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## **Corporatism and Socialism in America**

**by Anthony Gregory**

Principled advocacy of the free market requires an understanding of the differences between genuine free enterprise and “state capitalism.” Although the Left frequently exaggerates and overemphasizes the evils of corporate America, proponents of the free market often find themselves in the awkward position of defending the status quo of state capitalism, which is in fact a common adversary of the free marketer and the anti-corporate leftist, even if the latter misdiagnoses the problem and proposes the wrong solutions.

Indeed, corporatism, implemented by the state — whether through direct handouts, corporate bailouts, eminent domain, licensing laws, antitrust regulations, or environmental edicts — inflicts great harm on the modern American economy. Although leftists often misunderstand the fundamental problem plaguing the economy, they at least recognize its symptoms.

Conservatives and many libertarians, on the other hand, frequently dismiss many ills such as poverty as fabricated by the left-liberal imagination, when in fact it does a disservice to the cause of liberty and free markets to defend the current system and ignore very real and serious problems, which are often caused by government intervention in the economy. We should recognize that state corporatism is a form of socialism, and it is nearly inevitable in a mixed economy that the introduction of more socialism will cartelize industry and consolidate wealth in the hands of the few.

Leftists usually understand how wartime provides politically connected corporations with high profits and cushy contracts. What is more often neglected is that the history of the American domestic welfare and regulatory state also corresponds closely to the rise of corporatism. It is no coincidence.

### **Corporatism versus liberty in the 19th century**

Throughout the 19th century, the two major political traditions in America offered authentically different views on the proper roles of government. The classical liberals, typified by Thomas Jefferson early on, had their political outlet in the Democratic Party, which, for the most

part, stood on the side of limited, constitutional government and individual rights. Those who believed in a strong central government, typified early on by Alexander Hamilton, found their political home first in the Federalist Party, then in the Whig Party, and then in the Republican Party, the last of which openly embraced the doctrine of big government throughout the 19th century.

For about a hundred years the Jeffersonian tradition was mostly associated with the cause of the common man, whereas big government was often associated with monopoly privileges and big business. Hamilton and his philosophical progeny fought perennially for central banking, high tariffs, and subsidies to corporations to build “internal improvements.” Hamilton’s first major successor, Henry Clay, called this governmental corporate program the “American System.”

By the end of the 19th century, the so-called robber barons came to dominate much of the industry in oil and railroads. Misunderstood by nearly everyone, they were neither demons on earth nor flawless gods. They certainly were not a homogeneous group nor were they champions of pure laissez-faire capitalism. Most notably, the federal government empowered the railroad tycoons with eminent domain, forcibly taking privately owned land and giving it to the railroad companies. That was not the free market at work.

## **The Progressive Era**

The Left has often hailed the Progressive Era as a time when, for the first time, Hamiltonian means — big government — were used to achieve Jeffersonian ends — the dignity and respect of the common man. In fact, the Progressive Era was a time in which both corporatism and socialism received major steroid injections.

Corporate interests pushed through the most significant Progressive-Era government reforms in order to guarantee profits, which they had been losing to smaller businesses that had emerged in the relatively free market of the early 20th century. Gabriel Kolko’s groundbreaking book *The Triumph of Conservatism* best advances this thesis of how the government expanded to accommodate, rather than curb, the interests of big business. Though a New Leftist, Kolko shows how political capitalists in every industry — from meatpacking to coal, from railroads to insurance — embraced the expanding regulatory state for their own gain — to push competitors out of the market and give government legitimacy to their companies.

Kolko shows how, in spite of the conventional history that characterizes the Progressive Party’s nomination of Teddy Roosevelt in 1912 as a response to the backwards laissez-faire William Howard Taft administration, in reality the party was favored by large businesses with whom Teddy Roosevelt had strong ties and whom Taft had alienated by failing to accommodate and empower through the regulatory state.

Perhaps no government reform has been more misconstrued as anti-business populism than the Federal Reserve, which was sold to the American people in 1913 as an agency to regulate

greedy and irresponsible bankers. As Kolko and many others have shown, the Federal Reserve established a banking oligopoly, guaranteed bailouts for the big bankers, created new barriers to entry for smaller bankers, and was in fact designed by people representing some of the most powerful banking interests in the world, including the National City Bank of New York; Kuhn, Loeb & Company; J.P Morgan Company; and the First National Bank of New York.

## **The New Deal**

Both Franklin Roosevelt's admirers and his detractors often think of his New Deal legacy as generally socialistic. Like the Progressive Era, the New Deal is widely misunderstood: it did indeed attack the free market, but often did so at the behest of corporate interests.

Such interests were largely behind the emergence of the National Recovery Administration, which exemplified FDR's economic central planning. Far from being a purely egalitarian agency, the NRA was largely modeled after the policies of Mussolini, who had yet to be considered an enemy by most Americans, but rather was still seen as an inspiration by many. As John Flynn explained in his book, *The Roosevelt Myth*,

[Mussolini] organized each trade or industrial group or professional group into a state-supervised trade association. He called it a corporative. These corporatives operated under state supervision and could plan production, quality, prices, distribution, labor standards, etc. The NRA provided that in America each industry should be organized into a federally supervised trade association. It was not called a corporative. It was called a Code Authority. But it was essentially the same thing. These code authorities could regulate production, quantities, qualities, prices, distribution methods, etc., under the supervision of the NRA. This was fascism. The anti-trust laws forbade such organizations. Roosevelt had denounced Hoover for not enforcing these laws sufficiently. Now he suspended them and compelled men to combine.

Though the NRA intended to guarantee profits through mergers and price controls — forbidding smaller business from competing by offering better prices — big business, big labor, and most other initial supporters turned against the NRA when it became universally recognized as a complete failure. In 1935 the Supreme Court found it unconstitutional. Aside from the NRA, other New Deal measures epitomized naked corporatism. The Agricultural Adjustment Administration cartelized the farming industry, and Roosevelt's farm subsidies and price supports have to this day helped to solidify a corporate stronghold in American agriculture.

## **Corporatism and socialism in today's America**

In more recent years, corporate interests have often cheered on big government programs, often the same ones championed by those who consider themselves anti-corporate. In the late

1990s, the now-defunct Enron was one of the largest lobbying influences behind the international Kyoto Treaty, which would have forced the world to comply with a ghastly web of new regulations and would have meant large energy contracts for Enron, had the company not gone bankrupt. The antitrust breakup of Microsoft was a de facto giveaway to competitors such as Netscape. (One of the complaints about Microsoft was that it intended merging with AOL, a company with which Netscape has since joined forces.)

Bush's farm subsidies are direct welfare for the biggest agricultural corporations, and his protectionist trade policies are indirect welfare for politically favored businesses. His recent expansion of Medicare has been both the greatest augmentation of the American welfare state in decades and a giveaway to large pharmaceutical corporations. If universal health care ever comes to America, the corporations are likely to stay intact but will no longer have to satisfy customers, only the politicians.

To convince the anti-corporate skeptic of the benefits of the free market, it is crucial to defend the legitimate systems of profit and private property, but it is also vitally important to make clear that America doesn't have a free-market economy, and indeed many of the ills associated with free markets are actually the result of state capitalism — or socialist corporatism. That the expansion of government regulations, often done in the name of combating corporate excesses, is frequently supported most enthusiastically by corporate interests makes it all the easier to explain economic liberty to those who have become disenchanted with the current system and misattribute the problems to the free market.

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