldman Sachs… and so many recent "alumni" of that firm were part of this process. Among the decisions taken were to install a Goldman board member to be the new head of A.I.G. who, in turn, immediately agreed to disperse billions to… Goldman Sachs. … A.I.G.'s regulator … was neither consulted nor represented throughout these discussions and ensuing decisions." See also Fiderer 2010.

The 2008 financial bailout delivered considerable unchecked authority to the executive branch. As Yale constitutional law expert Jack Balkin put it, "the Treasury Secretary [took] over a sizable chunk of the nation's capital … markets. Because [he] is effectively unreviewable, he [had the power to] make sweetheart deals with… firms… that got us into this mess." http://balkin.blogspot.com/2008/09/bush-administration-give-us-more.html.

[11] Rubin contacted an acquaintance at the Treasury Department to ask if the department could convince bond-rating agencies not to downgrade the corporate debt of Enron, a debtor of Citigroup (Noah 2002).

Citigroup—the very time that ended with the bank having to be rescued by taxpayers" (Huffington 2010).

That is how shadow elites work, the observer explains:

> You are able to wreak destruction, bank a tidy profit, then go along your merry way, pontificating about how "markets have an inherent and inevitable tendency—probably rooted in human nature—to go to excess, both on the upside and the downside." And how many people remember key details in Rubin's career like his vociferous opposition, during the Clinton years, to the regulation of derivatives—a key factor in the meltdown? Or his lobbying the Treasury during the Bush years to prevent the downgrading of the credit rating of Enron?

What do these cases—Perle and Rubin—share? And how does the *modus operandi* of these players build on, yet differ from, influencers of the past? While operators maneuvering the state-private nexus are, of course, nothing new, the *profile* of the top power brokers has changed. New abilities and requirements for success have been added to the mix, spurred by the transformational developments.

Flexians exhibit the following four features:

One, they personalize bureaucracy, working across government, business, think tanks, media, and national borders in pursuit of their own agendas. They actively create conflict of interest, structuring their overlapping, mutually influencing, and not-fully-disclosed roles and involvements to serve their own agendas—often at the expense of the government agencies, shareholders, or publics on whose behalf they supposedly work.

Flexians are adept at skirting conflict-of-interest regulations and ethical sanctions.

Two, flexians privatize information, while branding conviction. Flexian's cachet is in information: their access to and control of official (or should-be official) information, their ability to use information gleaned in one venue to their own advantage in other venues, their skill at getting their own version of the truth branded as the most authoritative official version, and their ability to brand for the media and public both the information they have access to and their own activities.

Unlike the specialists of earlier generations, with technical charts and graphs to build their case, today's premier players are adept at selling their version of reality. Flexians market a message as beneficial to the public, while being less than forthcoming about their actual involvements and motives. With truthiness on their side, they are all about appearances—the appearance of the moment, that is. And with their ability to cover up their own agendas and render irrelevant their actual track records, failure is not a barrier to future success; in fact, flexians "fail upwards" (Wedel 2010). Rubin is a perfect case in point.

Three, flexians juggle roles and representations. These operators share the pattern of overlapping, mutually influencing, and not always fully disclosed, professional roles. Their influence comes from agilely moving among multiple perches and using the information, credibility, and legitimacy lent by one role to create advantage in another (often associating themselves with the most prestigious or neutral role in their repertoire).

Simple questions such as—Who is he? Who funds him? Who is in charge? are more difficult to answer than in the past. Flexians' titles are often misleading or empty, revealing very little about their actual power and influence. In their operations and reach of influence, flexians can't be pinned down to any single professional role or organization (even as they are typically presented as such in the media and public arena).

Conflict of interest, as commonly considered, tends to convey stable roles and relationships such as a physician who recommends a drug to a patient while accepting funding or perks from the pharmaceutical company that manufactures the drug. But the roles of flexians are everything but stable. Flexians forge a "coincidence of interest," as it has ironically been called, interweaving and performing overlapping roles that serve their own goals or those of their associates.[12]

While some of Perle's activities might recall conventional conflict of interest, he was constantly on the move. He was able to pass himself off alternatively as a spokesperson for the U.S. government and a disinterested public intellectual. He could appear as an official or patron in one venue, a client to an official in others, an influence broker in a third, and a neutral observer of it all in a forth.

Shadow elites also surge beyond the conventional "revolving door," in which players move serially between government and the private sector. The revolving door acquired its meaning in an age when the lobbyist and the power holder were the brick and mortar of the influence game. Their roles were defined and confined. Shadow elites are more elastic in their engagements.

While some of Rubin's activity might recall the "revolving door," it is more like an "evolving door" (Kelman 2003). With the evolving door, influencers move in and out of institutions along their career paths, never permanently fixed to any. Like many other high-powered players, they are apt to ensconce themselves, at least temporarily, in think tanks and consulting firms, and more likely to work for more than one institution at a time or move among them in more rapid succession and with more alacrity than in the past.

Neither Perle nor Rubin (when outside public office) were registered lobbyists. Yet they could have more influence than registered lobbyists, wielding it from multiple perches and venues where they had ready access.

Four, flexians relax rules at the interstices of official and private power. They flout both democracy and the free market. In so doing, they change how business is done, either temporarily or more lastingly. The result, often, is the interdependence of official and private power—the disappearance of conflict of interest, because the players define the interest.

* * *

All these features are amplified when flexians work together in close-knit networks, or flex nets. Two recent episodes in American history—the 2003 U.S. invasion of Iraq and the 2008 financial crisis—underscore the effectiveness of the flex net mode of organizing.

---

[12] Intelligence expert Steven Aftergood has employed the term "coincidence of interest" in this meaning, as cited in Shorrock 2008.

One episode featuring a flex net involves the tiny set of neoconservatives—just a dozen or so players with Richard Perle as their linchpin—who helped take the United States to war in Iraq.[13] Some members of this "Neocon core," distinct from the much larger neoconservative movement, have been working together for some 30 years to remake American foreign policy according to their own vision. The acquisition or creation of alternative versions of *official* information is the most vital project of such networks.

The Neocon core and their allies have long challenged official U.S. intelligence and marketed their own versions as the more authoritative ones—from "Team B" in the 1970s and long-time promotion of missile defense to the current war in Iraq and their hoped-for "regime change" via U.S. intersession in Iran. This past decade, Perle and other members of the core were crucial agents in creating and promoting the (mis)information upon which the United States went to war in Iraq.

To help promote their message, members of the Neocon core set up a host of think tank-type organizations in the 1990s that recall the NGOs of transitional Central and Eastern Europe. These organizations exhibit a family-like quality: the players know each other from multiple venues—and organization after organization that they set up is populated by roughly the same set of individuals.

With Perle as the prime mover, the Neocon core helped organize the development and dissemination of "information" demonstrating that Iraq had weapons of mass destruction and a causal connection between Saddam Hussein and the terrorist attack of September 11. Perle helped create the reputation and the funding base in the United States for Ahmed Chalabi, the Iraqi-born businessman, exile, and founder of the U.S.-underwritten Iraqi National Congress who was bent on the overthrow of Saddam Hussein. Crucially, members of the Neocon core supplied bogus intelligence (manufactured by Ahmed Chalabi and company) to relevant units of the U.S. government, including parts of the Pentagon and the National Security Council, as well as the U.S. Congress and the media.

This "information" was pivotal in taking the United States to war. For maximum impact, and to override otherwise official information, members of the Neocon core created within government personalized practices and network-based structures while circumventing standard ones and bureaucracy and marginalizing officials who were not part of their network, according to a chorus of insiders variously placed in the bureaucracy at the time.

Paul R. Pillar, a veteran CIA officer in charge of coordinating the intelligence community's assessments regarding Iraq, put it thusly: "There was no process. … No one has identified a single meeting, memorandum, showdown in the situation room when the question was on the agenda as to whether this war should be launched. It was never discussed. … That is the respect in which this case is markedly different from anything I've seen in the past. … There's well established machinery for this. … In Iraq such machinery never got used."[14]

---

[13] For further detail and documentation regarding the Neocon core, see Wedel 2009: Chapter 6.

[14] Author's interview with Paul Pillar, June 10, 2009.

These ways and means are straight from the shadow elite playbook. Members of a flex net achieve their shared goals in part by undermining the rules and standard processes of the government they supposedly serve and supplanting them with their own.

The second episode I outline here is the interlocking handful of Wall Street–government players around the 2008 bailout. These players adopted many features of a flex net.

At the center of the story is Robert Rubin. He and members of his circle have and are playing key roles in shaping economic policy, also employing ways and means from the shadow elite playbook. They have circulated among positions at Goldman Sachs (whose own reach spans from Wall Street to Washington and every major financial capital), Harvard University, and Treasury, among others.

At Treasury in the 1990s, Rubin and his protégé and deputy Lawrence (Larry) Summers, sponsored, backed by hundreds of millions of U.S. taxpayer dollars, a transnational flex net with Summers's close friend from Harvard as a prime mover. Ostensibly to further Russian "reform," the Harvard-Russia partners made end-runs around the democratically elected parliament, operated through top-down decree, and fused their own agendas with that of the state—ultimately facilitating a corrupt bureaucracy that virtually precluded the development of free markets and encouraged the expansion of an unaccountable state with a democratic façade (Wedel 2001, Chapter 4).

Rubin and Summers employed flexian ways and means in other crucial matters as well. Summers, after being promoted to Treasury secretary himself after Rubin left, moved on to a controversy-filled five years as president of Harvard, in which he virtually succeeded in pushing the Harvard-Russia affair and the wrongdoing of his friend under the rug, despite his friend being a principal subject of a U.S. government law suit against Harvard—the largest in its history.[15] Summers brought in Rubin as a member of the Harvard Corporation, the board of directors (Lewis 2010); moonlighted as a hedge fund investor while president of the university;[16] and gambled with the university's operating budget by betting on derivatives (one bank Harvard used: Rubin's old firm Goldman Sachs).[17]

Members of the Rubin circle are now running the Obama administration's economic policy. As an investigative journalist pointed out, the administration's economic team members have so many connections to Rubin that "the White House now looks like a backstage party for an episode of Bob Rubin, This Is Your Life!" (Taibbi 2009). These include Summers, head of the National Economic Council; Treasury Secretary Tim Geithner; Budget Director Peter Orszag; and Deputy Director of the National Economic Council Jason Furman. All are connected to Rubin and each other in various configurations—through tenure at Goldman Sachs, the Clinton administration,

[15] For the settlement paid by Harvard being a record one, see McClintock 2006: 3.

[16] For Summers's side jobs in finance while president of Harvard, see Rich 2009a. See also Story 2009, Rich 2009b, Taibbi 2009a, and Taibbi 2009c (Taibbi's blog).

[17] See, for instance, http://www.bloomberg.com/apps/news?pid=20601087&sid=aHQ2Xh55jI.Q.

Citigroup, and a think tank Rubin founded to promote his economic philosophy: the Hamilton Project.

In their stewardship of the U.S. economy, Rubin and members of his circle had entrenched, unifying beliefs—not unlike the Neocon core—and went about putting belief into action.[18] And, as has been the case with the Neocon core, consequences have not followed actions. The economic debacle has done little to discredit Rubin, Summers, and other members of the circle.

What do these cases—the Neocon core and the Rubin circle—share?[19]

One, players form an exclusive network—an *intricate spine*. Not unlike the networks that shaped government, politics, and business in transitional Central and Eastern Europe, roughly the same set of individuals keeps appearing in different configurations in and out of government, quasi-government, business, and network-created foundations and think tanks. While players' roles and the organizational and political environments in which they operate change, the network provides continuity.

Unlike lobbies (which offer politicians support and resources in exchange for access and preference in policies) and interest groups (which defend the interests of a particular group or promote a political cause [Bogdanor 1987: 295; Grant 2003; Robertson 2004: 241]), flex nets are not formal or permanent entities and do not seek to become incorporated. Although members of flex nets are united by shared activities and interpersonal histories, the existence of the network is unannounced.

Two, players engage in *shared conviction and action*. Members of a flex net act as a continuous, self-propelling team to achieve goals that are grounded in their common world view. Because only the players themselves have the information, they can brand it for everyone else's consumption and stay largely out of the reach of public scrutiny and governmental overseers.

Flex nets are not conspiracies whose members must keep their activities—and often, the very existence of their group—secret. While some of the group's activities in support of its goals are publicly unrevealed, others are fully in the open, invite media attention and may even be crafted by public relations specialists.

Three, players in a flex net form a *resource pool*. Flex nets are multipurpose and enduring. They are more amorphous and less transparent than conventional

[18] They held that the "free market" generally knew best, that banks should be allowed to innovate and diversify their businesses, and that a balanced budget would help lead to lower interest rates and hence a thriving economy. Rubin came to Washington after decades at perhaps Wall Street's most elite firm, Goldman Sachs, which had long donated more to Democratic candidates than Republican. His background fit nicely with an administration that wanted to put an end to the tax-and-spend liberal cliché in favor of a new kind of Democrat: fiscally conservative, and supportive of both business and the "free market." Capitalism wasn't just for Republicans anymore—it became an embedded, mostly unchallenged belief in both parties. Cheerleading for "Rubinomics" was eagerly embraced by corporate America, for obvious reasons, but also much of financial journalism, and in particular, the new TV financial news channels like CNBC. Rubin, Summers, and Federal Reserve Chairman Alan Greenspan, pushed through policies that led to historically low interest rates (too low, low enough to generate dangerous bubbles), and a regulatory break-down that allowed banks to "innovate" their way into disaster with financial instruments based on toxic loans.

[19] In addition to the four defining features of a flex net outlined here, the flex net as a whole also exhibits the four flexian features. Because members of a flex net benefit from the actions of the collective, pooling resources and dividing labor, not all members of a flex net must exhibit these features individually.

lobbies and interest groups, yet more coherent. And they are much less accountable. Administrations, of course, come and go, but flex nets persevere, pushing their agendas forward.

Flex nets differ from powerbrokers of the past such as the "Wise Men" (think W. Averell Harriman, Dean Acheson, George F. Kennan) or the "Best and Brightest" (think McGeorge Bundy, Robert McNamara, Dean Rusk). These company men had clearer allegiances. We know where they stood and they were mainly instruments of the presidents whose policies they pursued. By contrast, flex nets sometimes appear to be more in the driver's seat than the administrations that abet them.

Four, flex nets create a h y b r i d h a b i t a t, intertwining official and private power. A flex net's strength lies in its coordinated ability to reorganize governing processes, authorities and bureaucracies to suit the group's purposes. In so doing they move beyond conventional conflict of interest.

Flex nets personify the fusion of state and private power, as reflected in the term "Government Sachs" in the case of decision making in response to the 2008 financial crisis. Such fusion creates new playing fields favorable to the flex net, as well as possibly also to other actors. The Rubin circle helped to fashion not only the financial architecture of the future, backed by the power and billions of the state, but new relationships among bureaucracy and market more generally.

Such intertwining of state and private power is reminiscent of transitional Central and Eastern Europe. In both cases, operators at the top challenge governments' rules of accountability and businesses' codes of competition, ultimately answering only to each other. In both cases, it's hard to get more "efficient," because inside information and power is confined to very few actors who trust each other. And, because only the players themselves have the information, they can brand it for everyone else's consumption and stay largely out of the reach of government and public scrutiny.

As a Washington observer sympathetic to the neoconservatives' aims told me, "There is no conflict of interest, because they define the interest."

Beyond Accountability

Shadow elites aren't necessarily unethical but they are unaccountable. Flexians' repertoire of roles—which can be kept separate, merged, combined, and interplayed among themselves to reinforce each other—yield them not only flexibility but also deniability. The ambiguity that swirls around them is not just a byproduct of their activities; it can also enhance their influence. Their influence and impact comes from their ability to engage in activities that cannot be accurately characterized as either state or private, bureaucracy or market, national or international—and to blend and blur roles across these spheres of activity.

Where once power brokers had fewer and more stable affiliations, the new breed of players—whose ever-fluid and greater number of involvements reflect the multiplicity of enterprises today engaged in governing—are more difficult to track. Shadow elites are less visible, more peripatetic, and more global in reach than their forebears.

Thus they are potentially more insidious and dangerous to democracy than their forebears—a relatively visible and stable world inhabited by the "power elite" posited by C. Wright Mills 50 years ago. Not only can they more easily elude democratic process and make decisions without public input, the full range of their activities and true agendas are more difficult to detect and they are far less accountable.

When "there is no conflict of interest, because we define the interest," standard means of accountability are largely impotent against the corruption of shadow elites. Public and government monitors are left with few real-time tools to unravel the activities of flexians and the sticky interlocking relationships of flex nets.

One venue for check and balance has utterly broken down: journalism overall, and investigative journalism in particular.[20] Another venue, that of official audits, is ill-equipped to monitor shadow elites, let alone to hold them to account, to hear government auditors tell it. That is because these power brokers' influence reaches across organizations and nations—while auditors are constrained by limited jurisdictional authority. The auditors, confined to silos and vertically structured laws and regulations, are no match for the new power brokers who work horizontally. Auditors are additionally unprepared for these players because they are primarily concerned with influencing policy, not (just) making money, the usual focus of auditors. Gaston L. Gianni, a former inspector general with more than 40 years of government auditing experience, told me: "Auditors generally don't get into the arena of who influences policy. …There are no processes in place to monitor [them]. If we find out what's going on at all. …then it's too late to do anything about it."[21]

The new system of power and influence is a trust-based one that is difficult to make more accountable or transparent than shadow elites themselves. As shadow elites have surpassed conventional social science frameworks, not to mention conventional means of accountability, it is imperative to hone new frameworks and grapple with new means of holding the players to account.

References

Acquisition Advisory Panel. 2007. *Report of the Acquisition Advisory Panel to the Office of Federal Procurement Policy and the United States Congress*, January, pp. 399. http://acquisition.gov/comp/aap/24102_GSA.pdf.

Balkin, Jack. 2008. "Bush Administration: Give Us More Unreviewable Power; We Did So Well The Last Time We Asked," September 21, http://balkin.blogspot.com/2008/09/bush-administration-give-us-more.html.

Baudrillard, Jean. 1995. *Simulacra and Simulation*. Ann Arbor, MI: University of Michigan Press.

[20] Entire Web sites and Twitter feeds are devoted to tracking the death of journalism (e.g., newspaperdeathwatch.com and iwantmedia.com/layoffs). Investigative journalism, the most expensive and time-consuming kind of reporting, is among the most tempting areas to cut. A few recent developments: Bill Moyers' show on PBS, a program that focused heavily on scrutinizing those in power in business and government, was canceled and went off the air in 2010. In 2009, *Wall Street Journal* reporter Glenn Simpson left the paper with colleague Susan Schmidt to start a private investigations business, because in his words "it's not clear what the future of investigative journalism is." Schmidt added: "Obviously, the whole newspaper industry is in a state of turmoil." See Calderone 2009.

[21] Author's interview with Gaston L. Gianni, June 16, 2009.

Bogdanor, Vernon. (ed.). 1987. *The Blackwell Encyclopedia of Political Institutions*. Oxford: Basil Blackwell.

Calderone, Michael. 2009. "Two WSJ Reporters Launch New Company." *Politico*, March 23, http://www.politico.com/blogs/michaelcalderone/0309/WSJ_reporters_start_company.html.

Colbert, Stephen. 2006. "American Dialect Society." *Merriam-WebsterUnbridged.com*, January.

Dash, Eric; Creswell, Julie. 2008. "Citigroup Saw No Red Flags Even as It Made Bolder Bets." *The New York Times*, Nowember 23, 2008, http://www.nytimes.com/2008/11/23/business/23citi.html.

Donnelly, Thomas; Perle, Richard. 2003. "Gas Stations in the Sky," *Wall Street Journal*, August 14.

Fiderer, David. 2010. "How Paulson's People Colluded With Goldman to Destroy AIG and Get a Backdoor Bailout." *The Huffington Post*, January 25.

Government Executive. 2003. "Experiences Give and Take." July 1, www.govexec.com/feature/0603/ots03s4.htm.

Grant, Wynn. 2003. "Interest Groups," in: Iain McLean and Alistair McMillan (eds), *The Concise Oxford Dictionary of Politics*. Oxford: Oxford University Press.

Guttman, Daniel; Willner, Barry. 1976. *Shadow Government: The Government's Multi-Billion-Dollar Giveaway of Its Decision-Making Powers to Private Management Consultants, 'Experts' and Think Tanks*. New York: Pantheon Books.

Hartung, William. 2003. "The Booming Defense Business." *Los Angeles Times*, December 15.

Hersh, Seymour. 2003. "Lunch with the Chairman." *The New Yorker*, March 17.

Hilzenrath, David. 2003. "Perle Article Didn't Disclose Boeing Tie." *Washington Post*, December 5, E01.

Huffington, Arianna. 2010. "The First HuffPost Book Club Pick of 2010: Shadow Elite by Janine Wedel." *The Huffington Post*, January 6, http://www.huffingtonpost.com/arianna-huffington/the-first-huffpost-book-c_b_412999.html.

Kamiński, Antoni; Kurczewska, Joanna. 1994. "Main Actors of Transformation: The Nomadic Elites," in: E. Allardt and W. Wesołowski (eds.), *The General Outlines of Transformation*. Warszawa: IFIS Publishers, pp. 132–153.

Kelman, Steven. 2003. "Evolving Door," December 5, http://www.govexec.com/story_page.cfm?filepath=/dailyfed/1203/120803ff.htm.

Kosals, Leonid. 2006. "Interim Outcome of the Russian Transition: Clan Capitalism." *Discussion Paper No. 610*, January, pp. 1–36. Kyoto, Japan: Kyoto Institute of Economic Research.

Kosals, Leonid. 2007. "Essay on Clan Capitalism in Russia." *Acta Oeconomica* 57: 67–85.

Kryshtanovskaya, Olga. 1997. "The Real Masters of Russia." *RIA Novosti Argumenty i Fakty*, no. 21, May, reprinted in *Johnson's Russia List*, http://www.cdi.org/russia/johnson/default.cfm.

Kryshtanovskaya, Olga. 1997. "Illegal Structures in Russia." *Trends in Organized Crime* 3, no. 1: 14–17.

Kryshtanovskaya, Olga; White, Stephen. 1996. "From Soviet *Nomenklatura* to Russian Elite." *Europe-Asia Studies* 48: 711–733.

Labaton, Stephen. 2003. "Pentagon Adviser Is Also Advising Global Crossing." *New York Times*, March 21, www.nytimes.com/2003/03/21/business/21GLOB.html-44k.

Lerner, Wendy. 2007. Situating Neoliberalism: Geographics of a Contested Concept. Presented at the workshop on "Transnational Governmentality in South East Europe: Translating Neo-Liberalism on the Sovereign Frontier," Rabac, Croatia, cosponsored by the Institute of Economics, Zagreb, Croatia, and the Friedrich Ebert Stiftung, June 1.

Lewis, Harry R.; Summers, Larry; Rubin, Robert. 2010. "Will The Harvard Shadow Elite Bankrupt The University And The Country?" *The Huffington Post*, January 12, http://www.huffingtonpost.com/harry-r-lewis/larry-summers-robert-rubi_b_419224.html.

Lewis, Michael. 2010. *The Big Short: Inside the Doomsday Machine*. New York, NY: Norton.

Light, Paul. 1999. *The True Size of Government*. Washington, DC: The Brookings Institution.

Light, Paul. 2008a. "Open Letter to the Presidential Candidates." *Huffington Post*, June 25, http://www.huffingtonpost.com/paul-c-light/open-letter-to-the-presid_b_109276.html.

Light, Paul. 2008b. *A Government Ill-Executed: The Decline of the Federal Service and How to Reverse It*. Cambridge, Massachusetts: Harvard University Press.

McClintock, David. 2006. "How Harvard Lost Russia." *Institutional Investor Magazine Online*, January 13, pp. 3. http://jboy.chaosnet.org/misc/docs/articles/shleifer.pdf.

Moe, Ronald; Kosar, Kevin. 2005. *The Quasi Government: Hybrid Organizations with Both Government and Private Sector Legal Characteristics*. Washington DC: Congressional Research Service.

Noah, Timothy. 2002. "Rubin, Rubin." *Slate*, January 4, http://www.slate.com/id/2060712.

O'Harrow, Robert. 2007. "Biosurveillance, Intelligence and Bugs." *Government Inc.*, Blog, August 13.

Peyser, Marc. 2006. "The Truthiness Teller." *Newsweek*, February 13, http://www.newsweek.com/id/56881/page/3.
Prasch, Robert E. 2010. "*Shadow Elite*: On the Trail of 'Government Sachs'." *The Huffington Post*, February 18.
Reich, Robert. 2008. "Obama's Transition Economic Advisory Board: the Full List." *U.S. News & World Report*, November 7, http://politics.usnews.com/news/campaign-2008/articles/2008/11/07/obamas-transition-economic-advisory-board-the-full-listn.html.
Rich, Frank. 2009a. "Awake and Sing!" *New York Times*, April 11, http://www.nytimes.com/2009/04/12/opinion/12rich.html?pagewanted=all.
Rich, Frank. 2009b. "Obama's Make-or-Break Summer." *New York Times*, June 21, http://www.nytimes.com/2009/06/21/opinion/21rich.html.
Robertson, David. 2004. *The Routledge Dictionary of Politics*, 3rd ed. London and New York: Routledge.
Rubin, Robert. 2009. "Getting the Economy Back on Track." *Newsweek*, December 29.
Rubenstein, Diane. 2008. *This is Not a President: Sense, Nonsense, and the American Political Imaginary*. New York, NY: New York University Press.
Rycroft, Robert; Kash, Don. 1999. *The Complexity Challenge: Technological Innovation for the 21st Century*. London and New York: Pinter.
Shorrock, T. 2008. "Former High-ranking Bush Officials Enjoy War Profits," Salon.com, May 29, http://www.salon.com/news/excerpt/2008/05/29/spies_for_hire/index1.html.
Silverstein, Ken; and Neubauer, Chuck. 2003. "Consulting and Policy Overlap." *Los Angeles Times*, May 7.
Sorkin, Andrew. 2009. *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System—and Themselves*. New York, NY: Viking Adult.
Soskin, Oleg. 1999. "What Socio-economic Model Does Ukraine Choose? On a Difficult Way to the Status of the Central European Country." Unpublished paper, July.
Story, Louise. 2009. "A Rich Education for Summers (After Harvard)." *New York Times*, April 5, http://www.nytimes.com/2009/04/06/business/06summers.html?_r=1&partner=rss&emc=rss.
Taibbi, Matt. 2009a. "Inside The Great American Bubble Machine." *Rolling Stone*, July 2, http://www.rollingstone.com/politics/story/28816321/the_great_american_bubble_machine/3.
Taibbi, Matt. 2009b. "The Big Sell Out." *Rolling Stone*, December 1.
Taibbi, Matt. 2009c. "I Don't Get Obama's Gitmo Strategy." *The Smirking Chimp*, Blog, http://smirkingchimp.com/thread/22127.
Turchynov, Oleksandr. 1996. "The Shadow Economy and Shadow Politics." *Political Thought: Ukrainian Political Science Journal* 3: 75–86.
Verkuil, Paul. 2007. *Outsourcing Sovereignty: Why Privatization of Government Functions Threatens Democracy and What We Can Do About It*. New York, NY: Cambridge University Press.
Wedel, Janine. 2001. *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe*. New York, NY: Palgrave.
Wedel Janine. 2009. *Shadow Elite: How the World's New Power Brokers Undermine Government, Democracy, and the Free Market*. New York: NY, Basic Books.
Wedel, Janine. 2010. "For The Shadow Elite Failure Often Guarantees Future Rewards." *The Huffington Post*, January 14, http://www.huffingtonpost.com/janine-r-wedel/for-the-shadow-elite-fail_b_422939.html.

Biographical Note: Janine Wedel writes about power, influence, and corruption through the lens of a social anthropologist. A professor in the School of Public Policy at George Mason University, Wedel is the first anthropologist to win the Grawemeyer Award for Ideas Improving World Order. Her *Shadow Elite: How the World's New Power Brokers Undermine Democracy, Government, and the Free Market* (Basic Books 2009, http://janinewedel.info/shadowelite_reviews.html), was book of the month for *The Huffington Post*. She has also published *Confronting Corruption, Building Accountability: Lessons From the World of International Development Advising* (with Lloyd J. Dumas and Greg Callman, Palgrave 2010); the prize-winning *Collision and Collusion: The Strange Case of Western Aid to Eastern Europe* (Palgrave 2001); *The Unplanned Society: Poland Before and After Communism* (edited, annotated, and introductions, Columbia University Press 1992); *The Private Poland* (1986), which was likened by the *Christian Science Monitor* to Hedrick Smith's *The Russians*; and *Prywatna Polska* (The Private Poland, A Quarter Century Later) (Wydawnictwo Trio, 2007).

E-mail: jwedel@gmu.edu