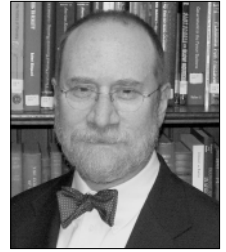


Full Context

BY SHELDON RICHMAN



In *The Wealth of Nations* Adam Smith famously wrote, “People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices.” It may seem strange that history’s best-known advocate of the free market would cast such aspersions on business people. But there is nothing strange about it. A defense of the market, and of voluntarism in general, should never be mistaken for a defense of particular business interests.

Opponents of the free market love that quote from Smith. For obvious reasons they rarely add the sentences that follow: “It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, *it ought to do nothing to facilitate such assemblies; much less to render them necessary*” (book I, chapter X, part II, paragraph 27; emphasis added).

As Smith well knew, government often facilitates such assemblies. Effective “conspiracy[ies] against the publick” would be impossible without state support. Absent political privilege, “contrivance[s] to raise prices” would crumble under the pressure of free competition. It takes a state to make a tariff, a price support, or a punitive tax or regulation on one’s competitors.

Smith’s book was a brief against mercantilism, the nationalistic system of business privilege. But we sometimes forget that the economic system that succeeded mercantilism was not free of all mercantilist features. Especially in the second half of the nineteenth century and at the hands of the Republican Party, mercantilism (in the form of Henry Clay’s old American System) had wide influence at the national level. (The states had their own modest versions earlier in the century.) Its program consisted of protective tariffs, taxpayer-financed infrastructure projects (“internal improvements”), regulation

of private infrastructure, a national bank for credit manipulation, and other forms of government intervention intended to guide society’s development and in the process benefit the well-connected business class. A good deal of land was also parceled out to politically favored interests, such as most of the major railroads. Dominant business figures did not oppose this program; on the contrary, they championed it because they stood to gain from the above-market prices, lucrative government contracts, and burdens on smaller competitors.

Later, the Progressive Era “reforms” were not only supported, but were often proposed, by big business. Meat inspection, railroad regulation, drug-safety monitoring, and policing of competition were activities favored by the major players in the relevant industries. It is not widely appreciated how much big-business support the New Deal had (or how the New Deal actually began under Hoover). The industry codes enforced by the National Recovery Administration were a godsend to businessmen who for years had striven, unsuccessfully, to create stable cartels to assure long-run profits. Government economic planning during World War I had given many businessmen (and bureaucrats) a taste of what it was like to run an economy. They liked it enough to return to Washington during Franklin Roosevelt’s tenure in the White House.

What today is called rent-seeking, exploiting others through political means, was as common in earlier times as it is now. It was a rare business proprietor who favored *laissez faire*. Why risk your money in the unpredictable marketplace when you could have stable prices and profits with government intervention? Even an income tax might be a small price to pay for that safety. Most business people were uninterested in moral philosophy, economic theory, and ideology. The shortest route between them and a nice return on investment usually went through the statehouse or the Capitol.

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No knowledgeable champion of free markets will be surprised by any of this. The problem is that we too often forget it in the heat of current controversies. By dropping the historical context we weaken our case and sound like defenders of the corporate state, the opposite of *laissez faire*.

This has been pointed out before. Kevin Carson, who calls himself a “free market anti-capitalist,” writes in *Studies in Mutualist Political Economy* that many libertarians “use the term ‘free market’ in an equivocal sense: they seem to have trouble remembering, from one moment to the next, whether they’re defending actually existing capitalism or free market principles.”

For example, several months ago opportunistic members of Congress proposed a windfall-profits tax on the oil companies because gasoline prices had jumped during the hurricane season and profits had risen dramatically. In arguing against the tax, many libertarians (and conservatives) explained why in a free market, prices and profits would rise under the current circumstances. Thus higher prices and profits warranted no government intervention.

Fine. The economic theory and conclusion were impeccable. But something was missing, and this gap gave credibility to the free market’s adversaries. What was missing? An acknowledgment of the contemporary effects of the long period of pro-business interventionism, what Carson calls “the subsidy of history.” For many years oil companies have benefited from a system of federal and state favoritism. Much U.S. foreign policy has the effect of forcing the taxpayers to pick up the huge tab for stabilizing the companies’ sources of crude oil. All of this has distorted investment, prices, and, therefore, consumer behavior, and it’s hard to know what the oil industry—or indeed the entire economy—would look like without the distortion. The rippling effects have been pervasive and substantial.

In sum, the companies are not creations of the free market. And if we defend them as though they are, we will sound naïve at best and like apologists for the corporate state at worst. That diminishes our efforts to win

the public to our position. Let us never be guilty of supporting, even implicitly, *the socialization of costs*, for there is no surer way to undercut the case for the privatization of profits.

Labor Legislation

Another example: Free-market advocates frequently criticize unions and their supporting laws. Any government intervention deserves to be criticized, but once again the context is often dropped. The context includes the fact that the business elite historically supported labor laws, even if in the end they objected to the precise form of the National Labor Relations Act and other enactments. Business-backed social-reform organizations, such as the National Civic Federation and the American Association for Labor Legislation, long had proposed labor laws in the belief that they were the path to labor peace and the end of wildcat strikes. “Respectable” union leaders would be brought to the corporate-state table as responsible junior partners who would discipline their unruly elements. Moreover, industrywide collective bargaining would have a cartelizing effect on American industry, reducing the “cutthroat competition” that was so unsettling and that worked to the advantage of upstart rivals.

While we should hit at government intervention in the labor market, as everywhere else, we must hold the context and never fail to point out that such intervention was integral to the system enacted largely at the behest of the dominant business interests. It is reasonable to believe that workers would have *more* bargaining power if all corporate privilege were abolished and competition were truly unfettered. If talk of the corporate state and exploitation sounds left-wing, it’s only because *laissez fairists* seldom talk about those things. But we should. They are *our* issues.

Context-holding is not just of academic interest; it has strategic implications. If we keep in mind that the current threat to liberty is the centrist corporate state, we will see that a top priority is the repeal of all corporate subsidies, even the most subtle kinds. 