

NONFICTION

How Jack Welch Revolutionized the American Economy

David Gelles's "The Man Who Broke Capitalism" examines the impact of one of the country's most powerful chief executives.

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THE MAN WHO BROKE CAPITALISM: How Jack Welch Gutted the Heartland and Crushed the Soul of Corporate America — and How to Undo His Legacy, by David Gelles

In 2020 I published "Evil Geniuses," a history of the ruinous transformation of the U.S. political economy since the 1970s by the right and the rich. So I was psyched to read "The Man Who Broke Capitalism." It sounded like a perfect case-study companion to my wide-angle chronicle, a book by a longtime business reporter now at The New York Times, focusing on Jack Welch, "revered as the greatest C.E.O. of all time," and General Electric, the company he ran from 1981 to 2001, "two decades that shaped the world we inhabit today."

David Gelles describes unbroken capitalism's exemplary big companies in the 20th century that treated employees fairly and focused on long-term growth — such as G.E. After the New Deal and the enormous unionization it enabled, economic fairness increased significantly along with prosperity in the United States, as "corporations, workers and the government enjoyed a relatively harmonious equilibrium," and "worker pay grew in tandem with worker productivity." With a "steady rise in earnings" through 1980, G.E. was "more profitable than all but nine other companies in the Fortune 500." And its chief executive immediately preceding Welch earned the equivalent of \$743,000 a year, just "12 or 13 times what new management recruits to the company took home" and a mere 5 percent of what the median big-company C.E.O. is paid these days.

In the 1980s, as American culture and politics were suddenly celebrating money and robber-baronism with a new go-go giddiness, "Welch was tapping into profound changes in the zeitgeist," Gelles writes. "An intellectual revolution had been coursing through academic, economic, legal and political circles," but "no one had truly put this philosophy to work ... until Welch." By means of all-out "downsizing, deal making and financialization," he became "the personification of American, alpha-male capitalism."

As he explained to The Harvard Business Review back then, "G.E. has had an implicit psychological contract based on perceived lifetime employment," which produced a "fuzzy kind of loyalty" — sentimental humbug to Welch. He "instituted a series of mass layoffs," and enthusiastically industrialized even this process by rating every employee and then each year firing the lowest-rated 10 percent.

As a maniacal deal maker, Welch oversaw the acquisition, on average, of one \$130 million company every week for 20 years, and sold off a business every two weeks. And, man, did he financialize, instead of inventing or producing better products pleasing Wall Street and increasing G.E.'s stock price, period. This was the one area in which he made sure G.E. continued innovating — by reducing costs with his "rank-and-yank" regime, and turning G.E. into "essentially a giant, unregulated bank" that used more and more of its profits to buy up its own stock.

Welch (who died in 2020) was "quick-witted, and coiled with energy," "a cursing, kinetic tornado of a man" who "wore jeans and rolled-up shirt sleeves whenever he could get away with it." And also, no surprise, a jerk — "heavy on yelling and short on empathy."

But while Gelles's basic takes are all correct, they're also relentlessly *basic*, in the new, pejorative sense: unsurprising, unoriginal, conventional wisdom conventionally expressed, passable in thousand-word pieces of journalism but not at book length. All his clichéd and colorful prose bits — “empires of yore,” “risible assertion,” “gilded lifestyle,” “helicopter pilot with supermodel looks,” “pinstriped conquistador with the spoils to prove it” — might be forgivable if accompanied by fresh ideas or by deep, revelatory reporting.

Welch himself comes across as a stick figure. For instance, exactly how does the son of a union railroad conductor who “preferred chatting up machinists to sitting in a boardroom and deliberating with directors” become such an enthusiastic generalissimo in the class war? No explanation. Likewise, Gelles mentions Welch's 2012 tweet alleging that a decline in the unemployment rate was a fiction constructed by Barack Obama's Labor Department to help him win re-election, which Fox News and The New York Post and Donald Trump instantly repeated. But again, no explanation of how and why this reality-based engineering Ph.D. and C.E.O. had suddenly become an alternative-facts conspiracy nut.

Gelles's portrait of Welch is derived from previously published biographies, which he credits. Being derivative is no crime, but while he acknowledges “Evil Geniuses” once (as his source for a 1968 survey), other unsourced passages struck me as uncomfortably familiar, such as his discussion of Milton Friedman and Lewis Powell's role in the hypercapitalist paradigm shift. For instance, Gelles writes that a 1970 Times Magazine essay by Friedman “was a capitalist cri de coeur” that “would endure as the most influential piece of economic writing for generations.” In “Evil Geniuses,” I call Friedman's essay “a cri de coeur” that “became the modern founding text ... of corporate management.”

When Gelles's thinking isn't borrowed and warmed over, it's often half-baked. He properly blames the press and U.S. intelligentsia for “celebrating increased shareholder value as if it were a major medical breakthrough,” but he also uncritically equates companies' success and failure with their stock prices. “By 1987,” he writes, “shares in the company had risen a full 250 percent from the time Welch took over;” and in 2001 were worth \$600 billion — making G.E. “the most valuable company in the world.” And his successor is a bust because during his time running G.E. it “was the worst-performing stock in the Dow.” So why *are* share prices an inferior metric to earnings, and what is the problem with funneling corporate earnings into stock buybacks? Gelles doesn't really provide answers. One of the book's main arguments is that after Welch left G.E. “his strategies ultimately destroyed what he loved so dearly.” But if so, why haven't all the other companies still practicing those crazily financialized anti-worker strategies also been punished by the stock market?

Jack Welch was unquestionably an important and emblematic figure in America's paradigm shift, but Gelles takes his book title too literally, pushes it too strenuously. “Capitalism in America,” he writes “was working well right up until 1981, when Jack Welch broke it.” Whenever he refers to the post-1980 economic regime — “profits for shareholders above all else,” “a Darwinian attitude toward the labor market,” “downsizing, deal making and financialization,” and “executives ... entitled to enormous wealth” — he uses his own word, “Welchism,” instead of libertarianism or neoliberalism or any of the other familiar terms. Presidents from Ronald Reagan on bought into libertarian economics, but Donald Trump was Welch's buddy, so Gelles suggests it really got *entrenched* in 2017: “With his friend in the White House, his values were impacting all of American life as well.”

After 200 pages of a lot of ham-handed critique, Gelles devotes most of his last 30 to a fairly ham-handed celebration of the chief executives of Unilever and Paypal and the other “lonely voices in the business world” — in particular the founder of the billionaire-convening World Economic Forum in Davos — who “call for a more holistic approach to capitalism.” He finishes with boilerplate progressive prescriptions: “renounce the toxic myths that allowed our current system to become so horribly imbalanced,” improve pay and benefits, “make a habit of distributing profits” to workers, enact higher taxes on big business and “a wealth tax on the very richest” individuals. Yes, absolutely, great — but Gelles doesn't begin to suggest how or if any of those reforms might come to pass, because nowhere has he closely examined the entrenched and powerful political foundations of the system his book is about.

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