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# Faux Private Interests

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May 2005

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Government charters corporations and protects them from liability, subsidizes, allows de-facto cartelization, etc. Big business has sought not only to expand their influence of gov't, but to expand the power of that very state they are buying an interest in – using regulation to offset market mechanics, acquire sweetheart loans and bailouts, seize private property through eminent domain, and otherwise manipulate this so-called free market. For every businessman who distastefully lobbies Congress there are at least 5 who see the dollar signs and are quite content to let our individual freedoms and pocketbooks take the hit.

Business is part of the problem. Corporations are quasi-states, using government to gobble up the market and returning the favor by funding the politicians who enable it. They've always been part of the political equation, from the Civil War at least.

is the very portrait of the vulgar libertarian approach. Selling influence is bad. But buying influence is mere economic survival. Politicians should be more principled, but businessmen looking for a buck can be forgiven for looking at the short term gains of rigging the game.

In fact, Brad Spangler once argued not only that the corporate beneficiaries of statism are directly culpable in the state's coercion, but that it's misleading even to call one side of the equation "public" and the other "private." Rather, he referred to the latter as "faux private interests that are actually part of the state":

Let's postulate two sorts of robbery scenarios.

In one, a lone robber points a gun at you and takes your cash. All libertarians would recognize this as a micro-example of any kind of government at work, resembling most closely State Socialism.

In the second, depicting State Capitalism, one robber (the literal apparatus of government) keeps you covered with a pistol while the second (representing State-allied corporations) just holds the bag that you have to drop your wristwatch, wallet and car keys in. To say that your interaction with the bagman was a "voluntary transaction" is an absurdity. Such nonsense should be condemned by all libertarians. Both gunman and bagman together are the true State.

Jeremy says something similar here:

Here's the truth of the matter: mega corporations derive their existence, power, and modus operandi from the government from the get-go.

## Part I: The Nature of the Ruling Class

Discussing faux private interests that are actually part of the State, Brad Spangler puts a new spin on Rothbard's likening of the state to a holdup man. In the case of state capitalism, he writes, the state is just an accomplice to "private" interests:

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Brilliant. I've seen too many "libertarian" defenses of big business that attempt to absolve it of any guilt for its role in this partnership. Big business is just the passive victim, so they say, forced to accept corporate welfare and obtain special privileges in self-defense against the forces of the regulatory state. According to this argument, the recipients of differential tax advantages are the good guys, managing to keep a bit more of their own money.\* Complete and utter horseshit.

The rotation of personnel between senior corporate management and political appointees in government agencies is such that corporate and government leadership are, for all intents and purposes, a single power elite. Large corporations are not passive victims of the state; they act *through* the state. It makes about as much sense to separate them from the state, as it would have made to separate the landholding class from the state in Medieval times. The state, by definition, is the instrument of a ruling class. Sometimes the state and the ruling class are one and the same, as under Soviet-style bureaucratic

collectivism. But sometimes the state is the instrument of a nominally “private” ruling class, or of a mixed ruling class of state and corporate interests (e.g. Scandinavian “social democracy”).

Most of the recipes for “free market reform” I see coming from neoliberal politicians leave the gunman in place, but increase the ratio of nominally-private bagmen to gunmen. The more of the work of robbery can be “privatized” to the bagmen, supposedly, the larger the portion of all activity is nominally private. So isn’t that a freer market? Isn’t that “a step in the right direction”? To see some of the contemporary agitprop in favor of increased “global trade,” it must be.

**\*Note**—To those who say differential tax advantages aren’t “corporate welfare,” by the way: please remember that the practical effect of such exemptions is exactly the same as if we started with a corporate tax rate of zero, and then imposed a tax penalty on those not engaged in favored forms of enterprise. The effect of rapid depreciation, say, is the same as a punitive tax on those not engaged in capital-intensive forms of production. The fiscal and competitive effects are identical.

## Part II: Privatizing the Police State

Last week I linked to a Brad Spangler post on faux-private interests, where he used this analogy to describe “private” interests that benefit from state capitalism:

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stabilize political capitalism. The synergy between them has been there since the moneyed classes created a Hamiltonian federal government, and both government and business have enjoyed cancerous rates of growth since the simultaneous corporate revolution and explosion of centralizing federalism in the 1860s.

Anyway, getting back to Boaz:

People invest money to make money. In a free economy they invest in building homes and factories, inventing new products, finding oil, and other economic activities. That kind of investment benefits us all — it’s a positive-sum game, as economists say. People get rich by producing what other people want.

But you can also invest in Washington. You can organize an interest group, or hire a lobbyist, and try to get some taxpayers’ money routed to you. That’s what the farm lobbies, AARP, industry associations, and teachers unions do. And that kind of investment is zero-sum — money is taken from some people and given to others, but no new wealth is created.

If you want to drill an oil well, you hire petroleum engineers. If you want to drill for money in Washington, you hire a lobbyist. And more people have been doing that.

At Social Memory Complex, Jeremy responds:

And if you want to kill somebody, you hire a hitman. That doesn’t make it ok that people hire them, just because the service is available for purchase. This apologism for the corporate influence in — nay, the perpetuation of — state capitalism

Once again, this sort of thing is why I don't welcome "privatization" and "deregulation" as a "step in the right direction," just because it increases the amount of activity that's carried out in the nominally "private" sector. When it takes place within an overall statist framework, it just makes state capitalism more efficient and stable; although the nominal public sector may control a smaller percentage of GDP, the system as a whole becomes even more statist and exploitative. As Brad Spangler noted in my previous post's blockquote, increasing the ratio of quasi-private bagmen to the state gunman just makes robbery more efficient. The nominally private corporations that profit from the ASI's "privatized" version of political capitalism, like the big industrialists who conspired with Papen and Hindenburg to put Hitler in power, are part of the state.

## Part IV: Revisited

Social Memory Complex tears David Boaz a new corn chute for his typical display of vulgar libertarian public choice theory (or as Jeremy put it, "the old Cato Institute line that institutional analysis need only go so far as to frame up politicians, letting the other players in the politics itself go blameless"). Boaz writes:

When you spread food out on a picnic table, you can expect ants. When you put \$3 trillion on the table, you can expect special interests, lobbyists and pork-barrel politicians...

Actually, I think it's the other way around. When you've got a centralized state that's amenable to control by a ruling class, you get \$3 trillion on the table. Of course, it's something of a chicken-and-egg thing. Big business is a lot bigger and more cartelized because of big government. But big government is also a lot bigger because of big business acting through it to

Now I find this (via Progressive Review): "Chertoff Wants to Set Up Non-Profit Agency to Spy on You"

Homeland Security Secretary Michael Chertoff this week floated an idea to start a nonprofit group that would collect information on private citizens, flag suspicious activity, and send names of suspicious people to his department. The idea, which Chertoff tossed out at an April 27 meeting with security-industry officials, is reminiscent of the Defense Department's now-dead Total Information Awareness program that sought to sift through heaps of foreign intelligence information to root out potential terrorist activity. According to one techie who attended the April 27 meeting, Chertoff told the group, "Maybe we can create a nonprofit and track people's activities, and an algorithm could red-flag individuals. Then, the nonprofit could give us the names."

Hey, it's too bad Hitler didn't turn the Gestapo into a private corporation, so Nazi Germany could be a good "free market" country like Pinochet's Chile.

## Part III: Sean Gabb on ASI-Style "Privatization"

An old gem from Free Life Commentary:

To be fair, the Adam Smith Institute has never been in the same business as the Libertarian Alliance or the Institute of Economic Affairs. It does not propagate ideas independent of who is in power, and wait for some political interest to take them up. Instead, it sells market solutions to

statist problems. A typical Libertarian Alliance pamphlet on privatisation, for example, will explore the abstract justifications for getting government out of a certain area, and will describe the general benefits of doing so. An Adam Smith Institute report, on the other hand, will look at the technical questions of how to privatise – at what the shape of the new private activity ought to be, at what special interests need to be conciliated, and so forth. And the report will often only sketch out the details of a proposal that will be fully explained in direct consultancy with a company or ministry...

My objection is not to what Dr Pirie is doing at the moment or what he is about to do. Rather, it is to the whole strategy of the Adam Smith Institute as developed since the early 1980s. It may be that Dr Pirie believes in limited government under the rule of law... But I have to doubt whether his overall effect on British politics has been to do other than help entrench statism far more securely than it ever was in the past.

The old statism was at least mitigated by incompetence. The people in charge of it were paid too little to feel really important; and much of their energy was absorbed in disputes with stupid or malevolent union leaders. They presided over a system that was never very strong, and that failed to weather the storms of the 1970s.

As reconstructed in the 1980s – partly by the Adam Smith Institute – the new statism is different. It looks like private enterprise. It makes a profit. Those in charge of it are paid vast salaries, and smugly believe they are worth every penny...

But for all its external appearance, the reality is statism. And because it makes a profit, it is more stable than the old. It is also more pervasive. Look at these privatised companies, with their boards full of retired politicians, their cosy relationships with the regulators, their quick and easy ways to get whatever privileges they want...

As with National Socialism in Germany, the new statism is leading to the abolition of the distinction between public and private. Security companies, for example, are being awarded contracts to ferry defendants between prison and court, and in some cases to build and operate prisons. This has been sold to us on the – perfectly correct – grounds that it ensures better value for money. But it also involves grants of state powers of coercion to private organisations. All over the country, private companies are being given powers of surveillance and control greater than the Police used to possess.

...There has been no diminution in the economic power of the State, only a change in its mode of operation...

Yes, I have written for the Adam Smith Institute. I hold many of its people in high regard. I have enjoyed many of its Christmas gatherings – though no more after this appears on the Internet, I suspect! But it has done nothing on the whole to promote liberty in the past 21 years. Every one of the panegyrics on Hayek that I find in its Catalogue is more than balanced by advocacies of the kind of market reform that simply strengthens the hand of the statist enemy. Dr Pirie may pride himself on the number of solutions he has provided. In truth, he is part of the problem.