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The Power of High Capitalism

WITH THE INDUSTRIAL REVOLUTION and the great movement in the sources of power from the working capital of the merchants to the hard industrial capital of the industrialists came a marked advance in organization. A tightly organized labor force held together by wages replaced the near and distant suppliers of goods held together only by the act of purchase. There was movement from the (possibly) more anonymous merchant to the more clearly recognizable personality of the industrial entrepreneur. As with the merchants, compensatory power was the dominant instrument for winning submission. But there was also now a new and important deployment of conditioned power, which radically altered the beliefs that governed economic action by the state. Reflecting these beliefs, the state grew greatly sympathetic to the needs and desires of the industrialists; it became, in substantial measure, an extension of their arm. In time, this conditioning also altered the way people led their lives and pursued their happiness. The approved mode of life became subordinate to the purposes of industry; it came to serve industrial power. The condi-

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tioned power of industrial capitalism as it developed and grew effective in the nineteenth century would remain an influential instrument of power for generations to come. As would the massive countervailing response that it occasioned.

The primary author of this social conditioning was Adam Smith; rarely in history has there been such complete agreement on the intellectual role of a single figure. Others would contribute much; Smith's name would remain pre-eminent. Leading the opposition as the architect of the countering belief three quarters of a century later was the equally compelling figure of Karl Marx.

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The contribution of Adam Smith to the social conditioning of industrial capitalism came in *The Wealth of Nations*,¹ published in the year of the declaration of American independence, 1776. That the two events occurred at the same time was not entirely coincidence; the book and the Revolution were in similar reaction to the constraints of merchant capitalism.²

Smith's contribution was both negative and affirmative, an attack on the ideological sources of merchant power and an affirmation of what served the emergent industrialists. The industrialists, though still in a primitive state of de-

¹ More specifically, *An Inquiry into the Nature and Causes of the Wealth of Nations*.

² The American merchants who "when their interests were jeopardized . . . entered politics with a vim, and might be expected to carry things their own way" had trading interests in conflict with English regulation and protection. They were not, however, unambiguously in opposition to British rule. See Arthur Meier Schlesinger (Sr.), *The Colonial Merchants and the American Revolution, 1763-1776* (New York: Frederick Ungar, 1966). Quotation on page 29.

velopment when Smith wrote, were already enjoying large cost advantages as compared with household industry. This Smith saw, although he attributed it less to the new machinery than to the breaking up of the industrial tasks in the factory and the application of specialized skill and effort to each of the parts. The gains from this division of labor led to regional and national specialization in production and became the case for freedom of internal and international trade. Standing in the way and in need of being dismantled was the protective and regulatory apparatus of merchant capitalism. The removal of regulations and restraints on trade reflected the interest of the industrialist; with his lower costs he had everything to gain from the freedom to undersell the local merchants. Were he an English or Scottish manufacturer, he was well ahead in industrial development and so had little to fear from the competition of like producers in other countries and everything to gain from a principle that defended his access to their markets.³

On a yet broader plane, Smith identified the pursuit of all economic self-interest with the public good. The businessman so motivated "intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention."⁴ It would be hard to imagine an idea more serviceable to industrial power, and none, indeed, has served so long. The industrialist had no need to present himself as a public benefactor; this would have been sadly unconvincing in any

³ Smith went on to prescribe close limits on other activities of the state, and notably those that would be at cost in taxation to the industrialist.

⁴ Adam Smith, *The Wealth of Nations* (Chicago: University of Chicago Press, 1976), Book I, p. 477. The invisible hand is a metaphor. Smith, a man of the Enlightenment, did not ascribe supernatural support to the pursuit of business gain. Not all of his followers have been so restrained.

case.⁵ Virtue was given to his actions by an overriding law to which he, however selfish or sordid his purposes or motivations, was wholly subject.

Smith was not completely at the service of industrial capitalism and certainly not durably so. In keeping with his antimercantilist position, he had grave doubts about the great chartered companies and, by implication, the corporations in descent therefrom. Modern corporate executives pay an obeisance to Smith that he would not return. Troublesome also was his opposition to monopoly, that of the individual firm or of a conspiracy between firms. Competition was a needed brake on industrial power, but in Smith's view it existed in unstable equilibrium. No one accepted it if it could be constrained or avoided.⁶ Once competition was lost, the invisible hand was withdrawn. This qualification would be a source of considerable inconvenience in the next two hundred years, especially in the United States. Great corporations, sheltering behind the invisible hand, would have to assert, in face of grievously adverse evidence, that the requisite competition still prevailed.

Much of the strength of Smith's social conditioning is to be attributed to his stubborn unwillingness to make concessions to those whose power he sustained and enlarged. He was manifestly an independent man; and no one could suppose he was the creature of those whose interests he served, whose conditioning he provided.⁷ The condition-

⁵ Smith himself made the point: "I have never known much good done by those who affected to trade for the public good." Smith, *Wealth of Nations*, Book I, p. 478.

⁶ This was the thrust of his most frequently quoted sentence: "People of the same trade seldom meet together, even for merriement and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." Smith, *Wealth of Nations*, Book I, p. 144.

⁷ Reaction to Smith's persuasion was prompt. A year and a half after Smith's death in 1790, William Pitt the younger, in introducing

ing that served the industrial power was not necessarily either contrived or visibly sycophantic. But its service to economic interest was, nonetheless, the test of its acceptability.

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In the hundred years and more following the publication of *The Wealth of Nations* the sources and instruments of capitalist power were much strengthened. In the United States, spectacular and highly motivated personalities — Vanderbilt, Gould, Rockefeller, Harriman, Carnegie, Frick, Morgan, and others — moved onto the scene, and their somewhat less conspicuous counterparts appeared in Britain, France, and Germany. An increasingly close association developed between those who founded and ran the great industrial enterprises, now including the railroads, and those (like Morgan) who supplied them with money capital for the creation or, more often, the acquisition and combination of those enterprises.

Supporting the personalities of the great entrepreneurs was the massive aggregation of property they commanded. This, too, was a highly important, highly visible source of power. And as the nineteenth century was ending, industrial organization became increasingly important. Already in the last half of that century, as Alfred D. Chandler, Jr., has

his budget, said of him that his "extensive knowledge of detail and depth of philosophical research will, I believe, furnish the best solution of every question connected with the history of commerce and with the system of political economy." Address before the House of Commons on February 17, 1792, quoted in John Rae, *Life of Adam Smith* (New York: Augustus M. Kelley, 1965), pp. 290-91. This is a notable tribute to the exercise of conditioned power.

pointed out,⁸ the corporation was ceasing to be the extended arm of the boss at the top. It was coming to be governed by the administrative structure embracing varied specialists and technicians that was eventually to be called *the* management. Organization was emerging as a source of power in industrial capitalism; eventually it would replace property as the dominant source of such power.

With the changes in the sources of power went changes in the instruments of enforcement. Condon power did not disappear; it remained available from the state or from company police. But it was of small importance as compared with the massive deployment of compensatory power. This was most evident in all the industrial countries, where millions of workers were mobilized in the service of the industrial system. And it was also apparent in the less astringent power of producers over consumers, a submission that earlier, as in the cases of Rockefeller over the users of kerosene and of Vanderbilt and the railroads over shippers of products, had been severe. Compensatory power extended to the purchase of legislators and other public officials and thus to winning the support of the instruments of the power of the state. In the latter years of the last century the United States Senate was commonly referred to as a rich man's club; this is another way of saying that it was the well-paid instrument of the capitalist age.

However, the most interesting and, quite possibly, the most important achievement of high capitalism was its continuing resort to conditioned power — its continuing accommodation of economic ideas to current need and reality. Much of this conditioning was still of British origin; it was a service in which, until modern times, Britain was pre-eminent. It attracted the efforts of a notable succession

⁸ *The Visible Hand: The Managerial Revolution in American Business* (Cambridge: Harvard University Press, 1977), pp. 81-121.

of scholars who refined and enlarged the earlier Smithian principles. All, in one way or another, produced ideas that were in support of the submission that served the power of the industrialists.

Thus, in the early industrial establishments, the wages of the workers were minute as compared with the employers' return. No one could doubt that the system treated different participants in radically different ways, and the contrast was heightened by the circumstance that the industrial capitalist, rather more than his merchant predecessor, lived in fairly close juxtaposition to his workers. Inequality, the difference in living standard as it would now be called, was dramatically visible. The requisite social conditioning to make this acceptable came in an extraordinarily telling way in the writings of two highly influential figures, David Ricardo (1772-1823) and Thomas Robert Malthus (1766-1834), contemporaries and friends, who united in attributing the low wages and the resulting inequality to the prodigious and devastating fertility of the working classes; it was their uninhibited breeding that was the cause of their poverty. This kept wages at subsistence levels — the equilibrium to which, from the force of numbers, they tended. Ricardo called this the iron law of wages. Not the iniquitous industrial capitalist, not the system, but the worker himself was the architect of his own misery.⁹

To the conditioning of Ricardo and Malthus were added the views of the utilitarians, whose most articulate and compelling voice was that of Jeremy Bentham (1748-1832).

⁹ For Ricardo the worker also suffered from the still-surviving landed interest. "The interest of the landlord is always opposed to that of the consumer and manufacturer." *Principles of Political Economy and Taxation* (London: Everyman Edition, 1926), p. 225. As quoted in Eric Roll, *A History of Economic Thought*, rev. ed. (New York: Prentice-Hall, 1942), p. 198.

Bentham and his followers urged the testing of all public action by the rule "The greatest good for the greatest number." The policy that best served this end was one of laissez-faire. The freedom of the industrialist to follow his own interest thus became a matter of high social principle. The result might not be perfect, but it was the best possible. Implicit and, in some measure, explicit was the idea that not all could prosper; some must fall by the wayside in order that the greatest number be served. Suffering and deprivation were inevitable even in this best of all possible worlds.

There was more yet to come, and it came in the latter half of the century in England with Herbert Spencer (1820-1903), whose words echoed strongly across the Atlantic. In works of impressive scholarship, Spencer made the ultimate case for industrial capitalism: it was the manifestation of Darwin in the social order; its governing principle was the survival of the fittest. The great industrial capitalists, as they now were, were great because they were biologically superior; the poor were poor because they were inferior. Wealth was the reward of those who were inherently better; the effort to attain it both revealed and developed that superiority. The poverty of the poor was now seen to be socially good; it contributed to the euthanasia of the weakest elements of the society. William Graham Sumner (1840-1910) of Yale, the most resonant American economic voice of the time, extended Spencer's influence in the United States. So, if less formally, did Henry Ward Beecher (1813-1887) — "God intended the great to be great and the little to be little."

There was also the important service of the economic hedonists and the associated marginalists. The hedonists, best represented in the writings of William Stanley Jevons

(1835-1882), held that the enduring and comprehensive aim of man was always to maximize pleasure, minimize pain. To this end the service of goods, their utility, was central. So, accordingly, was that of the industrialist who provided them. Jevons also supplied the rationale for the principal calculation relating to human welfare, the adjustment of purchases so that each was extended to the point where pleasure or, in any case, satisfaction was the same — was equalized at the margin. The precision of this exercise, it followed, and not the prices or performance of the industrialist, was what was important to human well-being.

Further, and enduring, conditioning came from the great Italian sociologist and economist Vilfredo Pareto (1848-1923), who dealt explicitly with the inequality in the distribution of income under high capitalism. This unequal distribution, he determined, was a constant in different industrial countries at different times. And he went on to conclude that this "constancy of inequality in the distribution of income reflects inequality of human ability, which is a natural and universal category."¹⁰

Given the starkly visible inequality under high capitalism, the serviceability of this conclusion will also be evident. Traces of Pareto's "law" endured for many decades in economic instruction.¹¹

¹⁰ As quoted in Roll, *History of Economic Thought*, p. 453.

¹¹ Not all of the conditioning in support of high capitalism served. Thus an engaging line of argument justified the return to capital and therefore to the capitalist as the reward for abstinence — for refraining from consumption. The abstinence theories of capital enjoyed a not wholly insignificant place in economic thought in the nineteenth century and early in the twentieth. They were, alas, rather obtrusively inconsistent with the style of living of the great capitalists, a style that made it hard to suggest that their self-denial had been so painful as to require reward.

With all of the foregoing went the continuing celebration of the market. Not only did its uninhibited operation accord the greatest good to the greatest number, but it was also an effective solvent — and concealment — of the power of industrial capitalism. Prices were set by the market. Wages were set by the market. So were the prices of all the other requisites of production. Production decisions were in response to the market. On none of these matters did the industrialist have power; hence there could be no legitimate concern as to its exercise. Only those insufficiently instructed in the nature of the market could believe his power to exist. Here was the supreme conditioning achievement of what has come to be called classical economics. It guided the power of the industrialist, however against his intention, to good social ends; it also denied the existence of such power. And it taught this to all who sought to understand the workings of the system.¹² This instruction, needless to say, still

¹² The social conditioning of high capitalism, it should be noticed, was adjusted to national need. England, including southern Scotland, had a large head start in industrial development. Free entry of manufactures into other markets was much to be desired; protection, particularly on food grains, raised the cost of living and thus the cost of home labor. American, German, and French industrialists, coming later on the scene, needed protection from the British imports. Accordingly, in the United States, Germany, and France, the classical ideas on trade were amended to embrace a needed component of tariff protection. Henry Charles Carey (1793-1879), the most influential American economist of the last century, and Friedrich List (1789-1846), his counterpart in Germany, wrote eloquently and effectively on the desirability of protective tariffs; free trade was an impractical and damaging policy. In the United States and Germany the ideas of Carey and List were thought highly reputable and greatly approved.

persists. Nothing is so important in the defense of the modern corporation as the argument that its power does not exist — that all power is surrendered to the impersonal play of the market, all decision is in response to the instruction of the market. And nothing is more serviceable than the resulting conditioning of the young to that belief.

XIII

The Response

WE HAVE SEEN that any exercise of power produces a generally similar and opposite exercise. So with the power of high capitalism. The response it induced began in the middle of the last century, although it had earlier manifestations. It centered not on the comparatively mild submission of consumers of the products of industrial capitalism (although, as railroad users, oil buyers, and others, they were heard from) but on the much more comprehensive, much more onerous submission required of its workers. Its sources were in personality and organization. The personality was that of Karl Marx, aided, abetted, and financed by his lifelong friend Friedrich Engels. The organization lay in the Workingmen's Association of 1864, usually called the First International, the parent of a great number of lesser and later groups.

As to the instruments of enforcement of the Marxist revolt: there was no appreciable continuing emphasis on condign power, but it would, of course, be required for the overthrow of capitalism in its last attenuated days. Nor was any compensatory power immediately involved; that would,