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Why Capitalism Needs the Left

by
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Capitalism is a wondrous machine that has carried human societies to previously unimagined wealth, doing what clerics and moral philosophers once thought impossible: turned our self-interest, even our greed, into the motor of social progress. No other economic system, no matter how lofty its ambitions, has come close. Free markets, in turn, have made it possible to conduct globe-spanning commercial transactions in ways that maximize economic efficiency and stimulate technological change. Incredibly complex enterprises are coordinated through a decentralized process of mutual accommodation and communication that make possible the global production and distribution of vital goods and services with minimal central direction.

In combination, free markets and capitalism have also helped usher in and sustain fundamental political changes, widening the scope both of personal freedom and political democracy. Because of this system, more people get to choose where to work, what to consume, and what to make than ever before, while ancient inequalities of rank and status are overturned.

The spread of market capitalism has also laid the foundation for the expansion of democratic decision-making. With the establishment of private property and free exchange, political movements demanding other freedoms, including wider access to government, have proliferated. To date, no society has been able to establish and maintain political democracy without first establishing and securing a market capitalist system. To be sure, capitalism cannot guarantee personal liberty or political democracy. It has co-existed comfortably with dictatorships too, from Nazi Germany to China's current amalgam of free enterprise and authoritarian rule.

The large corporation has played a critical role in this story. It is the essential intermediary in the modern economy, linking financial capital, expertise, technology, managerial skill, labor and leadership. Corporations are spreading

everywhere in the world not only because they are powerful, but also because they work better than any known alternative.

But market capitalism is not a machine that can run on its own. It needs rules, limits, and above all else, stewardship. Partly because the system feeds off of people's darker instincts, partly because it is a machine, and therefore indifferent to human values, and partly because there is no central planner to assure that everything works out in the end, there must be some conscious effort to bring order to this chaos. Left to its own devices, unfettered capitalism produces great inequities, great suffering, and great instability. In fact, these in-built tendencies are enough to destroy the system itself. Karl Marx figured this out in the mid-19th century and built his revolutionary system on the expectation that the system would not survive. But Marx underestimated our ability to use politics to impose limits on the economic system itself.

At one time, and still in other places, even conservatives knew this to be true, and offered themselves up as responsible social stewards. Whether out of a sense of noblesse oblige or enlightened self-interest, they volunteered to lead a collective effort to reform the system so that capitalism could survive and continue to serve human interests. This is still standard practice in European capitalist systems, where Christian Democratic, Catholic, and conservative parties are content to tinker with rather than undo the network of public provision built up in the last hundred years. From the 1930s through the 1970s, American corporate leaders and a fair number of Republicans seemed to understand this too. They made their peace with "big" government, seeing in the New Deal and even the Great Society a way to forge both social peace and political stability through the creation of a "mixed" economy.

Sadly, this sort of conservatism has all but completely disappeared from the American scene. The contemporary right has abandoned whatever commitment it once had to making capitalism work for everyone, at least if that involves any sort of political intervention. Conservatives find it very hard to even think these thoughts. Instead, they mechanically repeat Lockian and Smithian nostrums about limited government that even these avatars of private property and free markets would have disavowed—if only because the unthinking adherence to them makes it impossible to sustain political order and social cohesion, let alone a competitive economy.

Of course, American conservatives think that capitalism's problems have very little if anything to do with the economy itself, or with overweening corporate power. The way they see it, the problems are almost always rooted in the government's misguided effort to reform the economic system. Consider the comments of conservative columnist Bruce Bartlett, a former Treasury Department official during the presidency of George H.W. Bush, and a former senior fellow at the conservative Heritage Foundation, on the collapse of Enron. Enron's behavior, he argues, can best be explained as a rational response to the U.S. tax code. In its misguided effort to make corporations pay their fair share of the tax burden, the federal government forced good companies to do bad things so that they might balance their books.¹ The solution to Enron-style fraud: lower corporate taxes!

Blinded by these fixed ideas, conservatives now threaten many of the things that most Americans hold dear. Laissez-faire, the conservative's default position on almost every vital policy issue today, puts individuals and communities at serious risk. This bears repeating. In many of the most important matters, from the quality of the air people breathe, to the safety of our pension funds, Americans "leave it to the market" at their peril.

To the contrary, society benefits when the left governs. This will seem counter-intuitive, even bizarre, to a generation brought up on the idea that liberals are always soft-headed, "bleeding hearts," radicals are closet Stalinists, and conservatives, in former Republican Majority Leader Dick Armey's words, are the real "deep thinkers."² But the record is clear here too. To the extent that capitalism has served the interests of the vast majority of Americans, and not just a few rich investors and corporate executives, the left deserves the credit. History shows that capitalism has been made to meet human needs because progressives have challenged many of the basic principles upon which the system is premised, including the idea that private property rights are sacred, free markets are always efficient and fair, and corporations inevitably serve the public interest.

In the 20th century, it was the left that fought for racial justice, worker rights, equal opportunity, women's liberation, environmental justice, consumer protection, civil liberties, and anti-discrimination laws—the whole panoply of social and political changes that made America a better society. If laissez-faire conservatives had had their way, America would still be living in the Gilded Age.

This doesn't mean that more government is always the better choice. But on the large social and economic issues that bedevil society, the more powerful the democratic left, the better off people are. This is why the recent and precipitous decline of progressive politics is such a disaster for so many Americans.

The Limits of the Free Market

Capitalism needs government because free markets don't do everything well. It's that simple. The political economists who helped invent the system knew this. Adam Smith fully expected, even hoped, that government would act when necessary, not only to provide for national defense, but for the establishment of justice and the provision of public works. Without these public activities, the system simply wouldn't function. John Stuart Mill, who thought laissez-faire a useful "general rule," also wrote, "There is scarcely anything really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself."³

Unfortunately, conservatives who celebrate these theorists cannot or will not listen to what they actually had to say about the limits of the market system or consider several hundred years of evidence on that point. In the face of overwhelming proof that markets don't provide everything needed, conservative economists, even Nobel Prize winners like Milton Friedman, would have people believe that if government only got out of the way, competition would be perfect, market outcomes fair, and that capitalism would grow smoothly and robustly. If their denial of reality were only of interest to academics, we could dismiss it and move on. But because the Republican Party is intent on putting these benighted ideas, however poorly thought out, into practice, they can't be ignored. And because the right has gained so much ground in recent years, the limits of laissez-faire must be restated.

One way to begin would be to point out that when their own economic interests are at stake, few conservatives are actually willing to live by the principles they espouse. The very same corporate executives who decry government regulations, federal welfare programs, and excessive public spending line up for more than \$150 billion a year in corporate subsidy programs and targeted tax loopholes that enhance their bottom line. Whether what's on offer are loan guarantees from the Export-Import bank, or grants from the Departments of Agriculture, Interior, and Commerce, Fortune 500

companies like Halliburton, Mobil Oil, General Electric, AT&T, FedEx, and General Motors show up, hat in hand.⁴ In some cases, the amount of money involved is truly staggering. In the 1990s, agribusiness giant Archer Daniels Midland (ADM), a friend to both political parties, received more than \$3 billion in subsidies to produce ethanol, despite any real indication that this gasoline substitute helps the environment, improves energy efficiency, or benefits anyone other than corn farmers and ADM itself. All the while, Dwayne Andreas, ADM's chairman, brazenly denounced government spending, decried the disappearance of free markets in America, and called for tax increases on working Americans to close the federal deficit.⁵

Andreas is not alone. Corporations that can't cut it in the market routinely line up at the public trough for handouts. Chrysler did it in the early 1980s, taking a \$1.5 billion loan guarantee from the federal government; the Savings and Loans did it in 1989, taking a \$157 billion bailout from Congress; and the airlines did it in 2003, leveraging September 11th into a \$15 billion free lunch.

But even successful firms feel no shame in accepting government handouts. As the high-tech economy boomed in the 1990s, bestowing billions on top managers and shareholders, high-tech executives waxed eloquent at corporate galas about the benefits of laissez-faire. All the while, the Department of Commerce's Advanced Technology Program handed these very same corporations hundreds of millions of dollars a year to subsidize the development and marketing of new products.⁶ One study concluded that in 1996, U.S. corporations received more in direct subsidies and tax breaks than all the American poor received from the government's safety net programs, including Aid to Families with Dependent Children (AFDC), student aid, housing subsidies, food and nutrition assistance, and other kinds of direct public assistance.⁷

Congressional cheerleaders for laissez-faire are notorious hypocrites too, pulling out all the stops to get government contracts for their districts even as they denounce that same government for catering to special interests. Newt Gingrich, a famous critic of big government and pork-barrel politics, made sure when in power that his constituents were prime recipients of federal largesse, ranging from a \$100,000 federal grant to the University of Georgia for research on Vidalia onions (a local crop) to a billion dollars-plus contract to Lockheed Martin to build new military aircraft in Marietta, the speaker's home town.⁸

But while exposing hypocrisy can be fun, it doesn't speak directly to the underlying issues. After all, libertarians have their own fantastic solution to pork barrel politics: they would make it impossible for *anyone* to benefit from public spending and government regulation. So the question remains: can Americans really rely on free markets to achieve their values?

Academic economists and policy analysts have covered much of this ground elsewhere and at length. But because market worship has returned, and the critics of laissez-faire have so effectively been banned from the airwaves, it's worth repeating their most telling complaints. To begin with, as Locke, Smith, and Mill understood, only government can establish the basic rules of social, political, and economic life, including the rights to both liberty and private property that conservatives rightly insist upon. Unless these rights exist in law, and have the backing of a government sufficiently powerful to enforce them, the law of the jungle would prevail. Russia's recent experience privatizing and deregulating its economy without first establishing these basic rules, illustrates just how difficult life can be when government is not strong enough to impose basic standards of conduct. Gangsterism prevails.

Government is also needed to regulate basic commercial transactions, including the supply of money and credit, upon which all other business activity depends. And only government can establish and enforce limits on what can and can't be sold in the market. It took laws, not just good intentions and moral exhortation, to stop slavery and indentured servitude in the U.S. It will take laws, strongly enforced, to end the trafficking in women and the sale of dangerous narcotics to children. Without these rules, and the sanctions to back them up, these would remain viable business enterprises.

Markets fail in other ways. Some things (economists call them "pure public goods") will not be produced in sufficient quantity or quality, despite their importance to the market system as a whole. The underlying theory of pure public goods is a bit technical, but the idea is not: these are things that benefit everyone (whether or not they pay for them), and that are far too expensive for any single individual to purchase on his or her own. As a result, if people are to have it, they must do it "collectively." Lighthouses used to be a favorite example; defense is one contemporary one. Unless people use the government to decide how much defense they want, and then make themselves pay for it with taxes, there won't be enough. The hard truth is that some people would "free ride," letting others pay the costs while hoping

to enjoy the benefits. As a result, defense would be undersupplied. Even the richest among us could not fill this gap alone.

Markets have some pretty nasty side effects too. Technically, these are called “by-products” or “externalities.” Put simply, there are some goods whose production or exchange has consequences for people who are not directly involved in the transaction. While these consequences can be positive, the negative ones are more consequential. Air and water pollution are famous examples. Consider the production of steel. The steel producer pumps the by-products of the manufacturing process into the surrounding air and water, polluting the environment of the factory’s unwitting neighbors. They pay the price; the steel producer sees only the profits from not cleaning up. Absent government regulation, the seller (and whoever has bought his or her product) neither changes his or her behavior nor compensates the victims.

Markets also have a tendency to under-produce certain things, most significantly the “social” or “public” investments that are critical to the long-term health of the economy and society. Essential infrastructure investments, including roads, bridges, tunnels, airports, and harbors, *might* be organized privately, but the record suggests that, for similar reasons, this is not likely to happen. These will be under produced because they do not yield returns in a timely fashion, or in a way that can be easily captured by potential investors, who are typically rather shortsighted and want to see profits relatively quickly. The stock market reinforces this tendency, because shareholders can easily dump stocks that don’t meet quarterly profit expectations and move on to the next big thing. In the end, only the public sector, with its power to tax and spend, is prepared to step up and make the necessary commitment.

Take the biomedical revolution that is transforming medicine and paying huge dividends, too. Biomedical research got off the ground in the 1960s not because private investors dumped millions into it, but because government agencies underwrote the research and development costs, believing that biomed would prove important down the road. Indeed, many of the most important advances in drug therapy have resulted not from research and development spending by the pharmaceutical industry, but from government labs. While the big drug companies do spend tens of billions of dollars every year hunting for new drugs, much of that is spent developing treatments for baldness, obesity, and impotence; the publicly funded National Institutes of Health do much of the medically important science. A recent National

Bureau of Economic Research study indicates that fifteen of the twenty-one drugs with the highest therapeutic value developed between 1965 and 1992 resulted from research done with public money. The National Cancer Institute spent \$35 million to develop paclitaxel (Taxol), used to treat breast, lung, and ovarian cancers, before handing it over to Bristol-Myers Squibb, which now sells the drug for twenty times what it costs to make. Working with Duke University researchers, the NCI spent taxpayer money to develop AZT, the anti-AIDS drug, which is now a cash cow for Glaxo Wellcome.⁹

Because the market wouldn't do it, the research that led to the creation of the Internet also began as a government funded project. Whether or not Al Gore invented the Internet (and he didn't actually claim that he did),¹⁰ it's clear that Microsoft and Sun Microsystems did not. American computer scientist Vinton Cerf, working on a *government* project, developed the first internet and transmission control protocols (the infamous TCP setting), which were used to link computer networks at several American universities and research laboratories. An English computer scientist, funded by the European Organization for Nuclear Research—founded by a consortium of European *governments*—developed the World Wide Web.

In fact, the educational system that made both of these innovations possible is itself a product of long-term, public investment. After all, how many people are prepared to front \$100,000 or more to assure a single child's education? Today these things are called "human capital." But whatever it's called, the point is the same: private investors are not fond of investments that are both uncertain and pay off far in the future. If society waited for them to act, only the children of those who could afford it would get a decent education.

Even when markets do produce enough things, they rarely distribute them in an equitable fashion. Rather, demand governs distribution and demand is a function of both desire and purchasing power. As a result, the distribution of valued things is likely to mirror the distribution of income and wealth. As long as people's economic resources vary, so will their ability to purchase what they want and need. It's hard to get worked up over every one of these inequalities. Few political philosophers would spill much ink arguing for the equal distribution of plasma screen televisions or Armani leather jackets. But the unequal distribution of other goods and services, such as health care, education, and personal safety, is hard to ignore. These are primary goods, things that shape how people live their lives, the choices that they have, and

even their life spans. Unless one assumes that the ability to purchase something is the only ethical consideration that should be taken seriously, it's hard not to conclude that markets cannot be left alone to decide all of these issues.

Government also turns out to be the only actor capable of intervening effectively when the overall economy fails to perform. Regardless of the reigning economic orthodoxy, no one is prepared or willing—least of all bankers and industrialists—to let capitalism “take its natural course,” if that means high unemployment, runaway inflation, or declining profits. When recession looms, or supply bottlenecks emerge, most people, including corporate executives and stockholders, turn to government for solutions. And rightly so. Firms, trade associations, even the most powerful CEOs, cannot mobilize the resources necessary to overcome systemic and structural problems. Only the government, precisely because it is such a powerful economic actor—the single largest purchaser of goods and services, including military hardware, transportation, health care, and education—has the wherewithal to respond.

Finally, having free markets in everything would impose an enormous decision-making burden on people who might be far better off spending their time thinking about other questions. Like it or not, people are not always prepared to make the decisions that markets force on them. Many involve technical questions, requiring a fair amount of information and expertise. The choice of phone provider can be enormously complicated, let alone the decision to opt for one or another health insurance plan. In these sorts of cases, peoples' decisions, and therefore market outcomes, are likely to be based as much on accident, ignorance, or a company's good luck to have signed up the next NBA superstar to spearhead its advertising campaign, as they are on rational choice. Consumer education helps people a bit. But high quality, reliable information is hard to find amid the clutter of advertising and manipulation, and few people have the time to process it.

Free market advocates say that this criticism is inherently paternalistic because it implies that people are not prepared to decide important issues for themselves. But that's a false issue. No one on the right or the left suggests that everyone should decide every important question that might affect him or her. Clearly, in matters of fundamental import, where people's lives are affected in vital ways, it is prudent to err on the side of self-determination. But others can and should decide questions in areas where the requirements

of technical expertise are high and the costs of delegation low. Diners ask government to inspect restaurant kitchens because they're not prepared or particularly eager to do it themselves. No one thinks that delegating this power to public agents diminish autonomy or liberty. At the same time, the market alternative—waiting to see if anyone dies at the local eatery—is simply untenable. The same sort of calculation could be applied in a host of other areas, reducing both the scope of market transactions and the information costs associated with making them.

Beware the Corporation

Corporations cause all sorts of harm too, unless they are closely supervised. Subject to elaborate personnel, management and surveillance systems designed to control their behavior and maximize their productivity, workers in large companies feel the impact on a daily basis. They spend half or more of their waking hours governed by a system of *private* governance that would have been the envy of medieval princes. One in four large employers admit to surreptitious spying on their employees with one or another form of electronic surveillance. Nearly three quarters of large companies subject employees to random urine tests. Employers eavesdrop on employee conversations, read workers' e-mail, and pin "active badges" on them so that they can electronically monitor their movements at the workplace.¹¹

All the while, workers remain vulnerable to the profit-maximizing strategies and even financial chicanery of top management. Job tasks are broken down into the smallest possible, easily repeatable, readily monitored unit to assure maximum productivity. Pension funds go unfounded; health care costs soar. But victimized by downsizing or fraudulent accounting schemes designed to increase stock prices and executive compensation, all but the most indispensable employees have little recourse. In some traditional industries, like meatpacking and food processing, the work is simultaneously low paid, hazardous, and insecure. But even "new economy" companies abuse their workers, treating all but the most valuable as interchangeable commodities. The determined effort by high-tech companies like Microsoft to hire part-time, contingent labor rather than full-time workers, and the technology sector's infamous and largely successful resistance to unions, threatens to turn millions of white collar employees into a 21st century proletariat.

Recent revelations about corporate criminality in the energy and telecommunications industries, while admittedly spectacular, illustrate just how much harm companies can do to their workers' financial well being. Enron fired 4,200 workers; WorldCom let 17,000 go.¹² No doubt, many of these employees have already found other jobs. But what about their savings and pension funds, and the workers whose savings and pension funds were invested in these companies? Thanks to creative accounting, public employee pension funds lost at least \$1.5 billion in the Enron debacle *alone*.¹³ AFL-CIO pension funds lost \$3.3 billion in the WorldCom and Enron bankruptcies combined.¹⁴ Keep in mind the reality behind the figures. While a few executives may spend a bit of time in prison, and be forced to sell a house or two, as the Lays complained after the Enron collapse, for the next several decades, millions of people will be retiring on less, often substantially less, than they had planned, or working far into their senior years to make up for the money stolen from them.

The impact of corporate behavior on the communities that shelter them can also be devastating. Business boosters rightly stress the positive income and employment affects of corporate investment; these can be quite significant. But there are often considerable costs. Increasingly, companies demand all sorts of financial incentives (including lower taxes, less stringent environmental regulations, and substantial subsidies) from state and local governments before they will commit to a particular locale. But even these commitments can prove ephemeral because most corporations are prepared to fly when they see a better opportunity. To no avail, Michigan gave General Motors \$13.5 million in tax abatements to maintain its Ypsilanti assembly plant in the 1980s. A decade later, the company closed the plant and shipped the jobs to Arlington, Texas, citing lower costs and greater productivity. Michigan was left with a gaping whole in its tax base and little else. Decisions such as these are doubly devastating because the local community first gives up potential tax revenues and then loses the jobs and incomes it sought to secure with those costly concessions.

Recently, corporate flight has been taken to extremes, with American companies shifting their titular headquarters to offshore tax havens to avoid any financial obligations in the U.S.—despite maintaining domestic production and distribution facilities. Though much publicized, the 2002 effort of Stanley Works, a billion-dollar tool and hardware manufacturer incorporated in Connecticut since 1852, to reincorporate in Bermuda was entirely unexceptional. Stanley Works backed off after intense public

scrutiny, but more than a dozen U.S. companies, including ones like Ingersoll-Rand, which earn millions from U.S. government contracts, remain incorporated in foreign tax havens. In 2003, Democratic efforts to force these American companies to pay their fair share of American taxes were killed by the same hyper-patriotic House Republicans who made their cafeteria serve “freedom” fries so that they could avoid having to even say the word “French.”

Government could do more to control corporate power, but it’s fighting an uphill battle. Old-style corruption still plays a part in bending politicians to the will of the firm. As the next chapter explains, despite seemingly endless efforts to regulate them, campaign contributions remain a powerful source of political influence at all levels of government, enabling the financially well endowed to buy private access to decision makers. But corporate political power also derives from what Charles Lindblom has called business’s “privileged position.” By this, Lindblom means the great deference society pays to corporations, their top managers, and their big stockholders owing to the vital role these firms play in the economy. America has little choice in the matter, Lindblom says, because it is so dependent on them to create jobs and pay wages and salaries. Unless government plays a more active and directive role in stimulating and even organizing economic activity, people will have to continue to pay attention to the interests and preferences of these behemoths, even as they are seduced and abandoned by them.¹⁵

In fact, the U.S. government tends to treat the CEOs of the Fortune 500 as it treats other political leaders, as coequals, seeking their counsel, listening to their opinions, and respecting their turf. And because people defer to them, few ask the hard questions about whether or not corporations really live up to the promises made by and for them. Apart from the occasional, egregious scandal, scant attention is paid to the manifold ways in which corporations disrupt and injure individuals and communities.

Finally, corporate power has helped create what can only be called a corporate culture, which steadily debases public discourse by translating all questions of value into economic terms, encouraging Americans to equate consumer satisfaction with the public interest. However pleasurable this might seem in the moment, the impact on political life has been devastating, as people withdraw from public activities that are vital to democratic citizenship—walking the mall rather than their precincts, window shopping rather than knocking on neighbor’s doors.

Everything we know about the nature of democracy suggests that it cannot survive without a lively, open, public discourse in which people confront each other's opinions in the course of talking about how to organize the things they have in common. Yet corporate America is replacing public debate with a massive and continuous campaign to manipulate consumer demand; to sell people things they didn't know they wanted, let alone needed; and to convince Americans that personal satisfaction can only be achieved by buying things. Indeed, the very idea that people have other interests and that they could live other kinds of lives is obscured by the relentless effort to market everything, whether over the nation's airwaves, in its public spaces, or on the Internet.

Corporate apologists respond in all sorts of ways to these criticisms. The firm, they say, is only a passive conduit, satisfying people's wants within the limits imposed by consumer demand and the costs of production and distribution. According to Murray Weidenbaum, chair of the Council of Economic Advisors during Ronald Reagan's first term, corporations "serve the unappreciated and involuntary role of proxy for the overall consumer interest."¹⁶ Market competition, surveillance by boards of directors, the need to raise investment capital, the judgments of large and small investors—these forces are said to keep managers in check. Supporters also remind us that corporations bestow enormous benefits on society, including a cornucopia of previously unimagined delights. If companies make employees toe the line, they also pay people well for the time spent at work. In fact, corporate life is far less coercive or all encompassing than its critics imagine. Because corporations, unlike governments, cannot command our obedience, people have choices. They can opt out of the corporate world; they don't have to work for the Gap or IBM; or buy name-brand jeans; or worry about the kind of car they drive. Workers can change jobs. Investors can sell their stock in one company and invest in another, or buy bonds, or invest in "socially responsible" mutual funds. People can live in communes, or monasteries, or in the backwoods of Wyoming. There is, in other words, choice.

But these rebuttals do not stand up to close scrutiny. The modern corporation is not a direct descendant of Smith's capitalist entrepreneur. It is not only different in size but in power and motivation. Rather, the modern corporation is more like a mini-state (sometimes not so mini) than a mom-and-pop affair, exercising power over workers, employees, consumers, local communities, national governments and global culture in ways that would

have likely sent Smith reeling. Corporate defenders are also far too cavalier about what unregulated markets and unrestrained corporate power puts at risk. The panoply of consumer, environmental and workplace hazards are minimized or dismissed as second order problems that can easily be remedied, ignoring the fact that these remedies are only in place because people have used government to impose controls on what corporations do.

Finally, the idea of choice itself, needs to be thought through more carefully. Just because there are markets, doesn't mean that people really have options. Workers in particular have far fewer choices than the corporation's defenders suggest. The existence of a job market doesn't mean that most people are free to move about at will, taking and leaving jobs that fail to satisfy. In fact, very few workers behave in the way that the market model imagines, picking up and moving from town to town, or state to state, in response to marginally better employment offers. To the contrary, to the extent that they have settled lives, most people's geographic mobility is quite limited. And there's no guarantee that having changed jobs, a worker will find him or herself in a substantially better situation. Trained in the same business schools, enamored of the same management theories, most employers run their workplaces in very similar ways.

The Myth of Equal Opportunity

Progressive government is especially important if Americans stand any chance of equalizing opportunity. Conservatives insist that the free market gives the average person his or her best shot at moving up, even getting rich some day. The evidence suggests that many Americans agree. But free markets *cannot* promote equality of opportunity because equal opportunity requires that far more be done to equalize condition. Free markets cannot do that.

The bottom line is that people cannot compete on an equal footing when their "initial conditions" are radically unequal. No one would judge fair a footrace in which only some runners showed up at the starting line rested, in shape, and professionally trained, in other words, ready to compete, while others hobbled there, malnourished, sick, ignorant of the track or the rules of competition, having had no prior experience or training in the sport. Yet conservatives want people to believe that that they enjoy equality of

opportunity despite the fact that some children have been advantaged since birth by superior educations, social connections, and family wealth, while others barely make it to school in the morning. Certainly, the exceptionally gifted among the most disadvantaged, the truly heroic, will succeed despite even these obstacles; these remarkable success stories are uplifting. But do the rest deserve their fate? Far too many Americans never get a chance to work at a good job, earn a decent income, or live in a safe neighborhood with good schools—not because they “failed,” but because they never had much of a chance to succeed.

Whether or not people like to admit it, these initial conditions map rather closely the distribution of income and wealth in America. The only way to redress the problem is to assure greater equality of condition, making sure that everyone has a reasonably equal shot at early childhood education, enrichment classes, high quality public schools, good counseling, and letters of recommendation from well-placed friends of the family. This sounds utopian. Nonetheless, the point stands. Equality of opportunity is intimately linked to equality of condition. And whether conservatives like it or not, only government can promote that sort of equality in a market capitalist society.

Conservatives prefer this state of affairs, believing that private giving can more than compensate for whatever holes might exist in the social safety net, while assuring that money is not wasted by government bureaucrats. But private philanthropy can't even compensate for the sorts of social welfare cuts that Republicans propose, let alone change the distribution of income and wealth in America. As a recent Century Foundation study shows, the total *assets* of the 34,000 charitable foundations that might be asked to play this role constitute only about 10% of what the government currently spends on social welfare and other, related domestic programs. The amount that these charities could actually spend on people in need in any given year is a minuscule fraction of what would be required.¹⁷ George H. W. Bush's proposal to replace or even substantially supplement the welfare state with a “Thousand Points of Light” remains a fantasy. Without a serious collective, public effort to redistribute resources to the disadvantaged, income and wealth will remain sharply skewed in America.

The international record clearly supports this conclusion. The Luxembourg Income Study is the most comprehensive and authoritative analysis of income inequality in the west. As Timothy Smeeding, the study's director and

a professor of public policy, concludes, it's government that makes the difference. Societies with larger public sectors have less economic inequality—it's that simple. Where capitalism is let loose, the gap between rich and poor grows.¹⁸

America's recent history confirms the point. Since the 1980s, as both Republican and Democratic administrations have backed away from welfare-state commitments, income inequality has widened. The right finds in every success story proof that since these barriers can be overcome they must not be as consequential as the left believes. But the real question is not whether the truly gifted can rise above their circumstances, but whether this system treats fairly ordinary people who are making a reasonable effort. On this standard, America fails.

It is true that the American class system has never been as rigid and as obvious as in Europe. The visible signs of election are a bit subtler in a society in which everyone wears jeans, sneakers, and tees. Politics has never been organized around social standing in quite the same way, nor have the upper classes been treated with quite the same deference as elsewhere. As a result, European visitors like Alexis de Tocqueville have often been misled by what they have seen and heard, believing, as Tocqueville did, that "equality of condition is the fundamental fact" of American life, and, in doing so, confusing egalitarian rhetoric for real social equality. For their part, Americans have enjoyed the comparison, congratulating themselves on having avoided European-style class conflict.

But as anyone who has ventured out of his or her neighborhood knows, contemporary America is a class society. The gap between the American rich and poor demands repeating. In the late 1990s, as the most robust economic expansion in decades was peaking, the average after-tax income of the top 1% of American households (\$677,900) was 63 times the average after tax income (\$10,800) of the poorest fifth.¹⁹ And this was *after* the much-maligned "progressive income tax" had done its equalizing magic.

Statistics on the share of total, after-tax income taken home by various strata are even more striking. The top 1% of American households took home almost as large a share (13.6%) of total income as did the bottom 40% (15.0%). That means that the richest 2.6 million Americans, a tiny fraction of the society, earned almost as much as the poorest 100 million Americans.²⁰ And these superrich Americans own nearly 40% of all of the nation's

wealth.²¹ The gap between the rich and the middle class is equally remarkable in a society that makes so much of equal opportunity. That \$677,900 average after-tax income of the richest 1% of American households was 18 times the average after-tax income (\$37,200) of the *middle fifth*.²²

Inequality actually *worsened* as the economy improved. A small percentage of Americans benefited handsomely from the boom. From 1979 to 1997, the richest 1% increased their average household income by 157%. But the income of the poorest 20% declined, and the middle fifth gained a meager 10.1% over this nearly two decade span. In fact, the ratio of the average household income in the top 1% to the average household income in the middle fifth *increased* from 7.8/1 to 18.2/1 over this same time period.²³

Conservatives respond to these data in various ways. As Bush did in the 2000 presidential debates, some simply reject numbers they don't like, complaining about "fuzzy math." Other conservatives accept the data but question their implications. These numbers are misleading, they argue, because they don't capture the dynamic character of the American economy and social structure. People are not fixed for life into whatever strata they were born. To the contrary, there's constant churning, as people's fortunes rise and fall. A snapshot may show great inequality, but over a lifetime, people experience significant mobility.²⁴

There's some truth to the point—this is no longer a world of ascribed status where lord and peasant inherit their social positions and pass them on to their descendants. Some poor individuals and families are poor for only a while—perhaps while in school, or when out of work, or if newly divorced. Conservatives routinely roll out these examples to demonstrate the pitfalls of income and wealth distribution data. Unfortunately, in this case the statistics don't lie: the majority of low-income families have low incomes for *years* at a time. Nearly three-quarters of young adults who were in the bottom 20% of income earners in 1968 were in the bottom 40% in 1991, 23 years later. In fact, the available evidence indicates that income mobility is *declining* in the U.S.²⁵

The hard reality is that the majority of Americans live quite close to the economic edge. The half of American families that earn less than \$50,000 a year cannot help but struggle to meet simultaneously the costs of food, clothing, and shelter, let alone medical and elder care while saving for college and retirement. In this world, a week without work is a serious shock; a

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month of unemployment a major loss; a prolonged family illness a catastrophe that is almost impossible to recover from. With an average after-tax income of less than \$11,000 a year, the poorest fifth of Americans are living in truly dismal circumstances.

Far from the celebrated land of opportunity, not only does American capitalism display the same sort of class inequality typically associated with older, European societies, on all accounts, the U.S. is one of the more unequal of the world's capitalist democracies, typically at or near the bottom on most measures of income and wealth equality.²⁶ And with income and wealth so skewed toward the top, the claim that Americans can compete on an equal footing without help from the government cannot be taken seriously.

Right vs. Left

The right's refusal to admit, let alone address, these realities, has led to some rather dreadful political choices. Sad to say, conservatives have led the opposition to nearly every social reform that has lightened the burden on the average American, or ended unconscionable discrimination against some minority group, or sought to protect some especially vulnerable population from the vicissitudes of the market.

In the early 20th century, as Progressivism peaked, conservatives opposed protective child labor legislation because it infringed on state's rights, and maximum hours legislation because it interfered with workers' "right of free contract." During the New Deal, as the country moved leftward, trying to cushion the blow of the Great Depression, conservatives opposed social security legislation because it violated traditional notions of self-help and individual responsibility, and wages and hours and labor legislation because it restricted the freedom of managers to dispose of their property as they wished. Even after the principle of government intervention into the economy had been well established in law and practice, conservatives fought the Great Society's efforts to set and enforce health, safety and environmental standards, arguing that corporations were eager to voluntarily clean up the air, water, and work, and that strict standards would make things worse, not better.

The Occupational Safety and Health Administration was a favorite target, and remains a good case study in how business groups and conservative ideologues tried to undo vital reforms. Soon after its establishment, OSHA moved to adopt as law thousands of safety standards that had been formulated *by the private sector* in an effort to demonstrate that it would voluntarily protect its employees. But the minute the agency acted, industry spokespeople and conservative economists ridiculed the agency for taking these sorts of “Mickey Mouse” safety standards to heart. Chastened, the agency turned its attention to more serious health hazards. But business, cheered on by conservative academics who thought the whole idea of government regulation was suspect, redoubled its effort to discredit the agency.

The controversy over the agency’s proposed polyvinyl chloride standard, issued in 1974, showed just how far the right would go in its campaign to stop government from regulating the market, regardless of the dangers. That standard, which required that employers eliminate worker exposure to this toxic substance, was issued after the agency learned that sixteen workers involved in the production of PVC had died from a rare form of liver cancer. But business decried the standard, claiming that the substance wasn’t really toxic and that even if it was, strict regulation of it would bankrupt the industry and harm the entire American economy. The impact, according to the Society of the Plastics Industry, would be “catastrophic.” Despite the mountain of evidence that PVC was an exceedingly dangerous substance, the industry took the case all the way to the Supreme Court. Only after OSHA survived that legal challenge, was the agency able to protect workers exposed to this carcinogen.²⁷

This knee-jerk opposition to anything progressive has only worsened in recent decades as conservative activists have taken control of the Republican Party and forced on it their extreme right wing views of the economy, race, and labor. As a result, agencies like OSHA and the EPA have been defanged, underfunded and forced to justify every move they make with cost-benefit analyses that almost always exaggerate the costs of regulation and downplay the benefits. On race, the party of Abraham Lincoln, once a strong supporter of civil rights, has reversed field entirely. In 1964, the Republicans adopted a platform that not only opposed federal civil rights legislation, but also declined to condemn the activities of racist groups like the Ku Klux Klan. Since, the party has opposed nearly every federal program, from voting

rights laws to affirmative action, which was designed to redress racial inequality.

As the conservative movement has gained strength in recent years, the Republicans have set their sights on actually dismantling the modern regulatory and welfare states. Beginning in 2001, the Bush White House and Congressional Republicans moved to open up the Arctic National Wildlife Refuge to oil and gas drilling, relax the limits on arsenic in drinking water, build more logging roads in the national forests, loosen EPA rules that forced older coal power plants to meet modern standards when they renovated, end race-conscious college admission policies, cut spending on public assistance and Medicaid, privatize social security and Medicare, and, perhaps most significant, remove whatever elements of progressivity remain in the federal income tax code. In some cases, social security for example, when political extremism has cost them at the polls, conservatives have sought to cover their tracks, explaining their opposition to popular programs as the principled defense of the public purse and individual liberty against government waste and overbearing federal bureaucrats.

Why has the right chosen to fight such retrograde battles? It's partly a political calculation. The political coalitions that carry even the most moderate conservatives to power often include some very nasty people, from the paramilitary far-right to unreconstructed racists like Senator Trent Lott who still pine for the days before *Brown v. Board of Education*. These people expect and often get a seat at the table.

In this increasingly conservative climate, even the more respectable elements of the conservative coalition, from corporate élites to small-town small business owners, have taken a harder line, rejecting legislation that might raise their costs or limit their ability to act as they wish toward employees and customers. In these cases, self-interest plays an obvious role. Progressive government is dangerous to these interests precisely because it is far more likely than market competition to empower the average person and reduce inequalities of income, wealth, or power. Finally, some conservatives argue that whatever people might wish, human nature and the inevitable failings of government make it impossible to end discrimination, reduce inequality, or eliminate poverty through politics. The effort is futile.

But whatever the motivation, the end result is the same: conservatives have rarely been on the side of equal justice; it's fallen to the left to make

capitalism serve the public interest. This is, of course, ironic. At the outset, the left first sought not to humanize but to overthrow capitalism, believing other, more collective, economic arrangements to be preferable. But having failed at revolution, the left ended up reforming capitalism— making it more livable for workers and the dispossessed. The welfare states of North America, Western Europe, Australia and New Zealand were built either by the left in power (by Social Democratic, Socialist, or Labor parties), or by political élites and moderate social reformers who, fearing that the left would triumph at the polls or in the streets, made concessions to working-class voters in order avoid revolution. But in both cases, it was pressure from below, whether in the form of strikes, or mass protests, or the formation of radical political parties, that made structural change imperative.

Different countries have gotten here in different ways. In Denmark and Sweden, welfare state building preceded the emergence of a politically powerful, socialist working class. There, political élites initiated reforms in the early 20th century in order to avoid the (further) radicalization of workers. But once welfare-state building had begun, working class political parties took over, forging political alliances in the 1930s with farmers who were also seeking shelter from the free market. Later, political alliances between blue- and white-collar workers helped consolidate earlier gains, maintaining majority support for reform to the end of the century.²⁸

On the European continent, in Belgium, the Netherlands, Germany, Austria, and Italy, centrist governments under the control of religious parties or traditional conservative élites (not the laissez-faire conservatives found in the U.S.) expanded social spending by providing generous transfer payments to support working families. In Great Britain, liberal élites, not labor party representatives, took the first steps toward state-sponsored economic security. But in all cases, reform occurred as support for the left among workers and small farmers grew.²⁹

In the U.S., the left has been weaker because working class organizations have been frailer and working-class voters less class conscious. As a result, reformers have traveled a different, less radical route. Under the direction of liberals drawn from the middle classes and the professions, with less input from mass-based organizations, political reform movements from the Progressive period to the Great Society have pushed for incremental reforms rather than demand dramatic structural changes in the economy or political system. The radical left has still mattered in American politics; liberals have

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gotten many of their best ideas from it, from unemployment insurance to the progressive income tax. But liberal reformers have done far less to limit corporate power or restrict the free market.

The right acts as if the power of modern government is, at best, a mistake, or worse, a plot by liberals to enslave a free people and replace capitalism with socialism—that government has expanded because liberals, in league with government bureaucrats, want to strip Americans of their liberties and turn the country into some sort of Soviet-style dictatorship. But whether or not every one of the things government does is appropriate, the inescapable fact is that government has grown because the market has not been enough. Here and abroad, most reforms imposed by the left on capitalism have survived into the 21st century because they have measurably changed people's lives.

Until recently, voters have understood this and been willing to defend reform against the right's assault. But progressives have been on the defensive here and abroad for two decades. Retrenchment is occurring everywhere as the left has weakened and global capitalism has spread. Further reform is likely to depend on the reemergence of a left that can challenge corporate power and restructure political institutions so that progressive voices can be heard.

Obviously, this sort of project has become even harder in an increasingly internationalized economy. As capitalism has become global, free markets have pushed back the public sphere and transnational corporations have found it even easier to exercise political influence. Without supervision from transnational institutions, whether governmental or nongovernmental, both may prove even harder to control than before. Nonetheless, progressives can take heart from the history: people want more than capitalism alone can deliver.

Notes

¹ Bruce Bartlett, "The Tax Code on Trial." February 5, 2002 at <http://www.townhall.com/columnists/brucebartlett/bb20020205.shtml>.

² Janet Hook, “Arney’s Remarks Assailed; Politics: Lawmaker’s comments were a ‘personal attack’ on Jews, Democrats say.” *Los Angeles Times*, September 25, 2002. Part 1, pg. 13.

³ J.S. Mill. *Principles of Political Economy*. Pp. 944-45, 970.

⁴ Rep. Bernie Sanders (I-VT). May 1, 2002. “Stop Corporate Welfare at the Export-Import Bank.” At <http://bernie.house.gov/documents/releases/20020501150823.asp>.

⁵ Norman Solomon, “Corporate Welfare”: A Media Issue at Last? at <http://www.fair.org/media-beat/981126.html>; James Bovard, “Archer Daniels Midland: A Case Study In Corporate Welfare.” At <http://www.cato.org/pubs/pas/pa-241.html>.

⁶ Dean Stansel, “Corporate Welfare,” at <http://www.cato.org/pubs/handbook/handbook105.html>.

⁷ Charles M. Sennott, “The \$150 Billion ‘Welfare’ Recipients: U.S. Corporations.” *Boston Globe*. 07/07/96.

⁸ Katharine Q. Seelye, “Spending Bill, Pork Full, Becomes Law,” *New York Times*, October 22, 1998.

⁹ Merrill Goozner. “The Price Isn’t Right.” *The American Prospect*. 11. September 2000. 24-25.

¹⁰ What Gore actually said, in a March 1999 interview with Wolf Blitzer, was, “During my service in the United States Congress, I took the initiative in creating the Internet.” He was referring to efforts he made as a Member of Congress in the 1970s to promote government research on what would become the Internet.

¹¹ “Surprise! You’re on Corporate Camera.” http://www.ranknfile-ue.org/stwd_corcam.html. “Surveillance Incorporated: American Workers Forfeit for a Paycheck.” An ACLU Special Report. September 1996, at <http://archive.aclu.org/library/wrrpt96.html>.

¹² “Labor chief rails at ‘corporate pirates’; Workers rally on Wall Street.” *The Seattle Times*, July 31, 2002. E1.

¹³ Steven Greehouse. "Enron's Many Strands: Retirement Money; Public Funds Say Losses Top \$1.5 Billion," *New York Times*. January 22, 2002. C:6.

¹⁴ "Labor chief rails at 'corporate pirates'; Workers rally on Wall Street." *The Seattle Times*, July 31, 2002. E1.

¹⁵ Charles E. Lindblom. 1977. *Politics and Markets*. New York: Basic Books.

¹⁶ Cited in Charles Noble. 1986. *Liberalism At Work: The Rise and Fall of OSHA*. Philadelphia: Temple University Press. P. 116.

¹⁷ Julian Wolpert. "What Charity Can and Cannot Do." The Century Foundation.
http://www.tcf.org/Publications/Inequality/What_Charities_Can_and_Cannot_Do/Introduction.html.

¹⁸ Timothy M. Smeeding 1992. "Why the U.S. Antipoverty System Doesn't Work Very Well. *Challenge* (January-February): 30-35.

¹⁹ I. Shapiro, R. Greenstein, and W. Primus. 2001." Pathbreaking CBO study shows dramatic increases in income disparities in 1980s and 1990s: An analysis of the CBO data." Retrieved September 26 2002 from LexisNexis Database (Current Issues Universe, R010-39) on the World Wide Web: <http://www.lexisnexis.com/ciuniv>.

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²² I. Shapiro, R. Greenstein, and W. Primus. op. cit.

²³ I. Shapiro, R. Greenstein, and W. Primus. 2001." Pathbreaking CBO study shows dramatic increases in income disparities in 1980s and 1990s: An analysis of the CBO data." Retrieved September 26 2002 from LexisNexis Database (Current Issues Universe, R010-39) on the World Wide Web: <http://www.lexisnexis.com/ciuniv>.

²⁴ Some go further, Bruce Bartlett, the former Treasury official who thought that too-high tax rates had driven Enron to fraud, also thinks that "the existence of any mobility makes most liberal attacks on inequality effectively meaningless." Bruce Bartlett, "Tax and the CBO." June 7, 2001.
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²⁵ Peter Gottschalk and Sheldon Danziger. 1998. "Family Income Mobility—How Much is There, and Has It Changed?" in James A. Auerback, and Richard S. Belous, eds. 1998. *The Inequality Paradox: Growth of Income Disparity*. Washington, D.C.: National Policy Association.

²⁶ See OECD. 1976. *Income Distribution in OECD Countries*. OECD Occasional Papers. July; Will Hutton, "Log cabin to White House? Not any more." *The Observer*. April 28, 2002.

²⁷ Charles Noble. *Liberalism at Work: The Rise and Fall of OSHA*. Philadelphia: Temple University Press. 1986. pp. 105-6.

²⁸ Francis G. Castles. 1978. *The Social Democratic Image of Society*. London: Routledge; Gosta Esping-Andersen. 1985. *Politics Against Markets: The Social Democratic Road to Power*. Princeton, NJ: Princeton University Press; Margaret Weir and Theda Skocpol. 1985. "State Structures and the Possibilities for "Keynesian" Responses to the Great Depression in Sweden, Britain, and the United States," pp. 107-163 in Peter Evans, Dietrich Rueschmeyer and Theda Skocpol, eds. 1985. *Bringing the State Back In*. New York: Cambridge University Press; Douglas E. Ashford. 1986. *The Emergence of Welfare States*. Oxford:

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