Capitalism Comes in Many Flavors?

Kevin Carson

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In a recent *Washington Post* op-ed ("Identity Crisis for American Capitalism," May 26), Steven Pearlstein presents a taxonomy of the various species of capitalism, arguing that it, "like ice cream, comes in many flavors. These different capitalisms can be combined, in the same way chocolate and coffee produce mocha."

In so doing, though, he greatly exaggerates the difference between these flavors. Pearlstein's first major variant of modern capitalism — robber-baron capitalism — was characterized by the large-scale economic power of big business. It was succeeded by the managerial capitalism of the New Deal and post-WWII era: "Competition tended to be gentlemanly and the power of big business was held in check by the federal government (big government) and unions (big labor)."

The "State capitalism" of the European social democracies and Japan is just a more extreme variant of American managerial capitalism.

As American managerial capitalism led to stagnation and decay, it was replaced in recent decades by three competing models: the "entrepreneurial capitalism" of Silicon Valley, the "shareholder capitalism" of Gordon Gekko, and the "worker capitalism" of employee-owned and profit-sharing firms.

Pearlstein's schema strongly implies that the main distinction between robber-baron and managerial capitalism was the latter's increased restraint on the power of big business by government and organized labor, as opposed to the relative "laissez faire" of the nineteenth century. Although this is a popular view of the robber-baron era, it doesn't hold much water. The capitalism of the Gilded Age was a virtual creature of the State, with land grants and other railroad subsidies serving as the indispensable prerequisites for a single national market, and the national corporate economy being cartelized among industrial giants with the aid of patent pooling and tariffs.

And à la J. K. Galbraith, the relationship between big business, government, and labor was characterized less by checks and balances than by collusion or cooperation. General Electric president Gerard Swope and the wing of big business he represented arguably had more to do with the form taken by FDR's New Deal than did the CIO's John L. Lewis. Managerial capitalism was not so much an external constraint imposed on big business, as a recognition by big business itself that State-enforced cartels and enforcement of labor discipline by domesticated unions were the best ways to guarantee stable profits in the long run.

As for so-called "shareholder capitalism," in actual fact it is just as managerial as the classic managerial capitalism of Adolf Berle and Gardiner Means, authors of the influential 1932 book

The Modern Corporation and Private Property. Shareholder ownership, let alone control, is — to put it bluntly — a myth. The theory, as set forth by thinkers like Michael Jensen some 30 years ago, was that large bonuses and stock options would "align management incentives" with shareholder interests, and that hostile takeovers would enable shareholders to punish underperforming management.

But in practice "shareholder capitalism" is geared to the interests of management in an even more short-term and vulgar way than the managerial version. The much-vaunted "market for corporate control," to the extent it existed at all, was mainly a phenomenon of the first few years after the introduction of hostile takeovers. Management — inevitably, given its inside control over corporate bylaws — gamed the rules to protect itself from the threat of hostile takeover. Since then, most takeovers have been friendly — collusive acts between the managements of acquiring and acquired companies, often at the expense of the long-term profitability of both. Proxy fights against inside directors almost always fail. Most new investment is financed internally from retained earnings, rather than the issue of bonds.

In short, the average large corporation under corporatism is a planned economy run by a self-perpetuating managerial oligarchy. The only effect of oversized bonuses and stock options is to make management even more short-sighted and self-serving at the expense of long-term productivity.

The shareholder model, in its way, is at least as State-dependent as the old managerial model. Its triumph in the '90s required a massive expansion of the neoliberal legal regime during the Clinton administration. NAFTA, the Uruguay Round of GATT, the World Trade Organization, TRIPS (Agreement on Trade Related Aspects of Intellectual Property Rights), the WIPO (World Intellectual Property Organization) Copyright Treaty, the Telecommunications Act, and the Digital Millennium Copyright Act together formed the structural framework for the model of transnational capitalism that now prevails.

Pearlstein's "entrepreneurial capitalism," with a new coat of paint, is being trotted out as the "Progressive" alternative to this neoliberal model of capitalism. It's the "cognitive capitalism" or "green capitalism" of Barack Obama, Warren Buffett, Bill Gates, Bono, and championed by John Roemer's "New Growth Theory." But this model is just as exploitative — just as "capitalistic," in the sense of being dependent on State-enforced monopoly for its profits — as neoliberalism. In fact it's really just a greenwashed, bobo variant of neoliberalism.

Cognitive, green, or progressive capitalism is absolutely dependent on the State for enclosing progress and innovation, via "intellectual property" (IP) law, as a source of artificial scarcity rents. Its proponents also tend to be bullish on government subsidies to research and development. So it's probably no coincidence that so many of its prominent spokespersons are IP hawks like Bill Gates (who denounced the members of the free and open source movement as "communists") and Bono (who praised the Chinese State's Internet censorship as a model for American efforts to suppress "piracy").

Pearlstein's comparison to flavors of ice cream is more apt than he imagines. Although the number of flavors of ice cream may be virtually unlimited, they all have certain things in common. They all consist of frozen, sweetened cream or milk, with additional flavorings added.

All Pearlstein's variants of capitalism, likewise, have some things in common. Rather than having their origins in the spontaneous outcome of the free market, they're all characterized by large-scale structural collusion between the centralized State and big business.

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