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AUSTRIAN & MARXIST THEORIES OF MONOPOLY-CAPITAL: A MUTUALIST SYNTHESIS

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INTRODUCTION

My starting point for this article is a ground-breaking study by Joseph Stromberg. In *The Role of State Monopoly Capitalism in the American Empire*,[1] Stromberg provides an insightful Austrian analysis of state capitalist cartelization as the cause of crises of overproduction and surplus capital. In the course of his argument, he makes reference to Progressive/Revisionist and (to a lesser extent) Marxist theories of imperialism, and analyzes their parallels with the Austrian view.

Although the state capitalism of the twentieth century (as opposed to the earlier misnamed "laissez faire" variant, in which the statist character of the system was largely disguised as a "neutral" legal framework) had its roots in the mid-nineteenth century, it received great impetus as an elite ideology during the depression of the 1890s. From that time on, the problems of overproduction and surplus capital, the danger of domestic class warfare, and the need for the state to solve them, figured large in the perception of the corporate elite. The shift in elite consensus in the 1890s (toward corporate liberalism and foreign expansion) was as profound as that of the 1970s, when reaction to wildcat strikes, the "crisis of governability," and the looming "capital shortage" led the power elite to abandon corporate liberalism in favor of neoliberalism.

But as Stromberg argues, the American ruling class was wrong in seeing the crises of overproduction and surplus capital as *"natural or inevitable outgrowths of a market society."*[2] They were, rather, the effects of regulatory cartelization of the economy by state capitalist policies.

The effects of the state's subsidies and regulations are 1) to encourage creation of production facilities on such a large scale that they are not viable in a free market, and cannot dispose of their full product domestically; 2) to promote monopoly prices above market clearing levels; and 3) to set up market entry barriers and put new or smaller firms at a competitive disadvantage, so as to deny adequate domestic outlets for investment capital. The result is a crisis of overproduction and surplus capital, and a spiraling process of increasing statism as politically connected corporate interests act through the state to resolve the crisis.

Although I cannot praise Stromberg too much for this contribution, which I use as a starting-point, I diverge from his analysis in several ways. Stromberg, himself a Rothbardian anarcho-capitalist affiliated with the Mises Institute, relies mainly on Schumpeter's analysis of "export-dependent monopoly capitalism," as read through a Left-Rothbardian lens. Secondarily, he relies on "corporate liberal" historians like Williams, Kolko and Weinstein. To the extent that he refers to Marxist analyses of monopoly capital, it is mainly in passing, if not utterly dismissive. But such theorists (especially Baran and Sweezy of the *Monthly Review* group, James O'Connor, and Paul Mattick) have paralleled his own Austrian analysis in interesting ways, and have provided unique insights that are complementary to the Austrian position.

Starting with Stromberg's article as my point of departure, I will integrate both his and these other analyses into my own mutualist framework. More importantly, as a mutualist, I go much further than Stromberg and the Austrians in dissociating the present corporate system from a genuine free market. Following the economic arguments of Benjamin Tucker and other mutualists, I distinguish capitalism from a genuine free market, and treat the state capitalism of the twentieth century as the natural outgrowth of a system which was statist from its very beginning.

THE RISE OF STATE CAPITALISM

Stromberg's argument is based on Murray Rothbard's Austrian theory of regulatory cartelization. Economists of the Austrian school, especially Ludwig von Mises and his disciple Rothbard, have taken a view of state capitalism in many respects resembling that of the New Left. That is, both groups portray it as a movement of large-scale, organized capital to obtain its profits through state intervention into the economy, although the regulations entailed in this project are usually sold to the public as "progressive" restraints on big business. This parallelism between the analyses of the New Left and the libertarian Right was capitalized upon by Rothbard in his own overtures to the Left. In such projects as his journal *Left and Right*, and in the anthology *A New History of Leviathan* (coedited with New Leftist Ronald Radosh), he sought an alliance of the libertarian Left and Right against the corporate state.

Rothbard treated the "war collectivism" of World War I as a prototype for twentieth century state capitalism. He described it as

> *a new order marked by strong government, and extensive and pervasive government intervention and planning, for the purpose of providing a network of subsidies and monopolistic privileges to business, and especially to large business, interests. In particular, the economy could be cartelized under the aegis of government, with prices raised and production fixed and restricted, in the classic pattern of monopoly; and military and other government contracts could be channeled into the hands of favored corporate producers. Labor, which had been becoming increasingly rambunctious, could be tamed and bridled into the service of this new, state monopoly-capitalist order, through the device of promoting a suitably cooperative trade unionism, and by bringing the willing union leaders into the planning system as junior partners.*[3]

This view of state capitalism, shared by New Leftists and Austrians, flies in the face of the dominant American ideological framework. Before we can analyze the rise of statist monopoly capitalism in the twentieth century, we must rid ourselves of this pernicious conventional wisdom, common to mainstream left and right. Both mainline "conservatives" and "liberals" share the same mirror-imaged view of the world (but with "good guys" and "bad guys" reversed), in which the growth of the welfare and regulatory state reflected a desire to restrain the power of big business. According to this commonly accepted version of history, the Progressive and New Deal programs were forced on corporate interests from outside, and against their will. In this picture of the world, big government is a populist "countervailing power" against the "economic royalists." This picture of the world is shared by Randroids and Chicago boys on the right, who fulminate against "looting" by "anti-capitalist" collectivists; and by NPR liberals who confuse the New Deal with the Second Advent. It is the official ideology of the publick skool establishment, whose history texts recount heroic legends of "trust buster" TR combating the "malefactors of great wealth," and Upton Sinclair's crusade against the meat packers. It is expressed in almost identical terms in right-wing home school texts by Clarence Carson and the like, who bemoan the defeat of business at the hands of the collectivist state.

The conventional understanding of government regulation was succinctly stated by Arthur Schlesinger, Jr., the foremost spokesman for corporate liberalism: *"Liberalism in America has ordinarily been the movement on the part of the other sections of society to restrain the power of the business community."*[4] Mainstream liberals and conservatives may disagree on who the "bad guy" is in this scenario, but they are largely in agreement on the anti-business motivation. For example, Theodore Levitt of the *Harvard Business Review* lamented in 1968: *"Business has not really won or had its way in connection with even a single piece of proposed regulatory or social legislation in the last three-quarters of a century."*[5]

The problem with these conventional assessments is that they are an almost exact reverse of the truth. The New Left has produced massive amounts of evidence to the contrary, virtually demolishing the official version of American history. (The problem, as in most cases of "paradigm shift," is that the consensus reality doesn't know it's dead yet). Scholars like James Weinstein, Gabriel Kolko and William Appleman Williams, in their historical analyses of "corporate liberalism," have demonstrated that the main forces behind both Progressive and New Deal "reforms" were powerful corporate interests. The following is intended only as a brief survey of the development of the corporate liberal regime, and an introduction to the New Left (and Austrian) analysis of it.

Despite Schlesinger's aura of "idealism" surrounding the twentieth century welfare/regulatory state, it was in fact pioneered by the Junker Socialism of Prussia: the work of that renowned New Age tree-hugger, Bismarck. The mainline socialist movement at the turn of the century (i.e., the part still controlled by actual workers, and not coopted by Fabian intellectuals) denounced the tendency to equate such measures with socialism, instead calling it "state socialism." The *International Socialist Review* in 1912, for example, warned workers not to be fooled into identifying social insurance or the nationalization of industry with "socialism." Such state programs as workers' compensation, old age and health insurance, were simply measures to strengthen and stabilize capitalism. And nationalization simply reflected the capitalist's realization *"that he can carry on certain portions of the production process more efficiently through his government than through private corporations.... Some muddleheads find that will be Socialism, but the capitalist knows better."*[6] Friedrich Engels took this view of public ownership:

> *At a further stage of evolution this form [the joint-stock company] also becomes insufficient: the official representative of capitalist society—the state—will ultimately have to undertake the direction of production. This necessity for conversion into state property is felt first in the great institutions for intercourse and communication—the post office, the telegraphs, the railways.*[7]

The rise of "corporate liberalism" as an ideology at the turn of the twentieth century was brilliantly detailed in James Weinstein's *The Corporate Ideal in the Liberal State*.[8] It was reflected in the so-called "Progressive" movement in the U.S., and by Fabianism, the closest British parallel. The ideology was in many ways an expression of the world view of "New Class" apparatchiks, whose chief values were planning and the cult of "professionalism," and who saw the lower orders as human raw material to be managed for their own good. This class is quite close to the social base for the Ingsoc movement that Orwell described in *1984*:

> *The new aristocracy was made up for the most part of bureaucrats, scientists, technicians, trade-union organizers, publicity experts, sociologists, teachers, journalists, and professional politicians. These people, whose origins lay in the salaried middle class and the upper grades of the working class, had been shaped and brought together by the barren world of monopoly industry and centralized government.*[9]

The key to efficiency, for the New Class, was to remove as much of life as possible from the domain of "politics" (that is, interference by non-professionals) and to place it under the control of competent authorities. "Democracy" was recast as a periodic legitimation ritual, with the individual returning between elections to his proper role of sitting down and shutting up. In virtually every area of life, the average citizen was to be transformed from Jefferson's self-sufficient and resourceful yeoman into a client of some bureaucracy or other. The educational system was designed to render him a passive and easily managed recipient of the "services" of one institution after another. In every area of life, as Ivan Illich wrote, the citizen/subject/resource was taught to *"confuse process and substance."*

> *Health, learning, dignity, independence, and creative endeavor are defined as little more than the performance of the institutions which claim to serve these ends, and their improvement is made to depend on allocating more resources to the management of hospitals, schools, and other agencies in question.*

As a corollary of this principle, the public was taught to *"view doctoring oneself as irresponsible, learning on one's own as unreliable,* *and community organization, when not paid for by those in authority, as a form of aggression or subversion."*[10]

Although the corporate liberal ideology is associated with the New Class world view, it intersected in many ways with that of "enlightened" employers who saw paternalism as a way of getting more out of workers. Much of corporate leadership at the turn of the century

> *revealed a strikingly firm conception of a benevolent feudal approach to the firm and its workers. Both were to be dominated and co-ordinated from the central office. In that vein, they were willing to extend... such things as new housing, old age pensions, death payments, wage and job schedules, and bureaus charged with responsibility for welfare, safety and sanitation.*[11]

The New Class mania for planning and rationality was reflected within the corporation in the Taylorist/Fordist cult of "scientific management," in which the workman was deskilled and control of the production process was shifted upward into the white collar hierarchy of managers and engineers.[12] This new intersection of interests between the progressive social planners and corporate management was reflected, organizationally, in the National Civic Federation, whose purpose was to bring together the most enlightened and socially responsible elements of business, labor, and government.[13] If, as Big Bill Haywood said of the IWW's inaugural meeting, that body was "the Continental Congress of the working class," then the NCF was surely the Continental Congress of the New Class. The themes of corporate liberalism, as David Noble described them, were *"cooperation rather than conflict, the natural harmony of interest between labor and capital, and effective management and administration as the means toward prosperity and general welfare."*[14]

The New Class intellectuals, despite their prominent role in formulating the ideology, were coopted as a decidedly junior partner of the corporate elite. As Hilaire Belloc and William English Walling perceived, "Progressives" and Fabians valued regimentation and centralized control much more than their allegedly "socialist" economic projects. They recognized, for the most part, that expropriation of the capitalists was impossible in the real world. The large capitalists, in turn, recognized the value of the welfare and regulatory state for maintaining social stability and control, and for making possible the political extraction of profits in the name of egalitarian values. The result was a devil's bargain by which the working class was guaranteed a minimum level of comfort and security, in return for which the large corporations were enabled to extract profits through the state. Of the "Progressive" intellectual, Belloc wrote:

> *Let laws exist which make the proper housing, feeding, clothing, and recreation of the proletarian mass be incumbent on the possessing class, and the observance of such rules be imposed, by inspection and punishment, upon those whom he pretends to benefit, and all that he really cares for will be achieved.*[15]

The New Class, its appetite for power satiated with petty despotisms in the departments of education and human services, was put to work on its primary mission of cartelizing the economy for the profit of the corporate ruling class. Its "populist" rhetoric was harnessed to sell state capitalism to the masses. The overeducated yahoos admirably fitted the role of useful idiots for their masters.

But whatever the "idealistic" motivations of the social engineers themselves, their program was implemented to the extent that it furthered the material interests of monopoly capital. Kolko used the term "political capitalism" to describe the general objectives big business pursued through the "Progressive" legislative agenda:

> *Political capitalism is the utilization of political outlets to attain conditions of stability, predictability, and security—to attain rationalization—in the economy. Stability is the elimination of internecine competition and erratic fluctuations in the economy. Predictability is the ability, on the basis of politically stabilized and secured means, to plan future economic action on the basis of fairly calculable expectations. By security I mean protection from the political attacks latent in any formally democratic political structure. I do not give to rationalization its frequent definition as the improvement of efficiency, output, or internal organization of a company; I mean by the term, rather, the organization of the economy and the larger political and social spheres in a manner that will allow corporations to function in a predictable and secure environment permitting reasonable profits over the long run.*[16]

From the turn of the twentieth century on, there was a series of attempts by corporate leaders to create some institutional structure by which price competition could be regulated and their respective market shares stabilized. *"It was then,"* Paul Sweezy wrote,

> *that U.S. businessmen learned the self-defeating nature of price-cutting as a competitive weapon and started the process of banning it through a complex network of laws (corporate and regulatory), institutions (e.g., trade associations), and conventions (e.g., price leadership) from normal business practice.*[17]

But merely private attempts at cartelization before the Progressive Era—namely the so-called "trusts"—were miserable failures, according to Kolko. The dominant trend at the turn of the century—despite the effects of tariffs, patents, railroad subsidies, and other existing forms of statism—was competition. The trust movement was an attempt to cartelize the economy through such voluntary and private means as mergers, acquisitions, and price collusion. But the over-leveraged and over-capitalized trusts were even less efficient than before, and steadily lost market share at the hands of their smaller, more efficient competitors. Standard Oil and U.S. Steel, immediately after their formation, began a process of eroding market share. In the face of this resounding failure, big business acted through the state to cartelize itself—hence, the Progressive regulatory agenda. *"Ironically, contrary to the consensus of historians, it was not the existence of monopoly that caused the federal government to intervene in the economy, but the lack of it."*[18]

The FTC and Clayton Acts reversed this long trend toward competition and loss of market share and made stability possible.

> *The provisions of the new laws attacking unfair competitors and price discrimination meant that the government would now make it possible for many trade associations to stabilize, for the first time, prices within their industries, and to make effective oligopoly a new phase of the economy.*[19]

The Federal Trade Commission created a hospitable atmosphere for trade associations and their efforts to prevent price cutting.[20] The two pieces of legislation accomplished what the trusts had been unable to: it enabled a handful of firms in each industry to stabilize their market share and to maintain an oligopoly structure between them. This oligopoly pattern has remained stable ever since.

> *It was during the war* [i.e. WWI] *that effective, working oligopoly and price and market agreements became operational in the dominant sectors of the American economy. The rapid diffusion of power in the economy and relatively easy entry* [i.e., the conditions the trust movement failed to suppress] *virtually ceased. Despite the cessation of important new legislative enactments, the unity of business and the federal government continued throughout the 1920s and thereafter, using the foundations laid in the Progressive Era to stabilize and consolidate conditions within various industries. And, on the same progressive foundations and exploiting the experience with the war agencies, Herbert Hoover and Franklin Roosevelt later formulated programs for saving American capitalism. The principle of utilizing the federal government to stabilize the economy, established in the context of modern industrialism during the Progressive Era, became the basis of political capitalism in its many later ramifications.*[21]

In addition, the various safety and quality regulations introduced during this period also had the effect of cartelizing the market. They served essentially the same purpose as the later attempts in the Wilson war economy to reduce the variety of styles and features available in product lines, in the name of "efficiency." Any action by the state to impose a uniform standard of quality (e.g. safety), across the board, necessarily eliminates safety as a competitive issue between firms. Thus, the industry is partially cartelized, to the very same extent that would have happened had all the firms in it adopted a uniform level of quality standards, and agreed to stop competing in that area. A regulation, in essence, is a state-enforced cartel in which the members agree to cease competing in a particular area of quality or safety, and instead agree on a uniform standard. And unlike non-state-enforced cartels, no member can seek an advantage by defecting. Similarly, the provision of services by the state (R&D funding, for example) removes them as components of price in cost competition between firms, and places them in the realm of guaranteed income to all firms in a market alike. Whether through regulations or direct state subsidies to various forms of accumulation, the corporations act through the state to carry out some activities jointly, and to restrict competition to selected areas.

And Kolko provided abundant evidence that the main force behind this entire legislative agenda was big business. The Meat Inspection Act, for instance, was passed primarily at the behest of the big meat packers. In the 1880s, repeated scandals involving tainted meat resulted in U.S. firms being shut out of several European markets. The big packers turned to the U.S. government to conduct inspections on exported meat. By carrying out this function jointly, through the state, they removed quality inspection as a competitive issue between them, and the U.S. government provided a seal of approval in much the same way a trade association would—but at public expense. The problem with this early inspection regime was that only the largest packers were involved in the export trade; mandatory inspections therefore gave a competitive advantage to the small firms that supplied only the domestic market. The main motive behind Roosevelt's Meat Inspection Act was to bring the small packers into the inspection regime, and thereby end the competitive disability it imposed on large firms. Upton Sinclair simply served as an unwitting shill for the meat-packing industry.[22] This pattern was repeated, in its essential form, in virtually every component of the "Progressive" agenda.

The same leitmotif reappears in the New Deal. The core of business support for the New Deal was, as Ronald Radosh described it, *"leading moderate big businessmen and liberal-minded lawyers from large corporate enterprises."*[23] Thomas Ferguson and Joel Rogers described them more specifically as *"a new power bloc of capital-intensive industries, investment banks, and internationally oriented commercial banks."*[24]

Labor was a relatively minor part of the total cost package of such businesses; at the same time, capital-intensive industry, as Galbraith pointed out in his analysis of the "technostructure," depended on long-term stability and predictability for planning high-tech production. Therefore, this segment of big business was willing to trade higher wages for social peace in the workplace.[25] The roots of this faction can be traced to the relatively "progressive" employers described by James Weinstein in his account of the National Civic Federation at the turn of the century, who were willing to engage in collective bargaining over wages and working conditions in return for uncontested management control of the workplace.[26]

This attitude was at the root of the Taylorist/Fordist system, in which the labor bureaucrats agreed to let management manage, so long as labor got an adequate share of the pie.[27] Such a social contract was most emphatically in the interests of large corporations. The sitdown movement in the auto industry and the organizing strikes among West coast longshoremen were virtual revolutions among rank and file workers on the shop floor. In many cases, they were turning into regional general strikes. The Wagner Act domesticated this revolution and brought it under the control of professional labor bureaucrats.

Industrial unionism, from the employer's viewpoint, had the advantage over craft unionism of providing a single bargaining agent with which management could deal. One of the reasons for the popularity of "company unions" among large corporations, besides the obvious advantages in pliability, was the fact that they were an alternative to the host of separate craft unions of the AFL. Even in terms of pliability, the industrial unions of the Thirties had some of the advantages of company unions. By bringing collective bargaining under the aegis of federal labor law, corporate management was able to use union leadership to discipline their own rank and file, and to use the federal courts as a mechanism of enforcement.

> *The New Dealers devised... a means to integrate big labor into the corporate state. But only unions that were industrially organized, and which paralleled in their structure the organization of industry itself, could play the appropriate role. A successful corporate state required a safe industrial-union movement to work. It also required a union leadership that shared the desire to operate the economy from the top in formal conferences with the leaders of the other functional economic groups, particularly the corporate leaders. The CIO unions... provided such a union leadership*[28]

And moderate members of the corporate elite also gained reassurance from the earlier British experience in accepting collective bargaining. Collective bargaining did not affect the distribution of wealth, for one thing: *"Labor gains were made due to the general growth in wealth and at the expense of the consumer, which would mean small businessmen, pensioners, farmers, and nonunionized white collar employees."* (Not to mention a large contingent of unskilled laborers and lumpenproles without bargaining leverage against the employing classes). And the British found that firms in a position of oligopoly, with a relatively inelastic demand, were able to pass increased labor costs on to the consumer at virtually no cost to themselves.[29]

The Wagner Act served the central purposes of the corporate elite. To some extent it was a response to mass pressure from below. But the decision on whether and how to respond, and the form of the response, and the implementation of the response, were all firmly in the hands of the corporate elite. According to Domhoff (writing in *The Higher Circles*), *"The benefits to capital were several: greater efficiency and productivity from labor, less labor turnover, the disciplining of the labor force by labor unions, the possibility of planning labor costs over the long run, and the dampening of radical doctrines."*[30] James O'Connor described it this way: *"From the standpoint of monopoly capital the main function of unions was... to inhibit disruptive, spontaneous rank-and-file activity (e.g., wildcat strikes and slowdowns) and to maintain labor discipline in general. In other words, unions were... the guarantors of 'managerial prerogatives.'"*[31] The objectives of stability and productivity were more likely to be met by such a limited Taylorist social compact than by a return to the labor violence and state repression of the late nineteenth century.

In *The Power Elite and the State*, Domhoff retreated to a slightly more nuanced position.[32] It was true, he admitted, that a majority of large corporations opposed the Wagner Act as it was actually presented. But the basic principles of collective bargaining embodied in it had been the outcome of decades of corporate liberal theory and practice, worked out through policy networks in which "progressive" large corporations had played a leading role; the National Civic Federation, as Weinstein described its career, was a typical example of such networks. The motives of those in the Roosevelt administration who framed the Wagner Act were very much in the mainstream of corporate liberalism. Although they may have been ambivalent about the specific form of FDR's labor legislation, Swope and his corporate fellow travelers had played the major role in formulating the principles behind it. Whatever individual business leaders thought of Wagner, it was drafted by mainstream corporate lawyers who were products of the ideological climate created by those same business leaders; and it was drafted with a view to their interests. Although it was not accepted by big business as a whole, it was largely the creation of representatives of big business interests whose understanding of the act's purpose was largely the same as those outlined in Domhoff's quote above from *The Higher Circles*. And although it was designed to contain the threat of working class power, it benefited by large-scale working class support as the best deal they were likely to get. Finally, the southern segment of the ruling class was willing to go along with it because it specifically exempted agricultural laborers.

Among the other benefits of labor legislation, corporate interests are able to rely on the state's police powers to impose an authoritarian character on labor relations. In the increasingly statist system, Bukharin pointed out in his analysis of state capitalism almost a century ago,

> *workers* [become] *formally bonded to the imperialist state. In point of fact, employees of state enterprises even before the war were deprived of a number of most elementary rights, like the right to organise, to strike, etc... With state capitalism making nearly every line of production important for the state, with nearly all branches of production directly serving the interests of war, prohibitive legislation is extended to the entire field of economic activities. The workers are deprived of the right to move, the right to strike, the right to belong to the so-called "subversive" parties, the right to choose an enterprise, etc. They are transformed into bondsmen attached, not to the land, but to the plant.*[33]

The relevance of this line of analysis to America can be seen with a cursory look at Cleveland's response to the Pullman strike, the Railway Labor Relations Act and Taft-Hartley, and Truman's and Bush's threats to use soldiers as scabs in, respectively, the steelworkers' and longshoremen's strikes.

The Social Security Act was the other major part of the New Deal agenda. In *The Higher Circles*, Domhoff described its functioning in language much like his characterization of the Wagner Act. Its most important result

> *from the point of view of the power elite was a restabilization of the system. It put a floor under consumer demand, raised people's expectations for the future and directed political energies back into conventional channels... The wealth distribution did not change, decision-making power remained in the hands of upper-class leaders, and the basic principles that encased the conflict were set forth by moderate members of the power elite.*[34]

In his later work *The Power Elite and the State*, Domhoff undertook a much more thorough analysis, with a literature review of his structuralist Marxists critics, that essentially verified his earlier position.[35]

The New Deal and Great Society welfare state, according to Frances Piven and Richard Cloward, served a similar function to that of Social Security. It blunted the danger of mass political radicalism resulting from widespread homelessness and starvation. It provided social control by bringing the underclass under the supervision of an army of intrusive, paternalistic social workers and welfare case workers.[36] And like Social Security, it put a floor on aggregate demand.

To the extent that the welfare and labor provisions of FDR's New Deal have benefited average people, the situation resembles a parable of Tolstoy's:

> *I see mankind as a herd of cattle inside a fenced enclosure. Outside the fence are green pastures and plenty for the cattle to eat, while inside the fence there is not quite grass enough for the cattle. Consequently, the cattle are tramping underfoot what little grass there is and goring each other to death in their struggle for existence.*
>
> *I saw the owner of the herd come to them, and when he saw their pitiful condition he was filled with compassion for them and thought of all he could do to improve their condition.*
>
> *So he called his friends together and asked them to assist him in cutting grass from outside the fence and throwing it over the fence to the cattle. And that they called Charity.*
>
> *Then, because the calves were dying off and not growing up into serviceable cattle, he arranged that they should each have a pint of milk every morning for breakfast.*
>
> *Because they were dying off in the cold nights, he put up beautiful well-drained and well-ventilated cowsheds for the cattle.*
>
> *Because they were goring each other in the struggle for existence, he put corks on the horns of the cattle, so that the wounds they gave each other might not be so serious. Then he reserved a part of the enclosure for the old bulls and cows over 70 years of age.*
>
> *In fact, he did everything he could think of to improve the condition of the cattle, and when I asked him why he did not do the one obvious thing, break down the fence, and let the cattle out, he answered: 'If I let the cattle out, I should no longer be able to milk them.'*[37]

The capitalist supporters of the welfare state are like an enlightened farmer who understands that his livestock will produce more for him, in the long run, if they are well treated.

Hilaire Belloc speculated that the industrial serfdom in his Servile State would only be stable if the State subjected the unemployable underclass to "corrective" treatment in forced labor camps, and forced everyone even marginally employable into a job, as a deterrent to deliberate parasitism or malingering. Society would *"find itself"* under the *"necessity,"*

> *when once the principle of the minimum wage is conceded, coupled with the principle of sufficiency and security, to control those whom the minimum wage excludes from the area of normal employment.*[38]

This society would be organized on the pattern of Anthony Burgess' decaying welfare state, in which "everyone not a child, or with child, must be employed." But Belloc's speculation was not idle; since Fabians like the Webbs and H.G. Wells had proposed just such labor camps for the underclass in their paternalistic utopia.[39]

Although we are still far from a formal requirement to be either employed or subjected to remedial labor by the State, a number of intersecting State policies have that tendency. For example, the imposition of compulsory unemployment insurance, with the State as arbiter of when one qualifies to collect:

> *A man has been compelled by law to put aside sums from his wages as insurance against unemployment. But he is no longer the judge of how such sums shall be used. They are not in his possession... They are in the hands of a government official. 'Here is work offered you at twenty-five shillings a week. If you do not take it, you certainly shall not have a right to the money you have been compelled to put aside. If you will take it the sum shall still stand to your credit, and when next in my judgment your unemployment is not due to your recalcitrance and refusal to labor, I will permit you to have some of your money: not otherwise.'*[40]

Still another measure with this tendency is "workfare," coupled with subsidies to employers who hire the underclass as peon labor. Vagrancy laws and legal restrictions on jitney services, self-built temporary shelters, etc., serve to reduce the range of options for independent subsistence. And finally, the prison-industrial complex, as "employer" for the nearly half of its "clients" guilty of only consensual market transactions, is in effect a forced labor camp absorbing a major segment of the underclass.

The culmination of FDR's state capitalism (of course) was the military-industrial complex which arose from World War II, and has continued ever since. It has since been described as "military Keynesianism," or a "perpetual war economy." A first step in realizing the monumental scale of the war economy's effect is to consider that the total value of plant and equipment in the United States increased by about two-thirds (from $40 to $66 billion) between 1939 and 1945, most of it a taxpayer "gift" of forced investment funds provided to the country's largest corporations.[41] Profit was virtually guaranteed on war production through "cost-plus" contracts.[42]

Demobilization of the war economy after 1945 very nearly threw the overbuilt and government-dependent industrial sector into a renewed depression. For example, in *Harry Truman and the War Scare of 1948*, Frank Kofsky described the aircraft industry as spiraling into red ink after the end of the war, and on the verge of bankruptcy when it was rescued by Truman's new bout of Cold War spending on heavy bombers.[43]

The Cold War restored the corporate economy's heavy reliance on the state as a source of guaranteed sales. Charles Nathanson argued that *"one conclusion is inescapable: major firms with huge aggregations of corporate capital owe their survival after World War II to the Cold War..."*[44] For example, David Noble pointed out that civilian jumbo jets would never have existed without the government's heavy bomber contracts. The production runs for the civilian market alone were too small to pay for the complex and expensive machine tools. The 747 is essentially a spin-off of military production.[45]

The heavy industrial and high tech sectors were given a virtually guaranteed outlet, not only by U.S. military procurement, but by grants and loan guarantees for foreign military sales under the Military Assistance Program. Although apologists for the military-industrial complex have tried to stress the relatively small fraction of total production occupied by military goods, it makes more sense to compare the volume of military procurement to the amount of idle capacity. Military production runs amounting to a minor percentage of total production might absorb a major part of total excess production capacity, and have a huge effect on reducing unit costs. And the rate of profit on military contracts tends to be quite a bit higher, given the fact that military goods have no "standard" market price, and the fact that prices are set by political means (as periodic Pentagon budget scandals should tell us).[46]

But the importance of the state as a purchaser was eclipsed by its relationship to the producers themselves, as Charles Nathanson pointed out. The research and development process was heavily militarized by the Cold War "military-R&D complex." Military R&D often results in basic, general use technologies with broad civilian applications. Technologies originally developed for the Pentagon have often become the basis for entire categories of consumer goods.[47] The general effect has been to *"substantially* [eliminate] *the major risk area of capitalism: the development of and experimentation with new processes of production and new products."*[48]

This is the case in electronics especially, where many products originally developed by military R&D *"have become the new commercial growth areas of the economy."*[49] Transistors and other forms of miniaturized circuitry were developed primarily with Pentagon research money. The federal government was the primary market for large mainframe computers in the early days of the industry; without government contracts, the industry might never have had sufficient production runs to adopt mass production and reduce unit costs low enough to enter the private market. And the infrastructure for the worldwide web itself was created by the Pentagon's DARPA, originally as a redundant global communications system that could survive a nuclear war. Any implied commentary on the career of Bill Gates is, of course, unintended.

Overall, Nathanson estimated, industry depended on military funding for around 60% of its research and development spending; but this figure is considerably understated by the fact that a significant part of nominally civilian R&D spending is aimed at developing civilian applications for military technology.[50] It is also understated by the fact that military R&D is often used for developing production technologies (like automated control systems in the machine tool industry) that become the basis for production methods throughout the civilian sector.

Seymour Melman described the "permanent war economy" as a privately-owned, centrally-planned economy that included most heavy manufacturing and high tech industry. This *"state-controlled economy"* was based on the principles of *"maximization of costs and of government subsidies."*[51]

> *It can draw on the federal budget for virtually unlimited capital. It operates in an insulated, monopoly market that makes the state-capitalist firms, singly and jointly, impervious to inflation, to poor productivity performance, to poor product design and poor production managing. The subsidy pattern has made the state-capitalist firms failure-proof. That is the state-capitalist replacement for the classic self-correcting mechanisms of the competitive, cost-minimizing, profit-maximizing firm.*[52]

The state capitalism of the twentieth century differed fundamentally from the misnamed "laissez-faire" capitalism of the nineteenth century in two regards: 1) the growth of direct organizational ties between corporations and the state, and the circulation of managerial personnel between them; and 2) the eclipse of surplus value extraction from the worker through the production process (as described by classical Marxism), by the extraction of "super-profits" a) from the consumer through the exchange process and b) from the taxpayer through the fiscal process.

Although microeconomics texts generally describe the functioning of supply and demand curves as though the nature of the market actors were unchanged since Adam Smith's day, in fact the rise of the large corporation as the dominant type of economic actor has been a revolution as profound as any in history. It occurred parallel to the rise of the "positive" state (i.e., the omnicompetent, centralized regulatory state) in the nineteenth and early twentieth century. And, vitally important to remember, the two phenomena were mutually reinforcing. The state's subsidies, privileges and other interventions in the market were the major force behind the centralization of the economy and the concentration of productive power. And in turn, the corporate economy's need for stability and rationality, and for state-guaranteed profits, has been the central force behind the continuing growth of the Leviathan state.

And the rise of the centralized state and the centralized corporation has created a system in which the two are organizationally connected, and run by essentially the same circulating elites (a study of the careers of David Rockefeller, Averell Harriman, or Robert McNamara should be instructive on the last point). This phenomenon has been most ably described by the "power elite" school of sociologists, particularly C. Wright Mills and G. William Domhoff.

According to Mills, the capitalist class was not supplanted by a "managerial revolution," as James Burnham had claimed; but the elite's structure was still most profoundly affected by the corporate revolution. The plutocracy ceased to be a social "class" in the sense described by Marx: an autonomous social formation perpetuated largely through family lines of transmission and informal social ties, with its organizational links of firm ownership clearly secondary to its existence in the "social" realm. The plutocracy were no longer just a few hundred rich families who happened to invest their old money in one firm or another. Rather, Mills described it as *"the managerial reorganization of the propertied classes into the more or less unified stratum of the corporate rich."*[53] Rather than an amorphous collection of wealthy families, in which legal claims to an income from property were the defining characteristic, the ruling class came to be defined by the organizational structure through which it gained its wealth. It was because of this new importance of the institutional forms of the power structure that Mills preferred the term "power elite" to "ruling class": *"'Class' is an economic term; 'rule' a political one. The phrase, 'ruling class,' thus contains the theory that an economic class rules politically."*[54]

Domhoff, who retained more of the traditional Marxist idea of class than did Mill, described the situation in this way:

> *The upper class as a whole does not do the ruling. Instead, class rule is manifested through the activities of a wide variety of organizations and institutions. These organizations and institutions are financed and directed by those members of the upper class who have the interest and ability to involve themselves in protecting and enhancing the privileged social position of their class. Leaders within the upper class join with high-level employees in the organizations they control to make up what will be called the power elite. This power elite is the leadership group of the upper class as a whole, but it is not the same thing as the upper class, for not all members of the upper class are members of the power elite and not all members of the power elite are part of the upper class. It is members of the power elite who take part in the processes that maintain the class structure.*[55]

Because of this corporate reorganization, senior corporate management has been incorporated as junior partners in the power elite. Contrary to theories of the "managerial revolution," senior management is kept firmly subordinated, through informal social ties and the corporate socialization process, to the goals of the owners. Even a Welch or Eisner understands that his career depends on being a "team player," and the team's objectives are set by the Rockefellers and DuPonts.[56] The corporate reorganization of the economy has led to permanent organizational links between large corporations, government agencies, research institutions, and foundation money, and resulted in the plutocracy functioning *organizationally* on a class-wide basis.[57]

Bukharin anticipated the power elite theory of Mills and Domhoff, in which the ruling class ceased to be an "amorphous mass" of wealthy families, and was itself (in C. Wright Mills' words) "reorganized along corporate lines." He wrote of interlocking elites in language that prefigured Mills:

> *With the growth of the importance of state power, its inner structure also changes. The state becomes more than ever before an "executive committee of the ruling classes." It is true that state power always reflected the interests of the "upper strata," but inasmuch as the top layer itself was a more or less amorphous mass, the organised state apparatus faced an unorganised class (or classes) whose interests it embodied. Matters are totally different now. The state apparatus not only embodies the interests of the ruling classes in general, but also their collectively expressed will. It faces no more atomised members of the ruling classes, but their organisations. Thus the government is* de facto *transformed into a "committee" elected by the representatives of entrepreneurs' organizations, and it becomes the highest guiding force of the state capitalist trust.*[58]

In a passage that could have been written by Mills, Bukharin described the rotation of personnel between "private" and "public" offices in the interlocking directorate of state and capitalist bureaucracies:

> *The bourgeoisie loses nothing from shifting production from one of its hands into another, since present-day state power is nothing but an entrepreneurs' company of tremendous power, headed even by the same persons that occupy the leading positions in the banking and syndicate offices.*[59]

It is the common class background of the state and corporate elites, and the constant circulation of them between institutions, that underscores the utter ridiculousness of controlling corporate power through such nostrums as "clean election" reforms. The promotion of corporate aims by high-level policy makers is the result mainly, not of soft money and other forms of cartoonishly corrupt villainy, but of the policy makers' cultural background and worldview. Mills commented ironically on the "pitiful hearings" on confirmation of corporate leaders appointed to government office:

> *The revealing point... is not the cynicism toward the law and toward the lawmakers on the middle levels of power which they display, nor their reluctance to dispose of their personal stock. The interesting point is how impossible it is for such men to divest themselves of their engagement with the corporate world in general and with their own corporations in particular. Not only their money, but their friends, their interests, their training—their lives in short—are deeply involved in this world... The point is not so much financial or personal interests in a given corporation, but identification with the corporate world.*[60]

Although the structuralist Marxists have created an artificial dichotomy between their position and that of institutional elitists like Mill and Domhoff,[61] they are entirely correct in pointing out that the political leadership does not have to be subject, in any crude way, to corporate control. Instead, the very structure of the corporate economy and the situations it creates compel the leadership to promote corporate interests out of perceived "objective necessity." Given not just the background and assumptions of the policy elite, but the dependence of political on economic stability, policies that stabilize the corporate economy and guarantee steady output and profits are the only imaginable alternatives. And regardless of how "progressive" the regulatory state's ostensible aims, the organizational imperative will make the corporate economy's managers and directors the main source of the processed data and technical expertise on which policy makers depend.

The public's control over the system's overall structure, besides, is severely constrained by the fact that people who work inside the corporate and state apparatus inevitably have an advantage in time, information, attention span, and agenda control over the theoretically "sovereign" outsiders in whose name they act. The very organs of cultural reproduction—the statist school system, the corporate press, etc.—shape the public's "common sense" understanding of what is possible, and what is to be relegated to the outer darkness of "extremism." So long as wire service and network news foreign correspondents write their copy in hotel rooms from government handouts, and half the column inches in newspapers are generated by government and corporate public relations departments, the "moderate" understanding will always be conditioned by institutional culture.

In making use of the "Power Elite" model of Mills and Domhoff, one must be prepared to counter the inevitable "tinfoil hat" charges from certain quarters. Power Elite theory, despite a superficial resemblance to some right-wing conspiracy theories, has key differences from them. The latter take, as the primary motive force of history, personal cabals united by some esoteric or gratuitously evil ideology. Now, the concentration of political and economic power in the control of small, interlocking elites, is indeed likely to result in informal personal ties, and therefore to have as its side-effect sporadic conspiracies (Stinnett's *Day of Deceit* theory of Pearl Harbor is a leading example). But such conspiracy is not necessary to the working of the system—it simply occurs as a secondary phenomenon, and occasionally speeds up or intensifies processes that happen for the most part automatically. Although the CFR is an excellent proxy for the foreign policy elite, and some informal networking and coordination of policy no doubt get done through it, it is essentially a secondary organization, whose membership are *ex officio* representatives of the major institutions regulating national life. The primary phenomenon is the institutional concentration of power that brings such people into contact with each other in their official capacities.

In the "monopoly capitalism" model of Paul Baran and Paul Sweezy, the central figures in the Monthly Review group, the corporate system can maintain stable profit levels by passing its costs on to the consumer. The increased labor costs of unionized heavy manufacturing are paid, ultimately, by the non-cartelized sectors of the economy (the same is true of the corporate income tax and the rest of the burden of "progressive" taxation, although the authors do not mention it in this context). Capitalism is no longer predominantly, as Marx had assumed in the nineteenth century, a system of competition. As a result, the large corporate sector of the economy becomes immune to Marx's law of the falling tendency of the rate of profit.[62]

> *The crucial difference between* [competitive capitalism and monopoly capitalism] *is well known and can be summed up in the proposition that under competitive capitalism the individual enterprise is a "price taker," while under monopoly capitalism the big corporation is a "price maker."*[63]

Direct collusion between the firms in an oligopoly market, whether open or hidden, is not required. "Price leadership," although the most common means by which corporations informally agree on price, is only one of several.

> *Price leadership... is only the leading species of a much larger genus... So long as some fairly regular pattern is maintained such cases may be described as modified forms of price leadership. But there are many other situations in which no such regularity is discernible: which firm initiates price changes seems to be arbitrary. This does not mean that the essential ingredient of tacit collusion is absent. The initiating firm may simply be announcing to the rest of the industry, "We think the time has come to raise (or lower) the price in the interest of all of us." If the others agree, they will follow. If they do not, they will stand pat, and the firm that made the first move will rescind its initial price change. It is this willingness to rescind if an initial change is not followed which distinguishes the tacit collusion situation from a price-war situation. So long as firms accept this convention... it becomes relatively easy for the group as a whole to feel its way toward the price which maximizes the industry's profit... If these conditions are satisfied, we can safely assume that the price established at any time is a reasonable approximation of the theoretical monopoly price."*[64]

In this way, the firms in an oligopoly market can jointly determine their price very much as would a single monopoly firm. The resulting price surcharge passed on to the consumer is quite significant. According to an FTC study in the 1960s, *"if highly concentrated industries were deconcentrated to the point where the four largest firms control 40% or less of an industry's sales, prices would fall by 25% or more."*[65]

This form of tacit collusion is not by any means free from breakdowns. When one firm develops a commanding lead in some new process or technology, or acquires a large enough market share or a low enough cost of production to be immune from retribution, it may well initiate a war of conquest on its industry.[66] Such suspensions of the rules of the game are identified, for example, with revolutionary changes like Wal-Mart's blitz of the retail market. But in between such disruptions, oligopoly markets can often function for years without serious price competition. As mentioned above, the Clayton Act's "unfair competition" provisions were designed to prevent the kind of catastrophic price wars that could destabilize oligopoly markets.

The "monopoly capital" theorists introduced a major innovation over classical Marxism by treating monopoly profit as a surplus extracted from the consumer in the exchange process, rather than from the laborer in the production process. This innovation was anticipated by the Austro-Marxist Hilferding in his description of the super profits resulting from the tariff:

> *The productive tariff thus provides the cartel with an extra profit over and above that which results from the cartelization itself, and gives it the power to levy an indirect tax on the domestic population. This extra profit no longer originates in the surplus value produced by the workers employed in cartels; nor is it a deduction from the profit of the other non-cartelized industries. It is a tribute exacted from the entire body of domestic consumers.*[67]

Baran and Sweezy were quite explicit in recognizing the central organizing role of the state in monopoly capitalism. They described the political function of the regulatory state in ways quite similar to Kolko:

> *Now under monopoly capitalism it is as true as it was in Marx's day that the "executive power of the... state is simply a committee for managing the common affairs of the entire bourgeois class." And the common affairs of the entire bourgeois class include a concern that no industries which play an important role in the economy and in which large property interests are involved should be either too profitable or to unprofitable. Extra large profits are gained not only at the expense of consumers but also of other capitalists (electric power and telephone service, for example, are basic costs of all industries), and in addition they may, and at times of political instability do, provoke demands for genuinely effective antimonopoly action* [They go on to point out agriculture and the extractive industries as examples of the opposite case, in which special state intervention is required to increase the low profits of a centrally important industry]… *It therefore becomes a state responsibility under monopoly capitalism to insure, as far as possible, that prices and profit margins in the deviant industries are brought within the general run of great corporations.*
>
> *This is the background and explanation of the innumerable regulatory schemes and mechanisms which characterize the American economy today... In each case of course some worthy purpose is supposed to be served—to protect consumers, to conserve natural resources, to save the family-size farm—but only the naive believe that these fine sounding aims have any more to do with the case than the flowers that bloom in the spring... All of this is fully understandable once the basic principle is grasped that under monopoly capitalism the function of the state is to serve the interests of monopoly capital...*
>
> *Consequently the effect of government intervention into the market mechanism of the economy, whatever its ostensible purpose, is to make the system work more, not less, like one made up exclusively of giant corporations acting and interacting* [according to a monopoly price system]...[68]

It is interesting, in this regard, to compare the effect of antitrust legislation in the U.S. to that of nationalization in European "social democracies." In most cases, the firms affected by both policies involve centrally important infrastructures or resources, on which the corporate economy as a whole is dependant. Nationalization in the Old World is used primarily in the case of energy, transportation and communication. In the U.S., the most famous antitrust cases have been against Standard Oil, AT&T, and Microsoft: all cases in which excessive prices in one firm could harm the interests of monopoly capital as a whole. And recent "deregulation," as it has been applied to the trucking and airline industries, has likewise been in the service of those general corporate interests harmed by monopoly transportation prices. In all these cases, the state has on occasion acted as an executive committee on behalf of the entire corporate economy, despite thwarting the mendacity of a few powerful corporations.

The common thread in all these lines of analysis is that an ever-growing portion of the functions of the capitalist economy have been carried out through the state. According to James O'Connor, state expenditures under monopoly capitalism can be divided into "social capital" and "social expenses."

> *Social capital is expenditures required for profitable private accumulation; it is indirectly productive (in Marxist terms, social capital indirectly expands surplus value). There are two kinds of social capital: social investment and social consumption (in Marxist terms, social constant capital and social variable capital)... Social investment consist of projects and services that increase the productivity of a given amount of laborpower and, other factors being equal, increase the rate of profit... Social consumption consists of projects and services that lower the reproduction costs of labor and, other factors being equal, increase the rate of profit. An example of this is social insurance, which expands the productive powers of the work force while simultaneously lowering labor costs. The second category, social expenses, consists of projects and services which are required to maintain social harmony—to fulfill the state's "legitimization" function... The best example is the welfare system, which is designed chiefly to keep social peace among unemployed workers.*[69]

According to O'Connor, such state expenditures counteract the falling general rate of profit that Marx predicted. Monopoly capital is able to externalize many of its operating expenses on the state; and since the state's expenditures indirectly increase the productivity of labor and capital at taxpayer expense, the apparent rate of profit is increased.

> *Unquestionably, monopoly sector growth depends on the continuous expansion of social investment and social consumption projects that in part or in whole indirectly increase productivity from the standpoint of monopoly capital. In short, monopoly capital socializes more and more costs of production.*[70]

O'Connor listed several of the main ways in which monopoly capital externalizes its operating costs on the political system:

> *Capitalist production has become more interdependent—more dependent on science and technology, labor functions more specialized, and the division of labor more extensive. Consequently, the monopoly sector (and to a much lesser degree the competitive sector) requires increasing numbers of technical and administrative workers. It also requires increasing amounts of infrastructure (physical overhead capital)—transportation, communication, R&D, education, and other facilities. In short, the monopoly sector requires more and more social investment in relation to private capital... The costs of social investment (or social constant capital) are not borne by monopoly capital but rather are socialized and fall on the state.*[71]

We should briefly recall here our examination above of how such socialization of expenditures serves to cartelize industry. By externalizing such costs on the state, through the general tax system, monopoly capital removes these expenditures as an issue of competition between individual firms. It is as if all the firms in an industry formed a cartel to administer these costs in common, and agreed not to include them in their price competition. The costs and benefits are applied uniformly to the entire industry, removing it as a competitive disadvantage for some firms.

Although it flies in the face of "progressive" myth, big business is by no means uniformly opposed to national health insurance and other forms of social insurance. Currently, giant corporations in the monopoly capital sector are the most likely to provide private insurance to their employees; and such insurance is one of the fastest-rising components of labor costs. Consequently, firms that are already providing this service at their own expense are the logical beneficiaries of a nationalized system. The effect of such a national health system would be to remove the cost of this benefit as a competitive disadvantage for the companies that provided it. Even if the state requires only large corporations in the monopoly sector to provide health insurance, it is an improvement of the current situation, from the monopoly capital point of view: health insurance ceases to be a component of price competition among the largest firms. A national health system provides a competitive advantage to a nation's firms at the expense of their foreign competitors, who have to fund their own employee health benefits—hence, American capital's hostility to the Canadian national health, and its repeated attempts to combat it through the WTO. The cartelizing effects of socializing the costs of social insurance, likewise, was one reason a significant segment of monopoly capital supported FDR's Social Security agenda.

Daniel Gross, although erroneously treating it as a departure from the mythical traditional big business hostility to the welfare state, has made the same point about more recent big business support of government health insurance.[72] Large American corporations, by shouldering the burden of health insurance and other employee benefits borne by the state in Europe and Japan, is at a competitive disadvantage both against companies there and against smaller firms here.

Democratic presidential candidate Dick Gephart, or rather his spokesman Jim English, admitted to a corporate liberal motivation for state-funded health insurance in his 2003 Labor Day address. Gephart's proposed mandatory employer coverage, with a 60% tax credit for the cost, would eliminate competition from companies that don't currently provide health insurance as an employee benefit. It would also reduce competition from firms in countries with a single-payer system.[73]

The level of technical training necessary to keep the existing corporate system running, the current level of capital intensiveness of production, and the current level of R&D efforts on which it depends, would none of them pay for themselves on a free market. The state's education system provides a technical labor force at public expense, and whenever possible overproduces technical specialists on the level needed to ensure that technical workers are willing to take work on the employers' terms. On this count, O'Connor quoted Veblen: the state answers capital's *"need of a free supply of trained subordinates at reasonable wages..."*[74]

The state's cartelization and socialization of the cost of reproducing a technically sophisticated labor force makes possible a far higher technical level of production than would support itself in a free market. The G.I. Bill was an integral part of the unprecedentedly high scale of state capitalism created during and after WWII.

> *Technical-administrative knowledge and skills, unlike other forms of capital over which private capitalists claim ownership, cannot be monopolized by any one or a few industrial-finance interests. The discoveries of science and technology spill over the boundaries of particular corporations and industries, especially in the epoch of mass communications, electronic information processing, and international labor mobility. Capital in the form of knowledge resides in the specialized skills and abilities of the working class itself. In the context of a free market for laborpower... no one corporation or industry or industrial-finance interest group can afford to train its own labor force or channel profits into the requisite amount of R&D. Patents afford some protection, but there is no guarantee that a particular corporation's key employees will not seek positions with other corporations or industries. The cost of losing trained labor power is especially high in companies that employ technical workers whose skills are specific to particular industrial process—skills paid for by the company in question. Thus, on-the-job training (OJT) is little used not because it is technically inefficient... but because it does not pay.*
>
> *Nor can any one corporation or industrial-finance interest afford to develop its own R&D or train the administrative personnel increasingly needed to plan, coordinate, and control the production and distribution process. In the last analysis, the state is required to coordinate R&D because of the high costs and uncertainty of getting utilizable results.*[75]

At best, from the point of view of the employer, the state creates a "reserve army" of scientific and technical labor. At worst, when there is a shortage of such labor, the state at least absorbs the cost of producing it and removes it as a component of private industry's production costs. In either case, *"the greater the socialization of the costs of variable capital, the lower will be the level of money wages, and... the higher the rate of profit in the monopoly sector."*[76] And since the monopoly capital sector is able to pass its taxes onto the consumer or to the competitive capital sector, the effect is that *"the costs of training technical laborpower are met by taxes paid by competitive sector capital and labor."*[77]

The "public" schools' curriculum can be described as "servile education." Its objective is a human product which is capable of fulfilling the technical needs of corporate capital and the state, but at the same time docile and compliant, and incapable of any critical analysis of the system of power it serves. The public educationist movement and the creation of the first state school systems, remember, coincided with the rising factory system's need for a work force that was trained in obedience, punctuality, and regular habits. Technical competence and a "good attitude" toward authority, combined with twelve years of conditioning in not standing out or making waves, were the goal of the public educationists.

Even welfare expenses, although O'Connor classed them as a completely unproductive expenditure, are in fact another example of the state underwriting variable capital costs. Some socialists love to speculate that, if it were possible, capitalists would lower the prevailing rate of subsistence pay to that required to keep workers alive only when they were employed. But since that would entail starvation during periods of unemployment, the prevailing wage must cover contingencies of unemployment; otherwise, wages would be less than the minimum cost of reproducing labor. Under the welfare state, however, the state itself absorbs the cost of providing for such contingencies of unemployment, so that the uncertainty premium is removed as a component of wages in the "higgling of the market."

And leaving this aside, even as a pure "social expense," the welfare system acts primarily (in O'Connor's words) to *"control the surplus population politically."*[78] The state's subsidies to the accumulation of constant capital and to the reproduction of scientific-technical labor provide an incentive for much more capital-intensive forms of production than would have come about in a free market, and thus contribute to the growth of a permanent underclass of surplus labor;[79] the state steps in and undertakes the minimum cost necessary to prevent large-scale homelessness and starvation, which would destabilize the system, and to maintain close supervision of the underclass through the human services bureaucracy.[80]

The general effect of the state's intervention in the economy, then, is to remove ever increasing spheres of economic activity from the realm of competition in price or quality, and to organize them collectively through organized capital as a whole. State socialism/state capitalism very much resembles the servile state prophesied by Hilaire Belloc. Sold to the general population as a "progressive" agenda on behalf of workers and consumers, it is in fact a system of industrial serfdom in which politically connected capitalist interests exploit workers and consumers through the agency of the state.

THE DRIVE FOR FOREIGN MARKETS

William Appleman Williams summarized the lesson of the 1890s in this way: *"Because of its dramatic and extensive nature, the Crisis of the 1890's raised in many sections of American society the specter of chaos and revolution."*[81] American economic elites saw it as the result of overproduction and surplus capital, and believed it could be resolved only through access to a "new frontier." Without state-guaranteed access to foreign markets, output would be too far below capacity, unit costs would be driven up, and unemployment would reach dangerous levels.

The seriousness of the last threat was underscored by the radicalism of the Nineties. The Pullman Strike, Homestead, and the formation of the Western Federation of Miners (precursor to the IWW) were signs of dangerous levels of labor unrest and class-consciousness. Coxey's Army marched on Washington, a small foretaste of the kinds of radicalism that could be produced by unemployment. The anarchist movement had a growing foreign component, more radical than the older native faction, and the People's Party seemed to have a serious chance of winning national elections. At one point Jay Gould, acting as mouthpiece for the robber barons, was threatening a capital strike (much like those in Venezuela recently) if the populists came to power. In 1894 businessman F. L. Stetson warned, *"We are on the edge of a very dark night, unless a return of commercial prosperity relieves popular discontent."*[82]

Both business and government resounded with claims that U.S. productive capacity had outstripped the domestic market's ability to consume, and that the government had to take active measures to obtain outlets. In 1897 NAM president Theodore C. Search said, *"Many of our manufacturers have outgrown or are outgrowing their home markets, and the expansion of our foreign trade is our only promise of relief."*[83] In the same year, Albert J. Beveridge proclaimed: *"American factories are making more than the American people can use; American soil is producing more than they can consume. Fate has written our policy for us; the trade of the world must and shall be ours."*[84] As the State Department's Bureau of Foreign Commerce put it in 1898,

> *It seems to be conceded that every year we shall be confronted with an increasing surplus of manufactured goods for sale in foreign markets if American operatives and artisans are to be kept employed the year around. The enlargement of foreign consumption of the products of our mills and workshops has, therefore, become a serious problem of statesmanship as well as of commerce.*[85]

In 1900, former Secretary of State John W. Foster wrote, *"it has come to be a necessity to find new and enlarged markets for our agricultural and manufactured products. We cannot maintain our present industrial prosperity without them."*[86]

Ohio governor McKinley emerged as spokesman for this new American consensus, proposing a combination of protective tariffs and reciprocity treaties to open foreign markets to American surplus output with help from the state.[87] As keynote speaker at an organizational meeting of the National Association of Manufacturers in 1895, he said:

> *We want our own markets for our manufactures and agricultural products... [W]e want a foreign market for our surplus products... We want a reciprocity which will give us foreign markets for our surplus products, and in turn that will open our markets to foreigners for those products which they produce and we do not.*[88]

The imperialism of McKinley and Roosevelt, and the resulting Spanish-American War, were outgrowths of this orientation. They were not, however, the only or obvious form of state policy for securing foreign markets. Much more typical of U.S. policy, in the coming years, was the orientation outlined in John Hay's *Open Door Notes* (the first was written in 1899), which Williams called "Open Door Empire."

Open Door imperialism consisted of using U.S. political power to guarantee access to foreign markets and resources on terms favorable to American corporate interests, without relying on direct political rule. Its central goal was to obtain for U.S. merchandise, in each national market, treatment equal to that afforded any other industrial nation. Most importantly, this entailed active engagement by the U.S. government in breaking down the imperial powers' existing spheres of economic influence or preference. The result, in most cases, was to treat as hostile to U.S. security interests any large-scale attempt at autarky, or any other policy whose effect was to withdraw a major area from the disposal of U.S. corporations. When the power attempting such policies was an equal, like the British Empire, the U.S. reaction was merely one of measured coolness. When it was perceived as an inferior, like Japan, the U.S. resorted to more forceful measures, as events of the late 1930s indicate. And whatever the degree of equality between advanced nations in their access to Third World markets, it was clear that Third World nations were still to be subordinated to the industrialized West in a collective sense.

This Open Door system was the direct ancestor of today's neoliberal system, which is called "free trade" by its ideological apologists but is in fact far closer to mercantilism. It depended on active management of the world economy by dominant states, and continuing intervention to police the international economic order and enforce sanctions against states which did not cooperate. Woodrow Wilson, in a 1907 lecture at Columbia University, said:

> *Since trade ignores national boundaries and the manufacturer insists on having the world as a market, the flag of his nation must follow him, and the doors of the nations which are closed must be battered down... Concessions obtained by financiers must be safeguarded by ministers of state, even if the sovereignty of unwilling nations be outraged in the process. Colonies must be obtained or planted, in order that no useful corner of the world may be overlooked or left unused. Peace itself becomes a matter of conference and international combinations.*[89]

Wilson warned during the 1912 election that *"Our industries have expanded to such a point that they will burst their jackets if they cannot find a free* [i.e., guaranteed by the state] *outlet to the markets of the world."*[90]

In a 1914 address to the National Foreign Trade Convention, Secretary of Commerce Redfield followed very nearly the same theme:

> *...we have learned the lesson now, that our factories are so large that their output at full time is greater than America's market can continuously absorb [which, by he way, is the very definition of "over-accumulation"]. We know now that if we will run full time all the time, we must do it by reason of the orders we take from lands beyond the sea. To do less than that means homes in America in which the husbands are without work; to do that means factories that are shut down part of the time.*[91]

Under the Open Door system, the state and its loans were to play a central role in the export of capital. The primary purpose of foreign loans, historically, has been to finance the infrastructure which is a prerequisite for the establishment of enterprises in foreign countries. As Edward E. Pratt, chief of the Bureau of Foreign and Domestic Commerce, said in 1914:

> *...we can never hope to realize the really big prizes in foreign trade until we are prepared to loan capital to foreign nations and to foreign enterprise. The big prizes... are the public and private developments of large proportions, ...the building of railroads, the construction of public-service plants, the improvement of harbors and docks, ...and many others which demand capital in large amounts... It is commonly said that trade follows the flag. It is much more truly said that trade follows the investment or the loan.*[92]

It was, however, beyond the resources of individual firms or venture capitalists, or of the decentralized banking system, to raise the sums necessary for these tasks. One purpose of creating a central banking system (the Federal Reserve Act, 1914) was to make possible the large-scale mobilization of investment capital for overseas ventures. Under the New Deal, the mobilization began to take the form of direct state loans.[93] The state's financial policies, besides promoting the accumulation of capital for foreign investment, also underwrite foreign consumption of U.S. produce. As John Foster Dulles said in 1928, *"We must finance our exports by loaning foreigners the where-with-all to pay for them..."*[94] These two functions were perfected in the Bretton Woods system after WWII.

The second Roosevelt's administration saw the guarantee of American access to foreign markets as vital to ending the Depression and the threat of internal upheaval that went along with it. Assistant Secretary of State Francis Sayre, chairman of Roosevelt's Executive Committee on Commercial Policy, warned: *"Unless we can export and sell abroad our surplus production, we must face a violent dislocation of our whole domestic economy."*[95] FDR's ongoing policy of Open Door Empire, faced with the withdrawal of major areas from the world market by the autarkic policies of the Greater East Asia Co-Prosperity Sphere and Fortress Europe, led to American entry into World War II, and culminated in the postwar establishment of what Samuel Huntington called a "system of world order" guaranteed both by global institutions of economic governance like the IMF, and by a hegemonic political and military superpower.

In 1935, a War Department memorandum described the emerging Japanese threat in primarily economic terms. Japanese hegemony over Asia, it warned, would have *"a direct influence on those people of Europe and America who depend on trade and commerce with this area for their livelihood."* Germany, likewise, was defined as an "aggressor" because of its trade policies in Latin America.[96]

After the fall of western Europe in the spring of 1940, Assistant Secretary of State Breckinridge Long warned that *"every commercial order will be routed to Berlin and filled under its orders somewhere in Europe rather than in the United States,"* resulting in *"falling prices and declining profits here and a lowering of our standard of living with the consequent social and political disturbances."*[97]

Beginning in the Summer of 1940, the CFR and State Department undertook a joint study to determine the minimum portion of the world the U.S. would have to integrate with its own economy, to provide sufficient resources and markets for economic stability; it also explored policy options for reconstructing the postwar world.[98] Germany's continental system was far more self-sufficient in resources, and more capable of autarky, than was the United States. The study group also found that the U.S. economy could not survive in its existing form without access to the resources and markets of not only the Western Hemisphere, but also the British Empire and Far East (called the Grand Area). But the latter region was rapidly being incorporated into Japan's economic sphere of influence. FDR made the political decision to contest Japanese power in the Far East, and if necessary to initiate war. In the end, however, he successfully maneuvered Japan into firing the first shot.[99] The American policy that emerged from these struggles, to secure control over the markets and resources of the global "Grand Area" through institutions of global economic governance, resulted in the Bretton Woods system after the war.

The problem of access to foreign markets and resources was central to U.S. policy planning for a postwar world. Given the structural imperatives of "export dependent monopoly capitalism," the fear of a postwar depression was a real one. The original drive toward foreign expansion at the end of the nineteenth century reflected the fact that industry, with state capitalist encouragement, had expanded far beyond the ability of the domestic market to consume its output. Even before World War II, the state capitalist economy had serious trouble operating at the level of output needed for full utilization of capacity and cost control. Military-industrial policy during the war increased the value of plant and equipment by two-thirds. The end of the war, if followed by the traditional pattern of demobilization, would result in a drastic reduction in orders to this overbuilt industry at the same time that over ten million workers were dumped back into the civilian labor force. And four years of forced restraints on consumption had created a vast backlog of savings with no outlet in the already overbuilt domestic economy.

In November 1944, Dean Acheson addressed the Congressional committee on Postwar Economic Policy and Planning. He stressed the consequences if the war were be followed by a slide back into depression: *"it seems clear that we are in for a very bad time, so far as the economic and social position of the country is concerned. We cannot go through another ten years like the ten years at the end of the twenties and the beginning of the thirties, without having the most far-reaching consequences upon our economic and social system."* The problem, he said, was markets, not production. *"You don't have a problem of production... The important thing is markets. We have got to see that what the country produces is used and is sold under financial arrangements which make its production possible."* Short of the introduction of a command economy, with controls over income and distribution to ensure the domestic consumption of all that was produced, Acheson said, the only way to achieve full output and full employment was through access to foreign markets.[100]

A central facet of postwar economic policy, as reflected in the Bretton Woods agencies, was state intervention to guarantee markets for the full output of U.S. industry and profitable outlets for U.S. capital. The World Bank was designed to subsidize the export of capital to the Third World, by financing the infrastructure without which Western-owned production facilities could not be established there. According to Gabriel Kolko's 1988 estimate, almost two thirds of the World Bank's loans since its inception had gone to transportation and power infrastructure.[101] A laudatory Treasury Department report referred to such infrastructure projects (comprising some 48% of lending in FY 1980) as "externalities" to business, and spoke glowingly of the benefits of such projects in promoting the expansion of business into large market areas and the consolidation and commercialization of agriculture.[102]

Besides the benefit of building *"an internal infrastructure which is a vital prerequisite for the development of resources and direct United States private investments,"* such banks (because they must be repaid in U.S. dollars) require the borrowing nations *"to export goods capable of earning them, which is to say, raw materials..."*[103]

The International Monetary Fund was created to facilitate the purchase of American goods abroad, by preventing temporary lapses in purchasing power as a result of foreign exchange shortages. It was *"a very large international currency exchange and credit-granting institution that could be drawn upon relatively easily by any country that was temporarily short of any given foreign currency due to trade imbalances."*[104]

The Bretton Woods system by itself, however, was not nearly sufficient to ensure the levels of output needed to keep production facilities running at full capacity. First the Marshall Plan, and then the permanent war economy of the Cold War, came to the rescue.

The Marshall Plan was devised in reaction to the impending economic slump predicted by the Council of Economic advisers in early 1947 and the failure of Western Europe *"to recover from the war and take its place in the American scheme of things."* Undersecretary of State for Economic Affairs Clayton declared that the central problem confronting the United States was the disposal of its *"great surplus."*[105] Dean Acheson defended the Marshall Plan in a May 1947 address:

> *The extreme need of foreign countries for American products is likely... to continue undiminished in 1948, while the capacity of foreign countries to pay in commodities will be only slightly increased... What do these facts of international life mean for the United States and for United States foreign policy? ...the United States is going to have to undertake further emergency financing of foreign purchases if foreign countries are to continue to buy in 1948 and 1949 the commodities which they need to sustain life and at the same time rebuild their economies...*[106]

One New Deal partisan implicitly compared foreign economic expansion to domestic state capitalism as analogous forms of surplus disposal: *"it is as if we were building a TVA every Tuesday."*[107]

Besides facilitating the export of capital, the Bretton Woods agencies play a central role in the discipline of recalcitrant regimes. There is a considerable body of radical literature on the Left on the use of debt as a political weapon to impose pro-corporate policies on Third World governments, analogous to the historic function of debt in keeping miners and sharecroppers in their place.[108]

Cheryl Payer's *The Debt Trap*, for example, is an excellent historical survey of the use of debt crises to force countries into standby arrangements, precipitate coups, or provoke military crackdowns. In that book she provides case studies of debt as a weapon in the downfall of Goulart and Allende, as well as their role in the Suharto coup in Indonesia and Marcos' declaration of martial law in the Philippines. Walden Bello, in *Development Debacle*,[109] goes into much greater depth on the Philippines specifically, based on extensive documentation of World Bank collaboration with Marcos in support of the authoritarian crackdown preceding his austerity programs.

The punitive withholding of aid, a powerful political weapon, has been used at times to undermine elective democracies whose policies fell afoul of corporate interests, and to reward compliant dictatorships. For example, the World Bank refused to lend to the Goulart government in Brazil; but following the installation of a military dictatorship by the 1964 coup, the Bank's lending averaged $73 million a year for the rest of the decade, and reached almost a half-billion by the mid-70s. Chile, before and after the Pinochet coup, followed a similar pattern.[110] Or as Ambassador Korry warned, in the latter-day equivalent of a papal interdict, *"Not a nut or bolt shall reach Chile under Allende. Once Allende comes to power we shall do all within our power to condemn Chile and all Chileans to utmost deprivation and poverty."*[111]

One of the most important kinds of "reforms" imposed on Third World countries by the political use of debt is so-called "privatization"—or, as Joseph Stromberg characterized it, *"funny auctions, that amounted to new expropriations by domestic and foreign investors..."* Such auctions of state properties typically *"lead... to a massive alienation of resources into the hands of select foreign interests."*[112] The actual nature of this kind of neoliberal "privatization" has been aptly described by a Rothbardian, Sean Corrigan:

> *Does he not know that the whole IMF-US Treasury carpet-bagging strategy of full-spectrum dominance is based on promoting unproductive government-led indebtedness abroad, at increasingly usurious rates of interest, and then—either before or, more often these days, after, the point of default—bailing out the Western banks who have been the agents provocateurs of this financial Operation Overlord, with newly-minted dollars, to the detriment of the citizenry at home?*
>
> *Is he not aware that, subsequent to the collapse, these latter-day Reconstructionists must be allowed to swoop and to buy controlling ownership stakes in resources and productive capital made ludicrously cheap by devaluation, or outright monetary collapse?*
>
> *Does he not understand that he must simultaneously coerce the target nation into sweating its people to churn out export goods in order to service the newly refinanced debt, in addition to piling up excess dollar reserves as a supposed bulwark against future speculative attacks (usually financed by the same Western banks' lending to their Special Forces colleagues at the macro hedge funds)—thus ensuring the reverse mercantilism of Rubinomics is maintained?*[113]

The promotion of unaccountable, technocratic Third World governments, insulated from popular pressure and closely tied to international financial elites, has been a central goal of Bretton Woods agencies since World War II.

> *From the 1950s onwards, a primary focus of* [World] *Bank policy was "institution-building", most often taking the form of promoting the creation of autonomous agencies within governments that would be continual World Bank borrowers. Such agencies were intentionally established to be independent financially from their host governments, as well as minimally accountable politically—except, of course, to the Bank.*[114]

The World Bank created the Economic Development Institute in 1956 specifically to enculture Third World elites into the values of the Bretton Woods system. It offered a six-month course in "the theory and practice of development," whose 1300 alumni by 1971 included prime ministers, ministers of planning, and ministers of finance.[115]

> *The creation of such patronage networks has been one of the World Bank's most important strategies for inserting itself in the political economies of Third World countries. Operating according to their own charters and rules (frequently drafted in response to Bank suggestions), and staffed with rising technocrats sympathetic, even beholden, to the Bank, the agencies it has funded have served to create a steady, reliable source of what the Bank needs most—bankable loan proposals. They have also provided the Bank with critical power bases through which it has been able to transform national economies, indeed whole societies, without the bothersome procedures of democratic review and discussion of the alternatives.*[116]

The American economy could have had access to the resources it was willing to buy on mutually satisfactory terms, and marketed its own surplus to those countries willing to buy it, without the apparatus of transnational corporate mercantilism. Such a state of affairs would have been genuine free trade. What the American elite really wanted, however, has been ably stated by Thomas Friedman in one of his lapses into frankness:

> *For globalism to work, America can't be afraid to act like the almighty superpower it is... The hidden hand of the market will never work without a hidden fist—McDonald's cannot flourish without McDonnell Douglas, the designer of the F-15. And the hidden fist that keeps the world safe for Silicon Valley's technologies is called the United States Army, Air Force, Navy and Marine Corps.*[117]

It was not true that the American corporate economy was ever in any real danger of losing access to the raw materials it needed, in the absence of an activist foreign policy to secure access to those resources. As many free market advocates point out, countries with disproportionate mineral wealth—say, large oil reserves—are forced to center a large part of their economic activity on the extraction and sale of those resources. And once they sell them, the commodities enter a world market in which it is virtually impossible to control who eventually buys them. The real issue, according to Baran and Sweezy, is that the American corporate economy depended on access to Third World resources on favorable terms set by the United States, and those favorable terms depended on the survival of pliable regimes.

> *But this* [genuine free trade in resources with the Third World on mutually acceptable terms] *is not what really interests the giant multinational corporations which dominate American policy. What they want is* *__monopolistic control__* *over foreign sources of supply and foreign markets, enabling them to buy and sell on specially privileged terms, to shift orders from one subsidiary to another, to favor this country or that depending on which has the most advantageous tax, labor, and other policies—in a word, they want to do business on their own terms and wherever they choose. And for this what they need is not trading partners but "allies" and clients willing to adjust their laws and policies to the requirements of American Big Business.*[118]

The "system of world order" enforced by the U.S. since World War II, and lauded in Friedman's remarks about the "visible hand," is nearly the reverse of the classical liberal notion of free trade. This new version of "free trade" is aptly characterized in this passage by Layne and Schwarz:

> *The view that economic interdependence compels American global strategic engagement puts an ironic twist on liberal internationalist arguments about the virtues of free trade, which held that removing the state from international transactions would be an antidote to war and imperialism...*
>
> *...Instead of subscribing to the classical liberal view that free trade leads to peace, the foreign policy community looks to American military power to impose harmony so that free trade can take place. Thus, U.S. security commitments are viewed as the indispensable precondition for economic interdependence.*[119]

Oliver MacDonagh pointed out that the modern neoliberal conception, far from agreeing with Cobden's idea of free trade, resembled the "Palmerstonian system" that the Cobdenites so despised. Cobden objected, among other things, to the *"dispatch of a fleet 'to protect British interests' in Portugal,"* to the *"loan-mongering and debt-collecting operations in which our Government engaged either as principal or agent,"* and generally, all *"intervention on behalf of British creditors overseas."* Cobden favored the "natural" growth of free trade, as opposed to the forcible opening of markets. Genuine free traders opposed the confusion of "free trade" with *"mere increases of commerce or with the forcible 'opening up' of markets."*[120]

I can't resist quoting Joseph Stromberg's only half tongue-in-cheek prescription "How to Have Free Trade":

> *For many in the US political and foreign policy Establishment, the formula for having free trade would go something like this: 1) Find yourself a global superpower; 2) have this superpower knock together the heads of all opponents and skeptics until everyone is playing by the same rules; 3) refer to this new imperial order as "free trade;" 4) talk quite a bit about "democracy." This is the end of the story except for such possible corollaries as 1) never allow rival claimants to arise which might aspire to co-manage the system of "free trade"; 2) the global superpower rightfully in charge of world order must also control the world monetary system...*
>
> *The formula outlined above was decidedly not the 18th and 19th-century liberal view of free trade. Free traders like Richard Cobden, John Bright, Frederic Bastiat, and Condy Raguet believed that free trade is the absence of barriers to goods crossing borders, most particularly the absence of special taxes—tariffs—which made imported goods artificially dear, often for the benefit of special interests wrapped in the flag under slogans of economic nationalism...*
>
> *Classical free traders never thought it necessary to draw up thousands of pages of detailed regulations to implement free trade. They saw no need to fine-tune a sort of Gleichschaltung (co-ordination) of different nations labor laws, environmental regulations, and the host of other such issues dealt with by NAFTA, GATT, and so on. Clearly, there is a difference between free trade, considered as the repeal, by treaty or even unilaterally, of existing barriers to trade, and modern "free trade" which seems to require truckloads of regulations pondered over by legions of bureaucrats.*
>
> *This sea-change in the accepted meaning of free trade neatly parallels other characteristically 20th-century redefinitions of concepts like "war," "peace," "freedom," and "democracy," to name just a few. In the case of free trade I think we can deduce that when, from 1932 on, the Democratic Party—with its traditional rhetoric about free trade in the older sense—took over the Republicans project of neo-mercantilism and economic empire, it was natural for them to carry it forward under the "free trade" slogan. They were not wedded to tariffs, which, in their view, got in the way of implementing Open Door Empire. Like an 18th-century Spanish Bourbon government, they stood for freer trade within an existing or projected mercantilist system. They would have agreed, as well, with Lord Palmerston, who said in 1841, "It is the business of Government to open and secure the roads of the merchant…"*
>
> *Here, John A. Hobson... was directly in the line of real free-trade thought. Hobson wrote that businessmen ought to take their own risks in investing overseas. They had no right to call on their home governments to "open and secure" their markets.*[121]

And by the way, it's doubtful superpower competition with the Soviets had much to do with the role of the U.S. in shaping the postwar "system of world order," or in acting as "hegemonic power" in maintaining that system of order. Layne and Schwarz cited NSC-68 to the effect that the policy of *"attempting to develop a healthy international community"* was *"a policy which we would probably pursue even if there were no Soviet threat."*

> *Underpinning U.S. world order strategy is the belief that America must maintain what is in essence a military protectorate in economically critical regions to ensure that America's vital trade and financial relations will not be disrupted by political upheaval. This kind of economically determined strategy articulated by the*

> *foreign policy elite ironically (perhaps unwittingly) embraces a quasi-Marxist or, more correctly, a Leninist interpretation of American foreign relations.*[122]

The policy planners who designed the Bretton Woods system and the rest of the postwar framework of world order, apparently, paid little or no mind to the issue of Soviet Russia's prospective role in the world. The record that appears, rather, in Shoup and Minter's heavily documented account, is full of references to the U.S. as a successor to Great Britain as guarantor of a global political and economic order, and to U.S. global hegemony as a war aim (even before the U.S. entered the war). As early as 1942, when Soviet Russia's continued existence was very much in doubt, U.S. policy makers were referring to "domination after the war," "Pax Americana," and "world control." To quote G. William Domhoff, *"the definition of the national interest that led to these interventions was conceived in the years 1940-42 by corporate planners in terms of what they saw as the needs of the American capitalist system, well before communism was their primary concern."*[123]

Considering the continuity in the pattern of U.S. Third World intervention during the Cold War with its gunboat diplomacy of the 20s and 30s, or with its actions as the world's sole superpower since the fall of communism, should also be instructive. Indeed, since the collapse of the USSR, the U.S. has been frantically scrambling to find (or create) another enemy sufficient to justify continuing its role as world policeman.

Despite Chomsky's periodic rhetorical excesses, his characterization of the postwar era was essentially correct: *"Putting second-order complexities to the side, for the USSR the Cold War has been primarily a war against its satellites, and for the US a war against the Third World. For each, it has served to entrench a particular system of domestic privilege and coercion."*[124]

If anything, the Cold War with the Soviet Union appears almost as an afterthought to American planning for a postwar order. Far from being the cause of the U.S. role as guarantor of a system of world order, the Soviet Empire acted as a spoiler to U.S. plans for acting as a sole global superpower. Any rival power which has refused to be incorporated into the Grand Area, or which has encouraged other countries (by "defection from within") to withdraw from the Grand Area, historically, has been viewed as an "aggressor." Quoting Domhoff once again,

> *...I believe that anticommunism became a key aspect of foreign policy only after the Soviet Union, China, and their Communist party allies became the challengers to the Grand Area conception of the national interest. In a certain sense.., they merely replaced the fascists of Germany and Japan as the enemies of the international economic and political system regarded as essential by American leaders.*[125]

Likewise, as Domhoff's last sentence in the above quote suggests, any country which has interfered with U.S. attempts to integrate the markets and resources of any region of the world into its international economic order has been viewed as a "threat." The Economic and Financial Group of the CFR/State Department postwar planning project, produced, on July 24, 1941, a document (E-B34), warning of the need for the United States to *"defend the Grand Area,"* not only against external attack by Germany, but against *"defection from within,"* particularly against countries like Japan (which, along with the rest of east Asia, was regarded as part of the Grand Area) bent on *"destroying the area for its own political reasons."*[126]

The centrality of this consideration is illustrated by the report of a 1955 study group of the Woodrow Wilson Center, which pointed to the threat of *"a serious reduction in the potential resource base and market opportunities of the West owing to the subtraction of the communist areas and their economic transformation in ways that reduce their willingness and ability to complement the industrial economies of the West."*[127]

One way of defending against "defection from within" is to ensure that Third World countries have the right kind of government. That can be done either by supporting authoritarian regimes, or what neoconservatives call "democracy." The key quality for Third World elites, in either case, is an orientation toward what Thomas Barnett calls "connectivity." The chief danger presented by "outlaw regimes," according to Barnett, lies in their being disconnected *"from the globalizing world, from its rule sets, its norms, and all the ties that bind countries together in mutually assured dependence."*[128]

The neoconservative version of democracy is more or less what Noam Chomsky means by "spectator democracy": a system in which the public engages in periodic legitimation rituals called "elections," choosing from a narrow range of candidates all representing the same elite. Having thus done its democratic duty, the public returns to bowling leagues and church socials, and other examples of "civil society," and leaves the mechanics of policy to its technocratic betters—who immediately proceed to take orders from the World Bank and IMF. This form of democracy is nearly synonymous with what neocons call "the rule of law," which entails a healthy dose of Weberian bureaucratic rationality. The stability and predictability associated with such "democracies" is, from the business standpoint, greatly preferable to the messiness of dictatorship or death squads.

American "pro-democratic" policy in the Third World, traditionally, has identified "democracy" with electoralism, and little else. In Central America, for example, a country is viewed as a "democracy" if its government *"came to power through free and fair elections."* But this policy ignores the vital dimension of popular participation, *"including the free expression of opinions, day-to-day interaction between the government and the citizenry, the mobilization of interest groups,"* etc. The *"underlying objective"* of pro-democracy policies is *"to maintain the basic order of what... are quite undemocratic societies."* Democracy is a means of *"relieving pressure for more radical change,"* but only through *"limited, top-down forms of democratic change that* [do] *not risk upsetting the traditional structures of power with which the United States has been allied."*[129] Democracy policy in El Salvador, more specifically, promoted a form of "democracy" through the Duarte regime that did not touch the power of the military or the landed elite.[130]

American elites prefer "democracy" whenever possible, but will resort to dictatorship in a pinch. The many, many cases in which the U.S. Assistance Program, the School of the Americas, the CIA, the World Bank and IMF, and others from the list of usual suspects have collaborated in just this expedient are recounted, in brutal detail, by William Blum in *Killing Hope*.[131]

Even an authoritarian communist regime is preferable, as an ultimate last resort, to a democracy that pursues a genuinely populist agenda, like the Arbenz regime in Guatemala. To prevent the latter development, the U.S. will risk a country falling to genuine Marxist-Leninists. It is obvious that the primary concern behind the typical Third World intervention was not the danger of an alliance between that country and Soviet strategic power. Had anti-communism been the U.S. government's main preoccupation, and not economic control, its policy would have been much different.

> *While there were many varieties of capitalism consistent with the anti-Communist politics the United States... sought to advance, what was axiomatic in the American credo was that the form of capitalism it advocated for the world was to be integrated in such a way that its businessmen played an essential part in it. Time and again it was ready to sacrifice the most effective way of opposing Communism in order to advance its own national interests. In this vital sense its world role was not simply one of resisting the left but primarily of imposing its own domination...*
>
> *...[I]t was its clash with nationalist elements, as diverse as they were, that revealed most about the U.S. global crusade, for had fear of Communism alone been the motivation of its behavior, the number of obstacles to its goals would have been immeasurably smaller.*[132]

"EXPORT-DEPENDENT MONOPOLY CAPITALISM" (With a Brief Digression on Economy of Scale)

According to Stromberg and the Austrians, this chronic problem of surplus output was not a natural result of the free market, but rather of a cartelized economy. J.A. Hobson argued that *"over-saving"* was caused by *"rents, monopoly profits, and other unearned excessive profits"*, and called, in proto-Keynesian fashion, for the state to step in and remedy the problem of *"mal-distribution of consuming power."*[133] Such arguments are commonly dismissed, on the libertarian right, as violations of Say's Law.

But Say's Law applies only to a free market. As Stromberg points out, a genuine maldistribution of consuming power results from the state's intervention to transfer wealth from its real producers to a politically connected ruling class. And neo-Marxists' work on over-accumulation has shown us that the evils that Keynesianism was designed to remedy, in a state capitalist economy, are quite real. The State promotes the accumulation of capital on a scale beyond which its output can be absorbed (at its cartelized prices) by private demand; and therefore capital relies on the State to dispose of this surplus.

One of the earliest to describe the several aspects of the phenomenon was Hilferding, in *Finance Capital*:

> *The curtailment of production means the cessation of all new capital investment, and the maintenance of high prices makes the effects of the crisis more severe for all those industries which are not cartelized, or not fully cartelized. Their profits will fall more sharply, or their losses will be greater, than is the case in the cartelized industries, and in consequence they will be obliged to make greater cuts in production. As a result, disproportionality will increase, he sales of cartelized industry will suffer more, and it becomes evident that in spite of the severe curtailment of production, "overproduction" persists and has even increased. Any further limitation of production means that more capital will be idle, while overheads remain the same, so that the cost per unit will rise, thus reducing profits still more despite the maintenance of high prices.*[134]

All the elements are here, in rough form: the expansion of production facilities to a scale beyond what the market will support; the need to restrict output to keep up prices, conflicting with the simultaneous need to keep output high enough to utilize full capacity and keep unit costs down; the inability of the economy to absorb the full output of cartelized industry at monopoly prices.

But as Hilferding pointed out in the same passage, the natural tendency in such a situation, in the absence of entry barriers, would be for competitors to enter the market and drive down the monopoly price: *"The high prices attract outsiders, who can count on low capital and labor costs, since all other prices have fallen; thus they establish a strong competitive position and begin to undersell the cartel."*[135] This, Rothbard argued, is what normally happens when cartelizing ventures are not backed up by the state: they are broken either by internal defection or by new entrants. That is, in fact, what Gabriel Kolko described as actually happening to the trust movement at the turn of the century. Therefore, organized capital depends on the state to enforce an artificial monopoly on the domestic market.

> *By restricting production quotas for domestic consumption the cartel eliminates competition on the domestic market. The suppression of competition sustains the effect of a protective tariff in raising prices even at a stage when production has long since outstripped demand. Thus it becomes a prime interest of cartelized industry to make the protective tariff a permanent institution, which in the first place assures continued existence of the cartel, and second, enables the cartel to sell its product on the domestic market at an extra profit.*[136]

And, Hilferding continued, cartelized industry is forced to dispose of the surplus product, which will not sell domestically at the monopoly price, by dumping it on foreign markets.

> *The increase in prices on the domestic market... tends to reduce the sales of cartelized products, and thus conflicts with the trend towards lowering costs by expanding the scale of production... But if a cartel is already well established, it will try to compensate for the decline of the domestic market by increasing its exports, in order to continue production as before and if possible on an even larger scale. If the cartel is efficient and capable of exporting... its real price of production... will correspond with the world market price. But a cartel is also in a position to sell below its production price,*

> *because it has obtained an extra profit, determined by the level of the protective tariff, from its sales on the domestic market. It is therefore able to use a part of this extra profit to expand its sales abroad by underselling its competitors. If it is successful it can then increase its output, reduce its costs, and thereby, since domestic prices remain unchanged, gain further extra profit.*[137]

Further, anticipating the various Marxist theories of imperialism, Hilferding argued that this imperative of disposing of surplus product abroad requires the activist state to seek foreign markets on favorable terms for domestic capital. One such state policy is the promotion or granting of loans abroad, either by direct state loans, or by banking policies that centralize the banking system and thus facilitate the accumulation of large sums of capital for foreign loans. Such loans could be used to increase a country's purchasing power and increase its imports; but more importantly, they could be used for building transportation and power infrastructure that Western capital requires for building production facilities in an underdeveloped country.[138] Of course, such direct foreign capital investment in a country, unlike mere trade, required more direct political influence over the country's internal affairs to protect the investments from expropriation and labor unrest.[139]

The state could also intervene to create a wage-labor force in backward countries by expropriating land, thus recreating the process of primitive accumulation in the West. In addition, heavy taxation could be used to force a peasantry into the money economy, by making them work (or work more) in the capitalist job market to raise tax-money. This was a common pattern, Hilferding wrote: in the Third World as in the West earlier, *"when capital's need for expansion meets obstacles that could only be overcome much too slowly and gradually by purely economic means, it has recourse to the power of the state and uses it for forcible expropriation in order to create the required free wage proletariat."*[140]

Generally speaking, Third World countries provide numerous advantages for capital seeking a higher rate of return:

> *The state ensures that human labour in the colonies is available on terms which make possible extra profits... The natural wealth of the colonies likewise becomes a source of extra profits by lowering the price of raw materials... The expulsion or annihilation of the native population, or in the most favourable case their transformation from shepherds or hunters into indentured slaves, or their confinement to small, restricted areas as peasant farmers, creates at one stroke free land which has only a nominal price.*[141]

In *Imperialism*, Bukharin returned repeatedly to the theme of government policy in promoting monopoly, thorough such devices as tariffs, state loans, etc. In a passage on the effects of foreign loans, Bukharin anticipated today's use of foreign aid and World Bank/IMF credit as coercive weapons on behalf of American corporations:

> *The transaction is usually accompanied by a number of stipulations, in the first place that which imposes upon the borrowing country the duty to place orders with the creditor country (purchase of arms, ammunition, dreadnaughts, railroad equipment, etc), and the duty to grant concessions for the construction of railways, tramways, telegraph and telephone lines, harbours, exploitation of mines, timberlands, etc.*[142]

As Kwame Nkrumah jibed, so-called "foreign aid" under neocolonialism would have been called foreign investment in the days of old-style colonialism.[143]

Schumpeter, the theorist upon whom Stromberg relies most heavily, described the system as *"export-dependent monopoly capitalism"*:

> *Union in a cartel or trust confers various benefits on the entrepreneur—a saving in costs, a stronger position as against the workers—but none of these compares with this one advantage: a monopolistic price policy, possible to any considerable degree <u>only</u> behind an adequate protective tariff. Now the price that brings the maximum monopoly profit is generally far above the price that would be fixed by fluctuating competitive costs, and the volume that can be marketed at that maximum price is generally far below the output that would be technically and economically feasible. Under free competition that output <u>would</u> be produced and offered, but a trust cannot offer it, for it could be sold only at a competitive price. Yet the trust <u>must</u> produce it—or approximately as much—otherwise the advantages of large-scale enterprise remain unexploited and unit costs are likely to be uneconomically high...* [The trust] *extricates itself from this dilemma by producing the full output that is economically feasible, thus securing low costs, and offering in the protected domestic market only the quantity corresponding to the monopoly price—insofar as the tariff permits; while the rest is sold, or "dumped," abroad at a lower price...*[144]

In describing the advantages of colonies for monopoly capitalism, Schumpeter essentially refuted his own Comtean argument (discussed below in this article) for imperialism's "alien" status in relation to capitalism.

> *In such a struggle among "dumped" products and capitals, it is no longer a matter of indifference who builds a given railroad, who owns a mine or a colony. Now that the law of costs is no longer operative, it becomes necessary to fight over such properties with desperate effort and with every available means, including those that are not economic in character, such as diplomacy...*
>
> *...In this context, the conquest of colonies takes on an altogether different significance. Non-monopolist countries, especially those adhering to free trade, reap little profit from such a policy. But it is a different matter with countries that function in a monopolistic role* vis-à-vis *their colonies. There being no competition, they can use cheap native labor without its ceasing to be cheap; they can market their products, even in the colonies, at monopoly prices; they can, finally, invest capital that would only depress the profit rate at home...*[145]

Stromberg explained: *"For American manufacturers to achieve available economies of scale, they had to produce far more of their products than could be sold in the U.S."*[146] One point Stromberg does not adequately address here is that economy of scale, at least in terms of internal production costs, requires only thorough utilization of existing facilities. But the size of the facilities was in itself the result of state capitalist policies. The fact that domestic demand was not enough to support the output needed to reach such economies of scale reflects the fact that *the scale of production was too large*. And this, in turn, was the result of state policies that encouraged gigantism and overinvestment.

Productive economy of scale is "unlimited" only when the state absorbs the diseconomies of large scale production. Overall economies of scale reflect a package of costs. And those costs are themselves influenced by direct and indirect subsidies that distort price as an accurate signal of the actual cost of providing a service. If the state had not allowed big business to externalize many of its operating costs (especially long-distance shipping) on the public through subsidies (especially subsidized transportation), economy of scale would have been reached at a much lower level of production. The state's subsidies have the effect of artificially shifting the economy of scale upward to higher levels of output than a free market can support. State capitalism enables corporate interests to control elements of the total cost package through political means; but the result is new imbalances, which in turn require further state intervention.

In fairness, Schumpeter touched on this issue in passing, as did Stromberg in quoting him: *"a firm which could not survive in the absence of empire was 'expanded beyond economically justifiable limits'."*[147] As this quote indicates, Schumpeter dealt, though inadequately, with the extent to which corporate size was the effect of state intervention. He agreed with Rothbard that cartelization or monopoly, as such, could not exist without the state.

> *Export monopolism does not grow from the inherent laws of capitalist development. The character of capitalism leads to large-scale production, but with few exceptions large-scale production does not lead to the kind of unlimited concentration that would leave but one or only a few firms in each industry. On the contrary, any plant runs up against limits to its growth in a given location; and the growth of combinations which would make sense under a system of free trade encounters limits of organizational efficiency. Beyond these limits there is no tendency toward combination in the competitive system.*[148]

Still, Stromberg greatly overestimates the advantages of large-scale production in a free market. In all but a few forms of production, peak economy of scale is reached at relatively low levels of output. In agriculture, for instance, a USDA study found in 1973 that economy of scale was maximized on a fully-mechanized one-man farm.[149]

Walter Adams and James Brock, two specialists in economy of scale, cited a number of studies showing that *"optimum plant sizes tend to be quite small relative to the national market."* According to one study, even taking into account the efficiencies of firm size, market shares of the top three firms in nine of twelve industries exceeded maximum efficiency by a factor of anywhere from two to ten. But productive economy of scale was a function primarily of plant size, not the size of multi-plant firms. Any efficiencies of bargaining power provided by large firm size were offset by increased administrative and control costs, and other diseconomies.[150] In fact, Seymour Melman argued that the increased administrative costs of multi-unit and multi-product firms are astronomical. They are prone to many of the same inefficiencies—falsified data from below, and "elaborate, formal systems of control, with accompanying police systems—as state-run industry in the communist countries.[151]

Describing the inefficiencies of large firms, Kenneth Boulding wrote:

> *There is a great deal of evidence that almost all organizational structures tend to produce false images in the decision-maker, and that the larger and more authoritarian the organization, the better the chance that its top decision-makers will be operating in purely imaginary worlds.*[152]

In the most capital-intensive industry, automobiles, peak economy of scale was achieved at a level of production equivalent to 3-6% of market share.[153] And even this level of output is required only because annual model changes (which arguably wouldn't pay for themselves without state capitalist subsidies) require an auto plant to wear out the dies for a run of production in a single year. Otherwise, peak economy of scale would be reached in a plant with an output of only 60,000 per year.[154]

In any case, these figures relate only to productive economy of scale. Increased distribution costs begin to offset increased economies of production, according to Borsodi's law, long before peak productive economy of scale is reached. According to an F.M. Scherer study cited by Adams and Brock, a plant producing at one-third the maximum efficiency level of output would experience only a 5% increase in unit costs.[155] This is more than offset by reduced shipping costs for a smaller market.

The point of this digression is that the size of existing firms reflects the role of the state in subsidizing increased size by underwriting the inefficiencies of corporate gigantism—as Rothbard pointed out, the ways *"our corporate state uses the coercive taxing power either to accumulate corporate capital or to lower corporate costs."*[156] A genuine free market economy would be vastly less centralized, with production primarily for local markets.

Besides the problem of surplus output, the state capitalist economy produces a second problem: that of surplus capital. Not only does monopoly pricing limit domestic demand, and thus restrain the opportunities for expansion at home; but non-cartelized industry is seriously disadvantaged as a source of returns on capital, and therefore opportunities for profitable investment are limited outside the cartelized sectors.

According to Hilferding, *"while the drive to increase production is very strong in the cartelized industries, high cartel prices preclude any growth of the domestic market, so that expansion abroad offers the best chance of meeting the need to increase output."*[157] Bukharin later described the capital surplus as a direct result of cartelization, in quite similar language. In Chapter VII of *Imperialism and World Economy*, he wrote:

> *The volumes of capital that seek employment have reached unheard of dimensions. On the other hand, the cartels and trusts, as the modern organisation of capital, tend to put certain limits to the employment of capital by fixing the volume of production. As to the non-trustified sections of industry, it becomes ever more unprofitable to invest capital in them. For monopoly organisations can overcome the tendency towards lowering the rate of profit by receiving monopoly superprofits at the expense of the non-trustified industries. Out of the surplus value created every year, one portion, that which has been created in the nontrustified branches of industry, is being transferred to the co-owners of capitalist monopolies, whereas the share of the outsiders continually decreases. Thus the entire process drives capital beyond the frontiers of the country.*[158]

Monopoly capital theorists have made worthwhile contributions to the issue of capital and output surpluses. For example, the surplus product of cartelized industry drastically increases the importance of the "sales effort"—what Galbraith called "specific demand management" to dispose of the product.[159] This underscores the importance of the state in the problem of surplus disposal: without state intervention to create the national infrastructure of mass media and its attendant mass advertising markets, specific demand management would have been impossible.

One issue Stromberg neglects is the internal role of the state in directly disposing of the surplus. The role of the State's purchases in absorbing surplus output, through both military and domestic spending, was a key part of Baran and Sweezy's "monopoly capitalism" model. Its large "defense" and other expenditures provide a guaranteed internal market for surplus output analogous to that provided by state-guaranteed foreign markets. By providing such an internal market, the state increases the percentage of production capacity that can be used on a consistent basis.[160] This is reminiscent of Immanuel Goldstein's description in *1984* of the function of continuous warfare in eating up potentially destabilizing surpluses.

Paul Mattick elaborated on this theme in a 1956 article. The overbuilt corporate economy, he wrote, ran up against the problem that *"[p]rivate capital formation... finds its limitation in diminishing market-demand."* The State had to absorb part of the surplus output; but it had to do so without competing with corporations in the private market. Instead, *"[g]overnment-induced production is channeled into non-market fields—the production of non-competitive public-works, armaments, superfluities and waste."*[161] As a necessary result of this state of affairs,

> *so long as the principle of competitive capital production prevails, steadily growing production will in increasing measure be a "production for the sake of production," benefiting neither private capital nor the population at large.*
>
> *This process is somewhat obscured, it is true, by the apparent profitability of capital and the lack of large-scale unemployment. Like the state of prosperity, profitability, too, is now largely government manipulated. Government spending and taxation are managed so as to strengthen big business at the expense of the economy as a whole...*
>
> *In order to increase the scale of production and to accummulate* [sic] *capital, government creates "demand" by ordering the production of non-marketable goods, financed by government borrowings. This means that the government avails itself of productive resources belonging to private capital which would otherwise be idle.*[162]

Such consumption of output, while not always directly profitable to private industry, serves a function analogous to foreign "dumping" below cost, in enabling the corporate economy to achieve economies of large-scale production at levels of output beyond the ability of private consumers to absorb.

It's interesting to consider how many segments of the economy have a guaranteed market for their output, or a "captive clientele" in place of willing consumers. The "military-industrial complex" is well known. But how about the state's education and penal systems? How about the automobile-trucking-highway complex, or the civil aviation complex? Foreign surplus disposal ("export dependant monopoly capitalism") and domestic surplus disposal (government purchases) are different forms of the same phenomenon.

Marx described major new forms of industry as countervailing influences against the falling rate of profit. Baran and Sweezy, likewise, considered "epoch-making inventions" as partial counterbalances to the ever-increasing surplus. Their chief example of such a phenomenon was the rise of the automobile industry in the 1920s, which (along with the highway program) was to define the American economy for most of the mid-20th century.[163] The high tech boom of the 1990s was a similarly revolutionary event. It is revealing to consider the extent to which both the automobile and computer industries, far more than average, were direct products of state capitalism. More recently, in the Bush administration, to consider only one industry (pharmaceuticals), two major policy initiatives benefit it by providing state-funded outlets for its production: the so-called "prescription drug benefit," and the provision of AIDS drugs to destitute African countries. In another industry, Bush's R&D funding for hydrogen fuel engines is enabling the automobile companies to develop the successor technology to the gasoline engine (with patents included) at public expense; this not only subsidizes their transition to viability in a post-fossil fuel world, but gives them monopoly control over the successor technology. "Creative destruction" is our middle name.

A MUTUALIST READING OF STROMBERG'S ARGUMENT (With a Brief Digression On Value Thoery)

In his survey of literature on the theory of imperialism, Stromberg takes issue with Joseph Schumpeter on the nature of "actually existing capitalism" (not his phrase). An examination of this dispute will lead us into our central discussion of how the mutualist analysis of state capitalism differs from that of the Austrians.

In the passage leading up to his incisive description of "export oriented monopoly capitalism," Schumpeter dismissed imperialism as *"atavistic,"* reflecting *"past rather than* *present relations of production."*[164] According to Schumpeter, *"a purely capitalistic world...* [could] *offer no fertile soil to imperialist impulses."*[165] Any imperialistic tendencies under modern capitalism were the result of *"alien elements, carried into the world of capitalism from outside, supported by non-capitalist factors in modern life."*[166] Taking this assertion still further, he treated as "beyond controversy"

> *that where free trade prevails no class has an interest in forcible expansion as such. For in such a case the citizens and goods of every nation can move in foreign countries as freely as though those countries were politically their own—free trade implying far more than mere freedom from tariffs. In a genuine state of free trade, foreign raw materials and foodstuffs are as accessible to each nation as though they were within its own territory.*[167]

This avoids the issue of whether politically connected capitalists can have the same monopoly position under free trade as they would have when backed up by the state's power overseas.

Schumpeter's dismissal of imperialism as atavistic, on the basis of the non-martial culture arising from industrial capitalism, was a non sequitur of massive proportions. It was, however, consistent with his sociological approach to imperialism, treating it as the natural outgrowth of the "mode of life" or situation of society on a broad scale. But Schumpeter failed to show why it would be any less "natural" for ruling elites under corporate capitalism, than for those under feudalism or any other class system, to take advantage of the exploitative opportunities available by acting through the coercive power of the state. The very existence of the state, as a mechanism of expropriating the labor of productive classes through political means, serves the dominant classes as an instrument of exploitation in any society. State policy is in fact the rational outcome of ruling class interest, rather than a reflection of culture or "mode of life."

Schumpeter later qualified what he meant in describing *"imperialist attitudes"* as in conflict with the *"mode of life of the capitalist world."* Protectionism and imperialism were not natural outgrowths of capitalism, but were *"the fruits of political action-a type of action that by no means reflects the objective interests of all those concerned but that, on the contrary, becomes impossible as soon as the majority of those whose consent is necessary realize their true interests."*[168]

Schumpeter seriously overestimated the importance of formal democracy, along with the likelihood that the policies of a formally democratic state would reflect the real interests of a majority. And he underestimated the potential of a ruling class, through ideological hegemony, to shape the very conceptual framework through which the ruled make judgments of "general welfare." A given structure of economic and political power tends to reproduce the kinds of "human resources" it needs to keep going.

Under a "pure" capitalist system, according to Schumpeter, the cultural attitudes of the bourgeoisie were quite unwarlike. In this, he restated a theory that had been articulated by Comte and his followers, and that has found more recent expression in the thought of Francis Fukuyama and other neoconservatives. But the triumph of global capitalism, in its "actually existing" form, did not preclude the existence of a massive national security state, or of a standing military with a highly jingoistic internal culture. And the same neoconservative movement that produced Fukuyama's "end of history" thesis has also produced a rabidly hawkish contingent that includes David Horowitz and Charles Krauthammer. The same ideologues who praise the post-Soviet triumph of "democratic capitalism" on a global scale, also speak of the need for some global system of order enforced by a hegemonic power. The free market is not a spontaneous phenomenon, but depends on institutions of "civil society" which in turn are created by the state.

Actual history belies Schumpeter's alleged "pacific" bourgeois culture. If we look at American history, it becomes painfully obvious that, when militarism and imperialism are in the material interests of the dominant segment of corporate capital, it is quite effective at creating the required ideological infrastructure to legitimate itself. In the United States, one of the world's most isolationist and anti-militarist societies, the legitimation needs of monopoly capitalism were met from the 1890s on by the cult of Old Glory and the American Legion ideology of "100% Americanism." There is today a whole generation of self-described "conservatives," as any listener of Rush Limbaugh, Ann Coulter or Sean Hannity can testify, who have no idea that conservatism ever meant anything besides cheerleading for the state and its wars.

Immediately following his dismissive treatment of imperialism, Schumpeter qualified it with the admission that protectionism *"*[did] *facilitate the formation of cartels and trusts,"* and that *"this circumstance thoroughly alters the alignment of interests."*[169] With this statement he segued into his analysis of "export oriented monopoly capitalism," and in so doing obviated his entire line of argument up to that point on the "atavistic" nature of imperialism. His argument, taken as a whole, seems to be that imperialism and monopoly were alien to some pure or ideal form of capitalism, but were quite useful to capitalist elites under "actually existing capitalism."

For Stromberg state capitalism is not a survival of corrupting pre-capitalist influences, but capitalism's natural course of evolution in a state system, in which politically powerful capitalists can act through the political regime to enrich themselves.

> *We may agree that export monopolism and imperialism are indeed partly pre-capitalist phenomena: they are intimately connected with institutions and ideas associated with feudalism and mercantilism, e.g., tariffs, eminent domain, patents, property taxes (a single feudal rent), and—to be thorough—the state apparatus itself. But, to argue, as Schumpeter seems to, that neo-mercantilist and imperialist policies undertaken under modern capitalist conditions are essentially pre- or anti-capitalist is to substitute for historical capitalism an ideal free market (to which we all might aspire)... Thus, Schumpeter weakened and obscured his analysis with... an a-historical use of concepts...*[170]

But Stromberg himself is also guilty of an "a-historic use of concepts," albeit to a lesser degree than Schumpeter. He admits that the picture of an earlier "laissez-faire" economy was only "partly true," and even tips his hat to the individualist anarchist critique of that so-called laissez-faire (citing Martin's *Men Against the State*); nevertheless Stromberg still treats the state capitalist system that emerged in the U.S. during and after the Civil War, and especially from the "Progressive" Era on, as a deviation from a largely "laissez faire" capitalism that existed through the mid-nineteenth century.

The main difference between Stromberg's position and that of the nineteenth century mutualists (Benjamin Tucker chief among them) is the extent to which they portray the nineteenth century system as "largely laissez faire." In Tucker's view, capitalism was statist by its very nature. The existence of non-labor derived income depended on the existence of privileges guaranteed by the state.

The mutualist understanding that statism is at the root of the profit system requires a brief digression on value theory, before we can pursue this line of inquiry any further.

As quaint or atavistic as it may seem to followers of Neoclassical and Austrian economics, I adhere to a heavily modified version of the classical labor theory of value. The research for this article was part of a larger research project in mutualist economics[171] in which I attempted, among other things, to rehabilitate the labor theory in the face of subjectivist and marginalist criticism, and at the same time to incorporate into it the valid innovations of the latter schools.

The subjectivist understanding that exchange-value is a product of subjective utility is true as far as it goes; but it is true only given a rather idiosyncratic set of assumptions. As Buchanan pointed out, it is a paradigm which treats the price of all goods according to the special rules that Ricardo and the other classical political economists applied only to goods with inelastic supply. Ricardo and the rest conceded that the price of goods like rare paintings, and other goods whose supply could not be increased in relation to demand, would be determined by utility rather than cost. The subjective theory of value, stated more accurately, is that exchange-value is determined by utility *given the assumption of fixed stocks of supply* in relation to demand *at any point in time*.

Although this is a useful paradigm for analyzing the determinants of price in the short run, it does not invalidate the classical labor and cost theories of value as paradigms for dealing with the equilibrium price of goods in elastic supply. And since the classical political economists made explicit exceptions for inelastic supply, the subjectivists' polemics are largely directed against a strawman.

One valid marginalist criticism of the labor theory (especially Böhm-Bawerk's critique) is that its advocates have not, for the most part, supplied any theoretical mechanism to explain it. My mutualist version of the labor theory takes the subjective disutility of labor as the mechanism by which socially necessary labor creates exchange value. Rather than Ricardo's (and Marx's) embodied labor-time theory, I rely on Smith's subjective cost understanding of embodied labor. Labor is measured by the worker's subjective feeling of toil and trouble, or of "disutility," as the marginalists put it. As even the latter admit, labor is unique among the "factors of production" in possessing a disutility. The reason that labor creates exchange value, but free natural goods do not, is that a lump of coal does not have to be persuaded to surrender its energy; but a human being does have to be offered a price to make it worthwhile to undergo the disutility of labor. The consumer can be charged for that which does not cost the producer, only when natural inelasticity, market entry barriers, or other forms of scarcity put the producer in a monopoly position.

In a totally free market, with producers exchanging the value of their labor in the total absence of privilege or monopoly, the product will be distributed among workers according to their perceived disutility, as a result of the "voluntary higgling of the market." The net disutilities in competing lines of work, taking into account the utilities and disutilities peculiar to each, will be equalized by competition. When market entry is unrestricted, so long as a provider sells at a price greater than necessary to compensate his own subjective effort, other providers will enter the market to undersell him until price equals subjective effort. When absentee landlord rents are not enforced, therefore, the price of land will fall to the level needed to compensate the effort embodied in improvements, buildings, and so forth. When market entry barriers and prohibitions against mutual banks are eliminated, the cost of credit will fall to the overhead cost of administration.

As for time preference, its steepness is heavily dependent on the distribution of property and savings among the classes of society, and on the relative dependence of one class on another for access to the means of production. But to the extent that some degree of time preference would exist even in a society of distributive property ownership, I follow Maurice Dobb's suggestion that it be factored in as a scarcity rent for present as against future labor; that is, another form of disutility in the "higgling of the market."

So to sum it up, a free market, as mutualists understand it, tends toward an equilibrium price which does not include payment for anything that did not cost an effort on the part of the provider. The term "equilibrium price" makes allowances for short-term quasi rents resulting from temporary bottlenecks in production, as demand shifts. And these principles only hold true in cases where supply is elastic. In other cases, such as land with productivity or site advantages, above average innate skills, rare works of art, etc., permanent quasi-rents will result from the inelasticity of supply. End of digression.

Stromberg's argument that the problem of surplus output in a state capitalist economy does not violate Say's Law, because Say's Law applies only in a free market, can be taken a step further with mutualist analysis. J.A. Hobson argued that widespread monopoly profits and other unearned income,

> *[h]aving no natural relation to effort of production, ... impel their recipients to no corresponding satisfaction of consumption: they form a surplus wealth, which, having no proper place in the normal economy of production and consumption, tends to accumulate as excessive savings.*[172]

In a truly free market, as mutualists understand it, labor's pay will equal the value it produces; and the "higgling of the market" will tie the amount of disutility laborers are willing to undergo producing value to their perceived consumption needs. Thus, purchasing power will be related directly to the amount of output. In a statist economy, on the other hand, various forms of statist privilege reduce the purchasing power of those who produce wealth and transfer it to those who have no subjective sense of the effort entailed in production.

For Tucker, the fundamental difference between nineteenth century capitalism and a real free market lay in the four privileges or monopolies by which the state robbed the laborer of the proper market returns on his labor: the money monopoly, by which the state limited free entry into the money and credit markets, and thus enabled the suppliers of credit to charge a monopoly price; the land monopoly, by which the state enforced absentee "property" claims not founded on occupancy and cultivation; the tariff monopoly; and the patent monopoly. The abolition of the money monopoly (capitalization requirements, licensing, legal tender laws, and other regulations on the private issuance of currency) would result in free market entry into the banking market until the price of credit fell to the labor cost of administering loans. Abolition of the landlord monopoly would cause the price of land to fall to the labor value of improvements (making allowance for economic rent). The effect of removing all four monopolies would be to lower the rate of profit, as such, to zero.[173]

The first two monopolies are an issue of dispute among right-libertarians. As to the money monopoly, there is room for legitimate disagreement over how much of existing interest rates is due to monopoly, and how much to risk premium or time-preference, and to how much they would be reduced by free banking. The mainstream libertarian right is predominantly Lockean on the land issue, although the followers of George, Spencer and Nock comprise a large undercurrent of honorable exceptions. But the illegitimacy of tariffs and patents is a matter of agreement for the great majority of libertarians. Hilferding, Schumpeter and Mises viewed the tariff as the largest single enabling factor for cartelization of the domestic economy.

As for patents, their effect has been almost beyond comprehension. Tucker focused on their function of giving monopoly privileges to the individual inventor, while ignoring their effect on the institutional structure of corporate capitalism. Patents are a mighty weapon for cartelizing an industry in under the control of a handful of producers. According to David Noble, patent control is one of the chief means by which manufacturing corporations have maintained their market share. And the leading firms in an industry may cartelize it by exchanging their patents and jointly using their shared patents to close the market to the entry of new competition. For example, General Electric and Westinghouse effectively cartelized the electrical appliance industry by a large-scale exchange of patents. The American chemical industry was created almost from nothing during World War I, when the U.S. Justice Department seized the German chemical patents and then gave them away free to fledgling American companies.[174] The expansion of international patent law through the GATT regime has served to cartelize industry on a global scale. Patents on general-use technologies, especially, lock western TNCs into permanent control of modern productive technologies and protect them from the emergence of native competition in the Third World.[175]

Tucker himself neglected two major forms of state intervention, which had long been or were currently becoming decisive in his time: primitive accumulation and transportation subsidies. Without the state's role in robbing the peasantry of rights of copyhold, commons, and other traditional rights in the land, and turning them into tenants at-will in the modern sense, there would have been no majority of propertyless laborers forced to "sell their lives in order to live." Without the system of social control imposed by the state, the working class would have been a lot harder to manage. In England, for example, the Poor Laws and Vagrancy Laws amounted to a Stalinesque internal passport system; the Combination Act, and various police measures by Pitt like the Riot Act and suspension of habeas corpus, together placed everyone below the small middle class beyond the protection of so-called rights of Englishmen. The creation of the so-called "world market" was brought about by the brutal and heavy-handed mercantilist policies of Great Britain.

As for transportation subsidies, every wave of concentration of capital in the past 150 years has followed some centralized transportation or communications infrastructure whose creation was initiated by the state. The heavily state-subsidized railroads led, in the United States, to the first manufacturing corporations on a continental scale. Federal subsidies to the numbered state highways in the 1920s, followed by the interstates of the 1950s had a massive effect on the concentration of retailing and agriculture; the civil aviation system (and especially the postwar jumbo jets—see above) was almost entirely a creation of the state. And the ability of TNCs to direct operations around the world in real-time, from a single headquarters, was made possible by the state-initiated telecommunications infrastructure (especially the worldwide web, in whose creation the Pentagon's DARPA played a major role).

"Actually existing capitalism," even in the supposedly "laissez faire" nineteenth century, would not be capitalism without its state capitalist features. Capitalism was defined by state capitalist features from its very beginnings. As early radicals like Paine and Cobbett, and market-oriented Ricardian socialists like Hodgskin understood it, the statist features of capitalism were analogous to the use of the state by landed interests under the Old Regime. It is a useful exercise for anyone who views the nineteenth century as "largely laissez-faire" to consider the effects, severally, of patents, tariffs, and railroad subsidies, and then try to mentally encompass the synergistic effect of all of them together.

So a mutualist treatment of Marx's "declining rate of profit" would characterize it as a continuing increase in the rate of state intervention necessary for profits to exist at all. Until around the time of the American Civil War, it required little more than the kinds of legal privileges Tucker described, which were largely embedded in the general legal system, and thus disguised as a "neutral" framework governing a free society.

The larger-scale state capitalist intervention, generally identified with Whigs and Republicans in the mid-nineteenth century, led to a centralization of the economy in the hands of large producers. This system was inherently unstable, and required still further state intervention to solve its contradictions. The result was the full-blown state capitalism of the twentieth century, in which the state played a direct role in subsidizing and cartelizing the corporate economy. As regulatory cartelization advanced from the "Progressive" era on, the problems of overproduction and surplus capital were further intensified by the forces described by Stromberg, with the state resorting to ever greater, snowballing foreign expansionism and domestic corporatism to solve them. They eventually led to New Deal corporate state, to a world war in which the U.S. was established as "hegemonic power in a system of world order" (Huntington), and an almost totally militarized high-tech economy.

A positive rate of profit, under twentieth century state capitalism, was possible only because the state underwrote so much of the cost of reproduction of constant and variable capital, and undertook "social investment" which increased the efficiency of labor and capital and consequently the rate of profit on capital.[176] And monopoly capital's demands on the state are not stable over time, but steadily increase:

> *...the socialization of the costs of social investment and social consumption capital increases over time and increasingly is needed for profitable accumulation by monopoly capital. The general reason is that the increase in the social character of production (specialization, division of labor, interdependency, the growth of new social forms of capital such as education, etc.) either prohibits or renders unprofitable the private accumulation of constant and variable capital.*[177]

O'Connor did not adequately deal with a primary reason for the fiscal crisis: the increasing role of the state in performing functions of capital reproduction removes an ever-growing segment of the economy from the market price system. The removal of the price feedback system, which in a free market ties quantity demanded to quantity supplied, leads to ever-increasing demands on state services. When the consumption of some factor is subsidized by the state, the consumer is protected from the real cost of providing it, and unable to make a rational decision about how much to use. So the state capitalist sector tends to add factor inputs extensively, rather than intensively; that is, it uses the factors in larger amounts, rather than using existing amounts more efficiently. The state capitalist system generates demands for new inputs from the state geometrically, while the state's ability to provide new inputs increases only arithmetically. The result is a process of snowballing irrationality, in which the state's interventions further destabilize the system, requiring yet further state intervention, until the system's requirements for stabilizing inputs exceed the state's resources. At that point, the state capitalist system reaches a breaking point.

Probably the best example of this phenomenon is the transportation system. State subsidies to highways, airports, and railroads, by distorting the cost feedback to users, destroy the link between the amount provided and the amount demanded. The result, among other things, is an interstate highway system that generates congestion faster than it can build or expand the system to accommodate congestion. The cost of repairing the most urgent deteriorating roadbeds and bridges is several times greater than the amount appropriated for that purpose. In civil aviation, at least before the September 11 attacks, the result was planes stacked up six high over O'Hare airport. There is simply no way to solve these crises by building more highways or airports. The only solution is to fund transportation with cost-based user fees, so that the user perceives the true cost of providing the services he consumes. But this solution would entail the destruction of the existing centralized corporate economy.

The same law of excess consumption and shortages manifests itself in the case of energy. When the state subsidizes the consumption of resources like fossil fuels, business tends to add inputs extensively, instead of using existing inputs more intensively. Since the incentives for conservation and economy are artificially distorted, demand outstrips supply. But the energy problem is further complicated by finite reserves of fossil fuels. According to an article in the *Oil and Gas Journal* last year,

> *...The world is drawing down its oil reserves at an unprecedented rate, with supplies likely to be constrained by global production capacity by 2010, "even assuming no growth in demand," said analysts at Douglas-Westwood Ltd., an energy industry consulting firm based in Canterbury, England.*
>
> *"Oil will permanently cease to be abundant," said Douglas-Westwood analysts in the World Oil Supply Report issued earlier this month. "Supply and demand will be forced to balance-but at a price."*
>
> *The resulting economic shocks will rival those of the 1970s, as oil prices "could double and treble within 2 or 3 years as the world changes from oil abundance to oil scarcity. The world is facing a future of major oil price increases, which will occur sooner than many people believe," that report concluded.*
>
> *"The world's known and estimated 'yet to find' reserves cannot satisfy even the present level of production of some 74 million b/d beyond 2022. Any growth in global economic activity only serves to increase demand and bring forward the peak year," the report said.*
>
> *A 1% annual growth in world demand for oil could cause global crude production to peak at 83 million b/d in 2016, said Douglas-Westwood analysts. A 2% growth in demand could trigger a production peak of 87 million b/d by 2011, while 3% growth would move that production peak to as early as 2006, they said.*
>
> *Zero demand growth would delay the world's oil production peak only until 2022, said the Douglas-Westwood report.*
>
> *However, the International Energy Agency recently forecast that world oil demand would reach 119 million b/d by 2020.*[178]

During the shortages of the late '70s, Warren Johnson predicted that a prolonged energy crisis would lead, through market forces, to a radical decentralization of the economy and a return to localism.[179] Like every other kind of state intervention, subsidies to transportation and energy lead to ever greater irrationality, culminating in collapse.

Other centralized offshoots of the state capitalist system produce similar results. Corporate agribusiness, for example, requires several times as much synthetic pesticide application per acre to produce the same results as in 1950s—partly because of insect resistance, and partly because pesticides kill not only insect pests but their natural enemies up the food chain. At the same time, giant monoculture plantations typical of the agribusiness system are especially prone to insects and blights which specialize in particular crops. The use of chemical fertilizers, at least the most common simple N-P-K varieties, strips the soil of trace elements—a phenomenon noted long ago by Max Gerson. The chemical fillers in these fertilizers, as they accumulate, alter the osmotic quality of the soil—or even render it toxic. Reliance on such fertilizers instead of traditional green manures and composts severely degrades the quality of the soil as a living biological system: for example, the depletion of mycorrhizae which function symbiotically with root systems to aid absorption of nutrients. The cumulative effect of all these practices is to push soil to the point of biological collapse. The hardpan clay on many agribusiness plantations is virtually sterile biologically, often with less than a single earthworm per cubic yard of soil. The result, as with chemical pesticides, is ever increasing inputs of fertilizer to produce diminishing results.

In every case, the basic rule is that, whenever the economy deviates from market price as an allocating principle, it deviates to that extent from rationality. In a long series of indices, the state capitalist economy uses resources or factors much more intensively than would be possible if large corporations were paying the cost themselves. The economy is much more transportation-intensive than a free market could support, as we have seen. It is likewise more capital-intensive, and more intensively dependent on scientific-technical labor, than would be economical if all costs were borne by the beneficiaries. The economy is far more centralized, capital intensive, and high-tech than it would otherwise be. Had large corporate firms paid for these inputs themselves, they would have reached the point of zero marginal utility from additional inputs much earlier.

At the same time as the demand for state economic inputs increases, state capitalism also produces all kinds of social pathologies that require "social expenditures" to contain or correct. By subsidizing the most capital-intensive forms of production, it promotes unemployment and the growth of an underclass. But just as important, it undermines the very social structures—family, church, neighborhood, etc.—on which it depends for the reproduction of a healthy social order.

Those who believe the market and commodity production as such inevitably suck all social relations into the "cash nexus," and undermine the stability of autonomous social institutions, are wrong. But this critique, while not valid for the market as such, is valid for state capitalism, where the state is driven into ever new realms in order to stabilize the corporate system. State intervention in the process of reproducing human capital (i.e., public education and tax-supported vocational-technical education), and state aid to forms of economic centralization that atomize society, result in the destruction of civil society and the replacement by direct state intervention of activities previously carried out by autonomous institutions. The destruction of civil society, in turn, leads to still further state intervention to deal with the resulting social pathologies.

The free market criticism of these phenomena closely parallels that of Ivan Illich in *Tools For Conviviality*.[180] Illich argued that the adoption of technologies followed a pattern characterized by two thresholds (or "watersheds"). The first threshold was one of high marginal utility for added increments of the new technology, with large increases in overall quality of life as it was introduced. But eventually a second threshold was reached, at which further increments produced disutilities. Technologies continued to be adopted beyond the level at which they positively harmed society; entire areas of life were subject to increased specialization, professionalization, and bureaucratic control; and older forms of technology that permitted more autonomous, local and individual control, were actively stamped out. In all these areas of life, the effect was to destroy human-scale institutions and ways of doing things, amenable to control by the average person.

In medicine, the first threshold was identified with the introduction of septic techniques, antibiotics, and other elementary technologies that drastically reduced the death rates. The second was identified with intensive reliance on extremely expensive medications and procedures with only marginally beneficial results (not to mention iatrogenic diseases), the transformation of medicine into a priesthood governed by "professional" bureaucracies, and the loss by ordinary people of control over their own health. The automobile reached the second threshold when it became impossible for most people to work or shop within walking or bicycle distance of where they lived. The car ceased to be a luxury, and became a necessity for most people; a lifestyle independent of it was no longer an option.

Those who criticize such aspects of our society, or express sympathies for the older, smaller-scale ways of life, are commonly dismissed as nostalgic, romantic—even Luddites. And such critiques are indeed, more often than not, coupled with calls for government regulation of some kind to protect quality of life, by restraining the introduction of disruptive technologies. The worst such critics idealize the "Native American" practice of considering the effects of a technology for "six generations" before allowing it to be adopted. Illich himself fell into this general category, considering these issues to be a proper matter for grass-roots political control ("convivial reconstruction").

But in fact, it is quite possible to lament the loss of human scale society ("Norman Rockwell's America"), and to resent the triumph of professionalization and the automobile, all the while adhering to strictly free market principles. For government, far from being the solution to these evils, has been their cause. Illich went wrong in treating the first and second thresholds, respectively, as watersheds of social utility and disutility, without considering the mechanism of coercion that is necessary for social disutility to exist at all. In a society where all transactions are voluntary, no such thing as "social disutility" is possible. Net social disutility can only occur when those who personally benefit from the introduction of new technologies beyond the second threshold, are able to force others to bear the disutilities. As we have already seen in our citations of O'Connor's analysis, this is the case in regard to a great deal of technology. The profit is privatized, while the cost is socialized. Were those who benefited from greater reliance on the car, for example, for example, forced to internalize all the costs, the car would not be introduced beyond the point where overall disutilities equaled overall utilities. As Kaveh Pourvand elegantly put it in a private communication recently, the state's intervention promotes the adoption of certain technologies beyond Pareto optimality.[181] Coercion, or use of the "political means," is the only way in which one person can impose disutility on another.

The state capitalist system thus demands ever greater state inputs in the form of subsidies to accumulation, and ever greater intervention to contain the ill social effects of state capitalism. Coupled with political pressures to restrain the growth of taxation, these demands lead to (as O'Connor's title indicates) a *"fiscal crisis of the state,"* or *"a tendency for state expenditures to increase faster than the means of financing them."*[182] The *"'structural gap' ...between state expenditures and state revenue"* is met by chronic deficit finance, with the inevitable inflationary results. Under state *capitalism "crisis tendencies shift, of course, from the economic into the administrative system..."* This displaced crisis is expressed through *"inflation and a permanent crisis in public finance."*[183]

The problem is intensified by the disproportionate financing of State expenditures by taxes on the competitive sector (including the taxes on the monopoly capital sector which are passed on to the competitive sector), and the promotion of monopoly capital profits at the expense of the competitive sector. This depression of the competitive sector simultaneously reduces its purchasing power and its strength as a tax base, and exacerbates the crises of both state finance and demand shortfall.

Parallel to the fiscal crisis of the state, state capitalism likewise moves towards what Habermas called a *"legitimation crisis."* State capitalism involves *"[r]e-coupling the economic system to the political... The state apparatus no longer, as in liberal capitalism, merely secures the general conditions of production..., but is now actively engaged in it."*[184] That is, capitalism abandons the "laissez-faire" model of state involvement mainly through the enforcement of a general legal framework, and resorts instead to direct organizational links and direct state inputs into the private sector.

> *To the extent that the class relationship has itself been repoliticized and the state has taken over market replacing as well as market supplementing tasks..., class domination can no longer take the anonymous form of the law of value. Instead, it now depends on factual constellations of power whether, and how, production of surplus value can be guaranteed through the public sector, and how the terms of the class compromise look.*[185]

The direct intervention of the state on behalf of corporate elites becomes ever greater, and impossible to conceal. This fundamentally contradicts the official ideology of "free market capitalism," in which the state simply acts as a neutral guarantor of a social order in which the most deserving win by their own efforts. Therefore, it undermines the ideological basis on which its popular legitimacy depends.

> *According to bourgeois conceptions that have remained constant from the beginnings of modern natural law to contemporary election speeches, social rewards should be distributed on the basis of individual achievement... Since it has been recognized, even among the population at large, that social force is exercised in the forms of economic exchange, the market has lost its credibility as a fair... mechanism for the distribution of life opportunities conforming to the system.*[186]

When the state capitalist system finally reaches its limits, the state becomes incapable of further increasing the inputs on which the system depends. The fundamental contradictions of the system, displaced from the political/administrative realm, return with a vengeance in the form of economic crisis. The state capitalist system will reach its breaking point. When that day comes, a "nunc dimittis" might be in order.

A NOTE ON MARXIST SHORTCOMINGS: THE ROLE OF THE STATE

Although this article has focused on mutualism's differences with the mainstream libertarian Right, the Marxists have their own ideological blinders. They largely ignore the primary issue of whether the social and economic power of the capitalist arise primarily from autonomous forces, or whether the state's intervention is necessary. Marxists tend to treat concentration and centralization of capital as natural outgrowths of competition. The need for ever-larger firms to achieve economies of scale, coupled with the credit system, make possible intense concentration of production in the hands of a few firms. This shows a common tendency among Marxists, to believe that the virtues of economy of scale are virtually unlimited, and to see every step toward cartelization and monopoly as a "progressive" step toward a fully "socialized" economy. In fact, as economists like Walter Adams have shown, economies of scale level off at relatively low levels of production; firms above this levelling point are less efficient than those at optimal economy of scale, and can only survive with the help of the state. As Stromberg said, most of the Marxist literature *"relies on the unproven assumption of an inherent tendency toward monopoly endogenous to the market economy."*[187]

Marx at times, especially in his treatment of primitive accumulation, approached the truth—that the growth of capitalism was not an inevitable outcome of the free market as such. But he always skirted by without fully embracing the implications. And there was a tension between his earlier argument, in *The German Ideology*, that capitalism and the wage system arose mainly from the concentration of property by purely market forces, and his later analysis of state-imposed primitive accumulation in the first volume of Capital. In the *Grundrisse*, where most of the material for *Capital* was tentatively worked out, Marx shifted ambivalently between the two positions. Engels, in his polemics against Duhring and the anarchists, took the first alternative to the point of denying that the state had ever been necessary in the rise of capitalism and exploitation.

> *...even if we exclude all possibility of robbery, force and fraud, even if we assume that all private property was originally based on the owner's own labor, and that throughout the whole process there was only exchange of equal values for equal values, the progressive develop-*

> *ment of production and exchange nevertheless brings us of necessity to the present capitalist mode of production... The whole process can be explained by purely economic causes; at no point whatever are robbery, force, the state or political interference of any kind necessary.*[188]

In taking things this far, he consigned Marx's eloquent account of the early modern process of expropriation and enslavement, "written in letters of blood and fire," to irrelevancy.

Engels made it clear that capital took priority over the state in the sequence of cause and effect, and drew the dividing line between Marxists and anarchists on this issue. In a letter of 4 September 1867, Engels aptly summed up the difference between anarchists and state socialists: *"They say 'abolish the state and capital will go to the devil.' We propose the reverse."*[189] Engels was quite right in drawing the line where he did. Like the classical liberals, libertarian socialists (including both laissez-fairists like Benjamin Tucker and collectivists like Bakunin) saw exploitation as impossible without the state's power to coerce. Ruling classes could function only through the state.

A second failing of Marxism (or at least the vulgar variety) was to treat the evolution of particular social and political forms as natural outgrowths of a given technical mode of production.

> *No social order is ever destroyed before all the productive forces for which it is sufficient have been developed, and new superior relations of production replace older ones before the material conditions for their existence have matured within the framework of the old society. Mankind thus inevitably sets itself such tasks as it is able to solve, since closer examination will always show that the problem itself arises only when the material conditions for its solution are already present or at least in the course of formation. In broad outline, the Asiatic, ancient, feudal and modern bourgeois modes of production may be designated as epochs marking progress in the economic development of society.*[190]

For the Marxists, a "higher" or more progressive form of society could only come about when productive forces under the existing form of society had reached their fullest possible development under that society. To attempt to create a free and non-exploitative society before its technical and productive prerequisites had been achieved would be folly. The proper anarchist position, in contrast, is that exploitation and class rule are not inevitable at any time; they depend upon intervention by the state, which is not at all necessary. Just social and economic relations are compatible with any level of technology; technical progress can be achieved and new technology integrated into production in any society, thorough free work and voluntary cooperation. As G.K. Chesterton pointed out, all the technical prerequisites for steam engines had been achieved by the skilled craftsmen of the High Middle Ages. Had not the expropriation of the peasantry and the crushing of the free cities taken place, a steam powered industrial revolution would still have taken place—but the main source of capital for industrializing would have been in the hands of the democratic craft guilds. The market system would have developed on the basis of producer ownership of the means of production. Had not Mesopotamian and Egyptian elites figured out six thousand years ago that the peasantry produced a surplus and could be milked like cattle, free people would still have exchanged their labor and devised ways, through voluntary cooperation, to make their work easier and more productive. Parasitism is not necessary for progress.

Third, Marxists view the exploitation of labor not as the result of coercive relations (direct or indirect) between capital and labor, but as the spontaneous outcome of the difference between the market value of labor power and the value of the worker's product. Surplus value is not the result of unequal bargaining power, but is inherent in wage labor itself. Mutualists, on the other hand, believe state intervention in the market is necessary for exploitation to take place. Otherwise, "the natural wage of labor is its product." The elimination of privilege and the resulting shift in the balance of bargaining power, in themselves, will be sufficient to turn a nominal wage system into de facto worker control.[191]

From Engels on, the Marxist treatment of the state's role in the creation of monopoly capitalism and imperialism was uneven. Marxist theorists of imperialism—Kautsky, Bukharin, Luxembourg, and even Lenin—sometimes referred to particular forms of state intervention on behalf of monopoly capital. Some, like Bukharin and Luxembourg, brilliantly described certain categories of state intervention—foreign loans, infrastructure, conquest, and (especially Luxembourg) the permanent war economy. But they seldom or never explicitly treated the question of *how essential* the state was to the system of monopoly capital and imperialism. For the most part, they apparently did not even recognize that it was a question. When they did acknowledge the question, they tended to treat state intervention as merely accelerating a process that was already occurring, as a natural by-product of the concentration of capital in market competition.

IMPLICATIONS FOR THE ANTI-STATE MOVEMENT

The view of the present system as essentially exploitative, and of the state as the foundation for its exploitative features, are held both at the same time by only a very small segment of either the libertarian Left or Right. Despite occasional hat tips to the essentially statist nature of the corporate system, collectivist-oriented libertarian socialists like Chomsky immediately revert back to lamenting the evils of "the market" and calling for increased state intervention against "private concentrations of power"; they seem to be motivated by a largely aesthetic revulsion to markets.

Perhaps most annoyingly, they play into the hands of the state capitalists by using the terms "free market" and "free trade" as they have been defined by neoliberal politicians and intellectuals, and in the corporate press. In so doing, they concede the definition of "free market" to our class enemies.

The editors of *In These Times*, in the magazine's mission statement, speak of the need to replace "market values" with "human values"—forgetting that a market, as such, is simply a realm where all human relationships and transactions are based on consent and voluntary cooperation rather than coercion. There is as much—indeed more—room in a genuine free market for the values of Kropotkin, of Colin Ward and Paul Goodman, as for those of Milton Friedman and Leonard Peikoff. As Tucker argued, in a genuine market all transactions are exchanges of labor between producers.

Mainstream right libertarians, in turn, seem to have largely abandoned the "petty bourgeois" economic populism of the early classical liberal period; in most cases they minimize the statism of the present corporate system, and treat big business (for aesthetic reasons of their own) as the victim rather than the beneficiary of the regulatory state.

The early classical liberalism and Enlightenment radicalism of Godwin, Paine, Cobbett, and Hodgskin was decidedly left-wing in spirit. It was motivated by a populist reaction against quasi-feudal landlordism and mercantilism, both of which were forms of exploitation which depended on the use of the state by plutocratic interests against the producing classes. It was unambiguously on the side of the "little guy." And there is a great deal of continuity between classical liberalism and the later populist radicalism of Hodgskin, George, and Nock. To the extent that Hodgskin—the best of the Ricardian socialists—criticized industrial capitalism as exploitative, it was because of the features of statism and privilege that it shared with the older mercantilist system.

But from a revolutionary ideology aimed at breaking down the powers of feudal and mercantilist ruling classes, mainstream libertarianism has evolved into a reflexive apology for the institutions today most nearly resembling a feudal ruling class: the giant corporations.

This school of libertarianism has inscribed on its banner the reactionary watchword: "Them pore ole bosses need all the help they can get." For every imaginable policy issue, the good guys and bad guys can be predicted with ease, by simply inverting the slogan of Animal Farm: "Two legs good, four legs baaaad." In every case, the good guys, the sacrificial victims of the Progressive State, are the rich and powerful. The bad guys are the consumer and the worker, acting to enrich themselves from the public treasury. As one of the most egregious examples of this tendency, consider Ayn Rand's characterization of big business as an "oppressed minority," and of the Military-Industrial Complex as a "myth or worse."

The ideal "free market" society of such people, it seems, is simply actually existing capitalism, minus the regulatory and welfare state: a hyper-thyroidal version of nineteenth century robber baron capitalism, perhaps; or better yet, a society "reformed" by the likes of Pinochet, the Dionysius to whom Milton Friedman and the Chicago Boys played Aristotle.

In some cases, the motivation seems to be a visceral affinity for big business as "our sort." In others, it seems to reflect an almost Stalinist level of cynicism in treating big business as an "objective ally" to be defended regardless of the truth. In both cases, the corporate liberal views of Art Schlesinger are simply mirror-imaged. The real fault line between genuine libertarians and "vulgar libertarian" apologists for big business seems to be defined by how closely they view the present system as an approximation of a free market.

Vulgar libertarian apologists for corporate interests use the term "free market" in an equivocal sense: they seem to have trouble remembering, from one moment to the next, whether they're defending actually existing capitalism or free market principles. So we get the standard boilerplate article in The Freeman arguing that the rich can't get rich at the expense of the poor, because "that's not how the free market works"—implicitly assuming that this is a free market. When prodded, they'll grudgingly admit that the present system is not a free market, and that it includes a lot of state intervention on behalf of the rich. But as soon as they think they can get away with it, they go right back to defending the wealth of existing corporations on the basis of "free market principles."

If both facets of our understanding of the present system (that corporate capitalism is exploitative; and that its exploitative nature depends solely on the state) were sincerely held by libertarians of left and right, it could serve as the basis for an alliance against state capitalism. The Left must be made to understand that their proper grievance is not against private property (properly understood), or markets (in the sense of free exchange between equal, unprivileged producers), but with the state. The Right must be made to understand the extent to which Wal-Mart, Microsoft, and GM are parasitic outgrowths of the state, and not products of "good old American know-how" or "elbow grease." If both sides are sincerely motivated primarily by an opposition to statist coercion, rather than a reflexive sympathy for big business or aversion to market exchange, the potential exists for coexistence on the basis of something like Voltairine de Cleyre's "anarchism without adjectives."

If there is a central theme to our analysis of state capitalism in this article, it is that it is a system of class rule. The state is not, as some right-libertarians view it, a neutral, free-standing force that is colonized fortuitously by random assortments of economic interests. Such a picture of how the state works does not require any organic relation between the various interest groups controlling the state at any time, or between them and the state. The state might be controlled by a disparate array of interest groups, ranging from licensed professionals, rent-seeking corporations, family farmers, regulated utilities, and labor unions; the only thing they might have in common is the fact that they happen to be currently the best at weaseling their way into the state.

The most extreme version of this approach is probably David Friedman, who argued for the likelihood *"that there is no ruling class, that we are ruled, rather, by a myriad of quarrelling gangs, constantly engaged in stealing from each other to the great impoverishment of their own members as well as the rest of us."*[192]

The state is, rather, the instrument of a ruling class. The class interests controlling the state are not random. A better libertarian analysis is that of Rothbard who, as Roderick T. Long described it, viewed the state as controlled by

> *a primary group that has achieved a position of structural hegemony, a group central to class consolidation and crisis in contemporary political economy. Rothbard's approach to this problem is, in fact, highly dialectical in its comprehension of the historical, political, economic, and social dynamics of class.*[193]

Logically, therefore, Libertarians who share our class analysis of state capitalism should evaluate each proposal for "free market reform" not only in terms of its intrinsic libertarianism but, in the context of the overall system of power, how it promotes or hinders the class interests that predominate in that system. We must, as Chris Sciabarra put it in his description of Marx's dialectical method, *"grasp the nature of a part by viewing it systemically—that is, as an extension of the system within which it is embedded."*[194] Individual parts receive their character from the whole of which they are a part.

Arthur Silber, working from Sciabarra's principle of contextual libertarianism, explains the approach quite well:

> *...there are two basic methods of thinking that we can often see in the way people approach any given issue. One is what we might call a contextual approach: people who use this method look at any particular issue in the overall context in which it arises, or the system in which it is embedded…*
>
> *The other fundamental approach is to focus on the basic principles involved, but with scant (or no) attention paid to the overall context in which the principles are being analyzed. In this manner, this approach treats principles like Plato's Forms...*
>
> *…[M]any libertarians espouse this "atomist" view of society. For them, it is as if the society in which one lives is completely irrelevant to an analysis of any problem at all. For them, all one must understand are the fundamental political principles involved. For them, that is the entirety of the discussion...*
>
> *And thus, as another example, the alliance between libertarians who use an approach like mine to liberals with regard to the war on terrorism. We tend to focus on the complex systemic issues involved, on the corporate statism, on the unlikely success of any effort to "plan" the development of other countries. Many pro-war libertarians focus only on our right of self-defense, and on our need to destroy our enemies—without considering the system in which those principles will be applied, the nature of the players involved, and how that system itself may render all such efforts unsuccessful, and will likely hasten the growth of an even more destructive and powerful central government here in the United States...*
>
> *To sum up, then: we can see two very different methods of approaching any problem. We have a method which focuses on contextual, systemic concerns, and always keeps those issues in mind when analyzing any problem and proposing solutions to it. And we also have a method which focuses almost exclusively on principles, but employs principles in the manner of Plato's Forms, unconnected and unmoored to a specific context or culture. As I said, my solution is to employ both methods, separately and together, constantly going back and forth—and to endeavor never to forget either.*[195]

If there is a failure on the anti-capitalist left to see the state as the source of the evils of capitalism, there is an equal failure on the libertarian right to welcome any reduction in the state's activities as a step in the right direction. But since state capitalism, as a system of power, combines statist and market elements in an overall structural pattern designed to promote the interests of the corporatist plutocracy, it stands to reason that we cannot let the latter determine what forms of state action to abolish first. Since the state is the executive committee of the ruling class, we can expect that neoliberal policies of "deregulation" and "privatization" will be adopted in the context of an overall strategic design favoring the state capitalists. To let our class enemies determine the agenda for "free market reform," therefore, is suicide.

No doubt the Romans welcomed the withdrawal of Hannibal's center at Cannae as a "step in the right direction" toward a general Punic exodus from Italy. To welcome any partial reduction in taxation or regulation, regardless of where it fits into the state capitalists' general strategy, is the same kind of folly.

I do not advocate the extension of the state in any area of life, even temporarily or for tactical reasons—no exceptions. And I will not be satisfied short of the final goal of eliminating the state altogether. But although we may agree that incrementalism is a viable strategy, it makes a great deal of difference in what order we dismantle the state. Since all its functions are aimed, directly or indirectly, at furthering the political extraction of profits, it stands to reason that the most central, structural supports of subsidy and privilege on which state capitalism depends should be the first to go; those that make it marginally more bearable for the lower classes should be the last to go.

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