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Why Business Doesn't Trust the Tea Party

The Tea Party's small-government slogans may be appealing, but its policies could throw the U.S. economy into chaos

By [Lisa Lerer](#) and [John McCormick](#)

Nikki Haley is almost everything the South Carolina Chamber of Commerce could want in a candidate for governor: A former small business owner (she helped run her family's luxury-clothing company in Lexington, S.C.), Haley has served on the boards of two local chambers and campaigns on the traditional business gospel of lower taxes and smaller government.

As Haley was steaming toward an easy win in the Republican primary runoff last June, the South Carolina Chamber's board—56 business leaders representing sectors ranging from banking to health care to construction—met at Clemson University to decide whether to endorse her or her general election opponent, Vincent Sheheen, a Democratic state senator. It took only 20 minutes around a U-shaped conference table for the board to make its decision: Almost 80 percent of members voted for the Democrat—even though they knew Haley was a virtual lock to become the next governor of their heavily Republican state.

The issue, as the board saw it, was Haley's extreme and inflexible approach, an ideology of confrontation that can be summed up in two words: Tea Party. Haley had allied herself with this grassroots network of self-described mad-as-hell revolutionaries, which has overrun the GOP—sending at least 14 Senate candidates, including challengers and incumbents allied with the movement, into the Nov. 2 elections—while accusing other Republicans of abandoning conservative tenets. Haley became one of Sarah Palin's "Mama Grizzlies"; the former Alaska governor and Tea Party celebrity endorsed her in May.

For business leaders who prize pragmatism and stability, it was all too much. "We worried about her ability to get along with the legislature," says Otis Rawl, chief executive officer of the South Carolina Chamber of Commerce. "We wanted to bring the debate away from the Tea Party and back to the middle." Chamber members, he says, tend to be "more realistic and moderate in their thought processes. We prefer candidates who are not extreme. If you look at the Tea Party, I think most of them would say they hate Big Business."

AUSTERITY APPEAL

To businesspeople concerned about the 9 percent increase in federal spending under President Barack Obama and the Democratic-controlled House and Senate, a Tea Party-led return to fiscal austerity has undeniable appeal. That's certainly what the leaders of this anarchic, decentralized movement are selling. Tea Party principles, Palin told *Bloomberg Businessweek* in a brief interview on Sept. 11 in Wasilla, Alaska, are "exactly what we need for free enterprise and business in America because these are commonsense solutions. It's just getting back to the basics, realizing that growing government—and reaching into our private sector by government—is not the solution. That has been proven throughout eternity."

There's no such thing as the Tea Party platform; in the absence of centralized leadership, Tea Party-backed candidates have come up with an array of positions based on the doctrine of less intrusive government. Most

say they would preserve the Bush tax cuts, end the estate tax, and lower taxes on savings and dividends. They'd repeal the federal health-care reform law, abolish the Federal Reserve, and shrink or shutter a range of other federal agencies. They are not numerous or popular enough to enact all of these positions; less than three weeks before the midterm elections, the *Cook Political Report* rates Tea Party candidates in three Senate races—Nevada, Colorado, and Kentucky—as "toss-ups."

To measure the Tea Party's success by who wins on Nov. 2, however, is to miss the movement's full impact. Through a combination of brilliant politics, genuine discontent, and intense emotional appeals, the Tea Party has helped pull national Republican leaders such as John McCain to the right, and has defeated those—such as Lisa Murkowski in Alaska and Bob Bennett in Utah—who didn't move quickly enough. Its impact on the local level has been similarly dramatic. In May the historically moderate Maine Republican Party adopted a platform that included such Tea Party planks as eliminating the Federal Reserve, sealing the borders, and prohibiting stimulus funding.

It may sound like a corporate dream come true—as long as the corporation in question doesn't have international operations, rely on immigrant labor, see the value of national monetary policy, or find itself in need of a subsidy to boost exports or an emergency loan from the Fed to survive the worst recession in seven decades. Business leaders who favor education reform, immigration reform, or investment in infrastructure can likely say goodbye to those ideas for the short term as well; they won't be possible in the willfully gridlocked world of the coming 112th Congress.

POLITICAL INSTABILITY

As the South Carolina Chamber realized, the Tea Party's seductive small-government principles are hitched to a train full of explosive cargo—from Alaska's U.S. Senate candidate, Joe Miller, who suggested Social Security is unconstitutional, to Delaware's U.S. Senate candidate, Christine O'Donnell, who has no relevant job experience. (She's a former sexual morality campaigner and perennial candidate who at times has had no visible means of support, and who once claimed to possess classified information that China was planning to take over the U.S.) The Tea Party's brand of political nitroglycerin, in short, is too unstable for businesses that look to government for predictability, moderation, and the creation of a stable economic environment. "A lot of the agenda is being driven by the extremes," says John Castellani, the former head of the Business Roundtable who left in July to take the helm of the Pharmaceutical Research and Manufacturers of America (PhRMA). "This kind of extremism makes it much harder to plan from a business perspective." (So far this election cycle, PhRMA's political action committee has sent about three-quarters of its campaign contributions to Democrats, according to the Center for Responsive Politics.)

Even the U.S. Chamber of Commerce, the biggest-spending business lobby and a vociferous opponent of the Obama Administration, has kept its distance from many Tea Party candidates. The Chamber, which has been the target of White House attacks over undisclosed campaign expenditures, says it plans to spend at least \$75 million in this election cycle. So far, most of the money has gone to Republicans not closely associated with the Tea Party, such as former Hewlett-Packard (HPQ) Chief Executive Officer Carly Fiorina in California and former U.S. Trade Representative Rob Portman in Ohio. The Chamber has endorsed Rand Paul, the Tea Party-backed U.S. Senate candidate in Kentucky, and former Florida House Speaker Marco Rubio, an early Tea Party favorite who is running for the U.S. Senate in Florida and is distancing himself from his Tea Party roots. The Chamber evaluates each Tea Party candidate individually, says national political director Bill Miller, because "all of our friends have different characteristics." Miller expects that the Tea Party candidates who win will be forced to moderate some of their views. "Some of the politics of the Tea Party and legislative practicalities just don't match up," he says.

Consider three prominent Tea Party politicians: Palin, Paul, and South Carolina Senator Jim DeMint, whose endorsements and campaign contributions have made him a kingmaker on the right. All say they support lower taxes, less regulation, and smaller government. Yet they have divergent and at times inconsistent ideas about how to achieve those goals. As governor of Alaska in 2007, Palin raised taxes on oil companies to increase revenues for her state. DeMint celebrates governmental gridlock, telling *Bloomberg Businessweek* his business supporters call it "the best thing that could happen for business." He says he wants to deport all illegal immigrants, and he opposed the \$700 billion bailout of the financial system in 2008.

Paul is among those who want to abolish the Federal Reserve and the IRS. He would have let the U.S. auto makers fail last year—a position with ramifications not only for car companies and parts makers but also for agriculture, mining, and other industries dependent on government support. Paul describes Medicare as an unsustainable boondoggle, though about half his income as a Kentucky ophthalmologist comes from Medicare and Medicaid payments, according to his campaign, which says that's in line with the national average for eye doctors. Last year, Paul advocated a \$2,000 deductible for Medicare patients, which would shift more of the cost burden to retirees, though he's retreated from that idea in recent days. Locked in a close race against state Attorney General Jack Conway, he has been sounding more like a conventional politician, focusing his rhetoric on Obama instead of the Tea Party. On Oct. 9 he thanked "the guy in the White House" for making "this election juggernaut possible."

OPPOSITION FORCE

Ask Bill Miller of the U.S. Chamber what his 98-year-old group likes best about the Tea Party, and his reply is blunt: its opposition to the White House agenda, particularly health care, climate change legislation, and phasing out tax cuts for the wealthy. "What they are for is important," he says, "but what they are against is almost more important."

That oppositional force—against Obama, against bailouts, against spending and regulation—attracted conservative political and business leaders to the Tea Party from the unlikely moment it came into being. Its date of birth is usually given as Feb. 19, 2009, a time when the Great Recession was still in its most frighteningly vertiginous phase. That morning, CNBC on-air editor Rick Santelli, who reports from the floor of the Chicago Mercantile Exchange ([CME](#)), unleashed a rant heard 'round the world, asking why Americans should have to "subsidize the loser's mortgages" by propping up Fannie Mae and Freddie Mac. A few traders around him began cheering. "We're thinking about having a Chicago tea party in July," Santelli continued. "All you capitalists that want to show up at Lake Michigan, I'm going to start organizing."

It was enough to light the fuse. As local activists began using the Internet as an organizing tool, Fox News amplified the discontent on its airwaves, with on-air personalities Glenn Beck and Sean Hannity rushing to the front of the Tea Party parade, adopting the nascent movement as their own. Other journalistic organizations took notice during the summer of 2009, when House passage of the Waxman-Markey climate and energy bill and congressional debate over health-care reform unleashed more conservative anger and activists began disrupting town hall meetings held by members of Congress.

Business leaders began trying to direct the parade as well. A libertarian nonprofit called FreedomWorks, which grew out of Citizens for a Sound Economy, a group founded in 1984 by billionaires Charles and David Koch—the brothers who control Wichita-based petroleum conglomerate Koch Industries, the second-largest privately held company in the U.S., according to *Forbes*—had been holding annual antitax rallies throughout the 1990s with little to show for it. Now a true grassroots movement was spreading, and FreedomWorks wanted to channel it.

ARMEY'S TEAM

The nonprofit, chaired by former House Republican leader Dick Arme, began holding training sessions for Tea Party activists, and a FreedomWorks volunteer, Bob MacGuffie, reportedly circulated a memo with tips—"You need to rock-the-boat early in the Rep's presentation"—for those who wanted to disturb town halls. With Beck and others, the organization helped shape an emerging Tea Party cosmology in which Big Government and Big Business are twin poles of an evil empire plotting to destroy free enterprise and screw the little guy.

"Big Business is sitting there on fat, pushy duffs looking for government to keep them in business," said Arme in an August interview with *Bloomberg Businessweek*. Only "incompetent" companies needed bailouts, he added. "People who run corporations are basically taking care of themselves. They're not very reliable people, and they're very comfortable with Big Government that greases the skids for them."

During his 18 years as a congressman from Texas, from 1985 to 2003, Arme accepted more than \$900,000 in contributions from financial, insurance, and real estate companies, according to Federal Election Commission records, and almost \$400,000 from energy and natural resources companies. After leaving office he joined DLA Piper, one of the largest law firms in the world, and became chairman of FreedomWorks. Arme says he left Piper last year after the rowdy demonstrations at town hall meetings brought unwanted media attention to the firm.

FreedomWorks says it plans to spend \$10 million turning local Tea Party chapters into political machines. The group is steering funds into tools that help local groups organize, such as campaign flyers and signs, a phone system that lets volunteers across the country make calls for candidates from their computers, and an online mapping system to target likely voters.

Operating those tools are conservatives like Ryan Hecker, a Houston antitrust attorney who worked as a senior researcher for Rudy Giuliani's 2008 Presidential campaign. Hecker moved into grassroots organizing after the election. "I got involved in political and economic conservative causes because I wanted to be part of something greater than myself," he says. In September 2009, Hecker and other Tea Party activists organized an online effort that became the "Contract from America," a list of 10 Tea Party goals—slashing the size of government, repealing the health-care reform law, blocking a cap-and-trade system to reduce greenhouse gas emissions, and scrapping the IRS code and replacing it with a single-rate code no longer than 4,543 words, the length of the original U.S. Constitution. Over a period of several months in late 2009 and early 2010, he says, they gathered 1,000 ideas online and held a series of surveys and discussions to winnow the list to 21. About 500,000 Web votes were cast to arrive at the final 10 items.

Published in April 2010, the Contract from America creates what Arme calls a "seal of approval" for Tea Party candidates. There are obvious similarities between the Contract and the anti-regulatory wish list of libertarian David Koch, who is among the nation's 10 wealthiest Americans, according to *Forbes*, with a net worth of \$21.5 billion. Yet Koch has distanced himself from the Tea Party in media statements, and a Koch Industries spokeswoman, Missy Cohlma, says Koch's foundations don't fund FreedomWorks, though "we applaud anyone willing to advance economic freedom and opportunity in a civil and respectful manner." (The Koch brothers have supported an affiliated pro-Tea Party group, Americans for Prosperity.) "We live by the creed 'hard work beats daddy's money,'" Arme says. "We are not a corporately well-funded operation, as we are alleged to be." Hecker says FreedomWorks helped with publicity but didn't shape the Contract. "This is a grassroots document," he says. More than 300 candidates have signed it, including about 15 House incumbents. "We're looking for candidates who truly believe in the ideology," he says.

IDEOLOGICAL PURITY

Confirmation of the Tea Party's power came in January 2010, when Republican Scott Brown won the Massachusetts Senate seat once held by the late Edward M. Kennedy. Rand Paul's May primary win in Kentucky, over a candidate backed by the state's Republican Establishment, added to the momentum, as did primary victories by Tea Party-backed Senate candidates Sharron Angle in Nevada, Ken Buck in Colorado, and Miller in Alaska.

The movement's energy could help boost Republican turnout, but it has also forced the party to spend time and money on primary contests in which inexperienced candidates—Angle, O'Donnell—have jeopardized Republican control of Congress. Despite her call to privatize Social Security, Angle is in a virtual tie with Senate Majority Leader Harry Reid and has raised an astonishing \$14 million in the past three months. If Republicans fail to win the congressional majorities that seemed within reach earlier this year, she and other Tea Party candidates may take the blame.

To the movement's true believers, however, winning is less important than ideological purity. "We need people up here who understand that we've got to get back to limited government, and we cannot afford to have other Republicans who don't get that message," DeMint said recently on Capitol Hill. One cornerstone of their faith—the notion that large corporations are leeches sucking the blood of the people—is sharply at odds with Republican theology that has held sway for generations. "The business community writ large is the essence of the inside-the-Beltway type," says lobbyist Rich Gold, who represents Dow Chemical ([DOW](#)), NextEra Energy ([NEE](#)), and other energy companies. "And these people are the essence of the outside-the-Beltway type."

The Tea Party's chief theologian is Beck, the cable-TV personality whose rise has mirrored the movement's. Beck's world is full of demons, but the devil that enraged the sold-out crowd in a ballroom at the Atlantic City Hilton on Aug. 5 wasn't Obama or even House Speaker Nancy Pelosi. "Give the money to the people!" Beck shouted to a packed room of around 1,500. "Give us our money back—not to Goldman Sachs! ([GS](#))"

INTELLECTUAL LEADER

In 2009 a campaign by the liberal group Color of Change confronted Beck's advertisers with clips of the TV host making racially charged statements on his show. In July 2009, for instance, he called Obama a "racist" with a "deep-seated hatred for white people or the white culture." According to the group, more than 100 companies joined a boycott of his show last year. Beck declined to be interviewed; Fox News has said it didn't lose revenue because advertisers shifted to other programs.

Tea Party activists describe Beck as the intellectual leader of their movement. They devour the books he mentions on his show, many of them the works of fringe political theorists such as W. Cleon Skousen, an anticommunist historian too extreme for conservative activists of the Goldwater era. In *The Five Thousand Year Leap*, published in 1981, Skousen argued that business, communists, and government were conspiring to push the U.S. into "a world-wide collectivist" society. After Beck authored a new foreword to the 30th anniversary edition, the book shot to the top of the Amazon.com best-seller list. "Beck is the great educator," says Representative Jason Chaffetz, a Utah Republican allied with the Tea Party. "He's empowering people with history and information."

The conspiratorial message was still fairly novel in 2009, when a group of corporate leaders led by General Electric ([GE](#)) CEO Jeffrey Immelt came out in support of the Waxman-Markey climate bill, which would cap industrial emissions that contribute to global warming. As Beck led the charge against the corporations, calling them Enron-style favor-seekers, Republican leaders in Congress found themselves attacking not only GE but also DuPont ([DD](#)), Alcoa ([AA](#)), Duke Energy ([DUK](#)), and other stalwarts of the U.S. economy. "Corporations

should not be at the public trough," says DeMint. "We do not need corporations or their associations selling out just because they can get a little carve-out in some bill."

In June the Tea Party-affiliated National Center for Public Policy Research demanded Immelt's resignation, calling GE an "opportunistic parasite feeding on the expansion of government." Immelt's offenses included lobbying for a \$450 million earmark to fund an F-35 Joint Strike Fighter engine, taking advantage of federal subsidies for clean energy, and running the conglomerate that owned liberal cable channel MSNBC.

CONTRADICTION AMONG SUPPORTERS

Americans who support the Tea Party brim with contradiction. An October Bloomberg National Poll found that while 83 percent of Tea Party supporters favor repeal of the health-care reform bill, majorities would keep key provisions of it. Fifty-seven percent would prohibit insurance companies from denying coverage to patients with preexisting conditions, 52 percent would add more prescription drug benefits for Medicare users, and 53 percent would require states to set up plans for people with major health problems. "The ideas that find nearly universal agreement among Tea Party supporters are rather vague," says pollster J. Ann Selzer, who conducted the survey. "You would think any idea that involves more government action would be anathema, and that is just not the case."

Tea Party candidates show no such ambivalence. When it comes to government, they don't want to trim fat, they want to amputate limbs. Angle says she would eliminate the Environmental Protection Agency, the IRS, Fannie Mae, and Freddie Mac. Buck says he would get rid of the Energy and Education Depts. And candidates across the country say they aim to eliminate the web of special tax breaks, earmarks, and subsidies that benefit industries from golf cart manufacturers to the largest automakers.

In March 2008, Representative Michele Bachmann (R-Minn.), the leader of the newly formed 24-member Tea Party caucus in Congress, introduced legislation that would repeal the national phaseout of conventional lightbulbs in favor of compact fluorescent lights. Congress, she said, had no right to tell consumers what kind of bulbs to buy. Her bill was opposed by the electrical and manufacturing industries, which had already begun the transition.

Tea Party supporters want to seal the borders, depriving industries such as technology and agriculture of a major source of labor. They have turned a stringent Arizona immigration law passed in April into a cause célèbre for the movement. "We're all Arizonans now," says Palin. Buck, a former prosecutor, rose to prominence in Colorado after a series of high-profile immigration raids. Most famously, Buck's office raided a tax preparer and seized thousands of confidential documents. The search was later ruled unconstitutional by the Colorado Supreme Court.

Another Tea Party villain is the Federal Reserve. As Rand Paul travels around Kentucky, he blames the recession primarily on the central bank, which he says sent "bad signals" to the marketplace. His desire to abolish the Fed is shared by his father, libertarian Texas Representative Ron Paul, who spread banking conspiracy theories during his 2008 Presidential run. In the Senate, DeMint has also pushed for greater scrutiny of the central bank, holding up the renomination of Fed Chairman Ben Bernanke until Senate leadership agreed to a vote on his bill proposing regular congressional audits of the Fed.

On global trade issues, the Tea Party tilts toward protectionism. In polling earlier this year by the Mellman Group, a majority of Tea Party supporters said they would favor a tax on imports from countries with lower environmental standards. In June, Bachmann suggested that the U.S. should somehow withdraw from the global economy, calling the Group of 20 summit "one short step" away from "one world government."

"I don't want the U.S. to be in a global economy where our economic future is bound to that of Zimbabwe," she told a conservative radio host.

REPUBLICAN UNEASINESS

This set of policy prescriptions doesn't sit well with the regulars inside the clubhouse at Bowling Green (Ky.) Country Club. The wooded retreat is frequented by Rand Paul and other local business owners. Even Paul's supporters inside the modest clubhouse concede some uneasiness about their hometown candidate and his Tea Party compatriots. "If he were a mainstream Republican, this election would probably be over," says physician Bill Wade, a Republican, sitting in the clubhouse.

Paul is for the elimination of everything from farm subsidies to mine safety laws and has said private businesses should have the right to discriminate. Although Kentucky farmers, including his in-laws, collected \$3 billion in farm subsidy payments from 1995 through 2009, he has questioned the wisdom of such payments. "There are a good number of Republicans that are uncomfortable with certain Paul positions," says Bill Betson, a county Republican chairman in the state.

As he argues against government, Paul often cites his experience as a small business owner. "Without the profit incentive, without meeting a payroll, they don't make good decisions," he says. "Government can't do things as efficiently as the marketplace because they don't get the right signals." Asked whether business has anything to fear from the Tea Party or his own candidacy, Paul is emphatic. "No. I think business needs to be afraid of the vision of the Democrats who believe that government should be in charge of everything," he says during a brief interview at an event in London, Ky. "We believe in term limits, a balanced-budget amendment. Read the bills. Those sound like pretty calm, mainstream ideas."

A few minutes earlier, hammering away in his stump speech, Paul had trotted out Hitler to make a point about the dangers of economic uncertainty. "When you have chaos, bad things happen in your country," he began. "In 1923 there was chaos in Germany. Out of that chaos, they elected Hitler. And what did Hitler do? He vilified certain people and said, 'These people caused your problems.' He blamed it on these people and he said, 'Give me your liberty and I'll give you security.' There is still a danger to that."

Back in the clubhouse, another waiting golfer, a Republican building supply company owner named Ferrell Price, confesses to uncertainty about Paul's libertarian views. But, he adds, "Nancy Pelosi scares me a whole lot more than Rand Paul."

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