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NOTHING LIKE A FREE MARKET: CORPORATE CAPITALISM IN THE USA

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Liberty, Equality, Cooperation

The Voluntary Cooperation Movement

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Shared Delusions and Insights

The mainstream right and left share, to a large extent, the same conventional understanding of 20th century history. According to both, the corporate system that emerged toward the end of the 19th century was the outcome of a predominantly laissez-faire system. According to both, the 20th century regulatory and welfare state was motivated by largely "anti-business" concerns. According to both, the regulatory-welfare state was created over the opposition of big business. This conventional understanding is, in its essentials, almost completely false.

Concerning the actual nature of the events, there is a surprising parallelism between the radical free market analysis of Murray Rothbard and some of his followers like Joseph Stromberg, and New Left historians of "corporate liberalism" like Gabriel Kolko and James Weinstein.[1] For example, Rothbard co-edited (with the New Leftist Ronald Radosh) a study of New Deal state capitalism entitled *A New History of Leviathan*.[2] Both Austrians and New Leftists portray state capitalism 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.

The Origins of US Corporate Capitalism

The economic crisis of the 1890s, for American political and economic elites, was the central formative event leading to the 20th century corporate liberal policy consensus. The political instability resulting from the depression caused a near panic in the ruling class. The Pullman Strike, Homestead, and the formation of the Western Federation of Miners (precursor to the Industrial Workers of the World (IWW)) were signs of dangerous levels of labor unrest and class-consciousness. Coxey's Army— a band of jobless men—marched on Washington, a small foretaste of the kinds of radicalism that could be produced by mass unemployment. The anarchist movement had a growing foreign component, more radical than the older native faction, and the People's Party loomed in the national elections. At one point Jay Gould, unofficial spokesman for big business leadership, was threatening a capital strike 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."*[3]

From that time on, there was a series of attempts by corporate leaders to create some institutional structure through which price competition could be regulated and their respective market shares stabilized.

Of course, the state had already created the preconditions for this crisis of overproduction. The very existence of a centralized corporate economy, with firms operating on a continental scale, would have been impossible without government intervention. Without the centralized transportation system created by railroad subsidies, there could have been no national industrial economy. Without patents enabling a handful of firms to monopolize production technology or consumer goods technology between themselves (e.g. the exchange of patents between GE and Westinghouse, or the virtual creation from scratch of the US chemical industry by the Wilson administration's wartime seizure of German patents), the economy would have been far less centralized. Likewise the tariff barrier, sometimes called the "mother of cartels".

The overproduction of the 1890s resulted directly from the cartelization of the Gilded Age. The 20th century regulatory state, far from being a radical break with the past, was merely a further response to the effects of earlier statism.

The first attempt by business leadership to counter the perceived destructive tendencies of competition and overproduction was the trust movement. The trusts are conventionally viewed as an outgrowth of "laissez-faire", and the Progressive movement as an attempt to restore competition. In fact, as Gabriel Kolko demonstrated, the trusts were a resounding failure. From their very inception, the inefficient and over-leveraged trusts started losing market share to smaller and more efficient firms.

The Progressive regulatory state, far from being an anti-monopoly "reform", was a corporate-instigated movement to achieve, through state action, the cartelization that the trust movement had failed to accomplish. Its central organizing principle was what Kolko called "political capitalism":

> *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.*[4]

One central achievement of the Progressive agenda was the limitation of price-cutting as a competitive weapon. From the 1890s on, corporate leadership had realized the counterproductive nature of price wars, and the need for co-operative arrangements to stabilize prices and market shares among the dominant firms in each industry. The trust movement, as mentioned above, failed to achieve this end. It was only with the Federal Trade Commission (FTC) and Clayton Acts that the situation changed.

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.

The Federal Trade Commission created a hospitable atmosphere for trade associations and their efforts to prevent price cutting.[5] 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. The price surcharge passed on to the consumer, as a result of this state of affairs, 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."*[6]

Another important effect of Progressive legislation was the regulatory cartelization of the economy. Quality and safety regulations 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. the Meat Inspection Act), 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.

The political motivation behind the New Deal, essentially, paralleled that of the Progressive era. 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."*[7] 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."*[8] 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.[9] Under the terms of the Wagner Act, industrial unions were brought into a contractual framework in which both the union bureaucrats and the National Labor Relations Board (NLRB) could enforce discipline on the rank and file, and thus put an end the near-revolutionary turmoil of the early '30s: wildcats, sit-downs, and regional general strikes like those centered on the west coast Longshoremen.

The Social Security Act was the other major part of the New Deal agenda. 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.*[10]

Indeed, most of the New Deal legislative agenda was crafted by advisory organizations made up predominantly of senior corporate management (most notably Gerard Swope of General Electric). Democratic administrations since then have followed essentially the same pattern, with the President's domestic policy team composed largely of corporation lawyers, investment bankers, and CEOs (and of course, the obligatory Treasury Secretary from Goldman-Sachs). So much for the "anti-business" Democratic Party.

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.[11] 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, their state capitalist drafters resembled an enlightened farmer who understands that his livestock will produce more for him, in the long run, if they are well treated. According to James O'Connor, the welfare state was a way to "control the surplus population politically."[12]

The Externalisation of Costs

One major tendency in American capitalism from the New Deal on was the increased externalization of corporate operating costs on the taxpayer. Much like the effect of safety and quality regulations, the provision of services by the state removes them as components of price in cost competition between firms, and places them in the realm of guaranteed income to all firms alike within the market. The overall tendency of 20th state capitalism, as the neo-Marxist James O'Connor described it in *The Fiscal Crisis of the State*, was that an ever-growing portion of the functions of the capitalist economy were carried out through the state.

According to 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.... There are two kinds of social capital: social investment and social consumption.... Social investment consist of projects and services that increase the productivity of a given amount of labor-power 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.*[13]

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.*[14]

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.*[15]

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.

Especially vital, in the post-war period, have been the cartelization of research costs (see the material below on military R&D) and of scientific-technical training (the GI Bill, guaranteed student loans, etc.) through the state.

Whether through regulations or direct state subsidies to various forms of accumulation, corporations under political capitalism act through the state to carry out some activities jointly, and to restrict competition to selected areas.

The cartelization of the economy, under the aegis of the state, had the perverse effect of worsening the crisis of over-production. An excellent article by Joseph Stromberg ('The Role of State Monopoly Capitalism in American Empire')[16] argues that the crises of over-production and overaccumulation since the 1890s have been a very real phenomenon—but they have been the direct result of the state's intervention in the economy. The effects of government intervention, under state capitalism, 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 Impact on Foreign Policy

As a result, a major preoccupation of US government policy, from the 1890s, was finding ways to dispose of the corporate economy's surplus product.

In foreign policy, such policies took the form of aggressive action to obtain foreign outlets for American goods and capital; this is what William Appleman Williams called "Open Door Empire":[17] the use of American political power to guarantee access to foreign markets and resources on terms favorable to corporate interests, without relying on direct political rule. Its central goal was to obtain for US merchandise, in each national market, treatment equal to that afforded any other industrial nation. Most importantly, this entailed active engagement by the US 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 US security interests any large-scale attempt at autarky, or any other policy whose effect was to withdraw a major area from the disposal of US corporations. When the power attempting such policies was an equal, like the British Empire, the US reaction was merely one of measured coolness. When it was perceived as an inferior, like Japan, the US 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.

Under the Open Door system, the state and its loans were to play a central role in subsidizing both the export of capital and of commodities. 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. The state's financial policies, likewise, underwrote foreign consumption of US output.

These two functions were perfected in the Bretton Woods system after World War II.

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. 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.[18]

The problem of access to foreign markets and resources was central to US 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. Subsidies to commodity exports through the IMF and Marshall Plan, and to capital exports through the World Bank, were absolutely crucial to preventing a depression.

But such promotion of the Open Door, no matter how vigorous, was not enough. Parallel to its Open Door foreign policy, the US government also attempted to absorb increasing quantities of surplus output by means of its own purchases. The civil aviation system and the interstate highway system (without which the auto industry, a major new investment outlet for surplus capital, would have been a shadow of itself) are two cases in point.

The ultimate example of state absorption of surplus output, of course, was the infamous "Military-Industrial Complex." The sheer scale of the perpetual warfare state, which began in WWII and has never since returned to prewar levels, can perhaps be grasped by considering 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.[19]

Partial 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.[20] 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..."*[21] For example, David Noble claimed 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.[22]

The heavy industrial and high tech sectors were given a virtually guaranteed outlet, not only by US military procurement, but also 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).[23]

R&D at the Taxpayers' Expense

But the importance of the state as a purchaser was eclipsed by its relationship to the producers themselves, as 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.[24] 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."*[25]

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."*[26] 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 Defense Advanced Research Projects Agency (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.[27] 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.

The New Bureaucratic Elite

Indeed, the organizational ties between the state and the large corporation are what most distinguish state capitalism from earlier forms of state intervention (such as the 19th century). The centralized, bureaucratic state and the centralized, bureaucratic corporation came into existence at roughly the same time, and the two forms of organization quickly became interconnected. Moreover, they have been run by essentially the same circulating elites (a study of the careers of David Rockefeller, Averell Harriman, or Robert McNamara should be instructive in this regard). This phenomenon, the domination of society by an interlocking directorate of government agencies, large corporations, banks and insurance companies, universities, think tanks, and charitable foundations, has been ably described by such "power elite" sociologists as C. Wright Mills and G. William Domhoff.[28]

Under state capitalism (or political capitalism), this power elite acts through the state in a way reminiscent of what Marxists call an "executive committee of the ruling class". For example, consider the history of US government anti-trust action in light of this passage from the neo-Marxists Baran and Sweezy:

> *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]...*[29]

US Corporate Capitalism and European Social Democracy

It is interesting, in this regard, to compare the effect of antitrust legislation in the US 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, communication, and minerals. In the US, 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, airline and electrical power industries, has likewise been in the service of those general corporate interests harmed by monopoly transportation and energy prices.

Notes

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(3) William Appleman Williams, *The Tragedy of American Diplomacy*, New York, Dell Publishing Company, 1959, 1962, p. 26.

(4) Kolko, *op. cit.*, p. 3.

(5) *Ibid.*, pp. 268, 275.

(6) Mark J. Green, et al., eds., *The Closed Enterprise System*, Ralph Nader's Study Group Report on Antitrust Enforcement, New York, Grossman Publishers, 1972, p. 14.

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(13) *Ibid.*, pp. 6-7.

(14) *Ibid.*, p. 24.

(15) *Ibid.*

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(22) Noble, *op. cit.*, p. 181.

(23) Nathanson, *op. cit.*, p. 208.

(24) *Ibid.*, p. 208.

(25) *Ibid.*, p. 230.

(26) *Ibid.*, p. 230.

(27) *Ibid.*, pp. 222-25

(28) Mills, *op. cit.*; G. William Domhoff, *op. cit.*; G. William Domhoff, *The Power Elite and the State: How Policy is Made in America*, New York, Aldine de Gruyter, 1990; G. William Domhoff, *Who Rules America?*, Englewood Cliffs, NJ, Prentice-Hall, 1967; G. William Domhoff, *Who Rules America Now?*, Prospect Heights, Ill, Waveland Press, 1983, 1997.

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