

Understanding the New Era of Corporate Socialism

By Robert Roy Pool

No one expected it. No one wanted it. And when a socialist revolution finally occurred in the United States, no one understood what had happened until several years had passed.



It was unlike anything before in history, and therefore wildly misperceived. The socialist revolution was not fomented by workers and students marching in the streets carrying banners and shouting slogans. Instead, it was stumbled into *accidentally* by a small cabal of powerful bankers in a room at the Federal Reserve Building in New York City on the weekend of September 13th and 14th, 2008, as they desperately sought ways to prevent the entire Western banking system from imploding.

I have just finished reading *On the Brink* by Henry Paulson, who served as Secretary of the Treasury at that time and played a central role in those meetings. Neither Paulson nor any of the other bankers in those rooms at the New York Fed believed in socialism. None of them foresaw the consequences of their actions. Few of them realize even now they had *inadvertently* invented a new form of social organization. In one of history's greatest ironies, the new era of corporate socialism was ushered in under a Republican Administration that advocated free-market capitalism as ardently as any in history.



History... and Myth

The American people believe in free market capitalism almost as fervently as they believe in the democratic self-government and the genius of their Founding Fathers. It would be natural to assume that Americans have long practiced free-market capitalism. But this assertion turns out to be myth.

Protecting the Price of Oil

In reality the United States has consistently and effectively invented ways of manipulating free markets, invariably to soften the market's often brutal oscillations for the benefit of producers. In the 1930s Texas adapted the Texas Railroad Commission – originally set up to regulate the tariffs charged by railroads in the state – and tasked the agency with regulating the pumping of crude oil from all the wells in Texas. Since Texas produced the lion's share of the oil consumed in the United States at that time, the Texas Railroad Commission successfully manipulated the market, supporting the price of oil until the Second World War erupted and made such activity unnecessary.

During the war the U.S. produced as much oil as it possibly could. The tank columns that freed Europe from the Nazis and the aircraft carrier battle groups that demolished the Japanese Empire all consumed prodigious quantities of gasoline. Oil producers therefore made effortless profits. In fact, consumer use of gasoline had to be severely rationed. Allowing the free market to work during World War Two would have resulted in too much gasoline going to civilians at a time when the U.S. military needed every drop to crush its enemies. For more than four years, the free market was swept away completely and most of the gasoline was allocated to the Armed Forces at controlled prices.

After the war the global oil supply expanded enormously. The largest new reserves were found in the Middle East, Nigeria, and Venezuela. OPEC, the Organization of Petroleum Exporting Countries, by 1970 had assumed the role the Texas Railroad Commission. OPEC regulated the production of oil – limited production – and thereby increased global oil prices.

OPEC's power reached its zenith between 1973 and 1982. As long as OPEC controlled most of the world's spare productive capacity, OPEC could effectively restrict oil production and raise prices. Once new supplies were brought to market by Anglo-American companies in the North Sea and on the North Slope, however, OPEC lost its ability to control enough of the world's production and could no longer support – manipulate – the price of oil. From 1986 until 2005, OPEC was powerless. No organization could effectively limit oil production, and the price of oil reached record lows in real dollar terms.

Agricultural Price Supports

Americans have also been extremely inventive in designing ways to manipulate the free market for agricultural products for the benefit of producers. From the 1930s onward the U.S. Federal began paying farmers to forego growing certain crops, bringing total production down.



The effect of these production subsidies was to incentivize farmers to produce less, thereby raising the free market prices of wheat, corn, soybeans, and sorghum. The Federal government also became buyer of last resort for surplus grains in years when the subsidies failed to limit production enough. This protected grain farmers

from the economic disasters that inevitably follow overproduction and excessively low prices.

Manipulation of the free market for agricultural products was necessary because of the enormous productive capacity of the United States. If all American farmers were allowed to compete freely and produce as much as they could, they would produce too much of almost everything. Prices would collapse, and most of them could be bankrupted. To allow thousands of farmers to go out of business all at once after a price cataclysm would have produced an enormous shortage of production in subsequent years, resulting in price *increases* that would have angered consumers. Price supports, therefore, were invented to smooth out the wild swings of the free market, and protect the livelihood of thousands of American farmers. To this day they enjoy powerful political support.

A case can be made that the policy of providing (relative) price stability to American farmers was the most successful Federal program in all of history. Federal price supports have resulted in abundant grain production, stable prices within a narrow range most of the time, and enabled thousands of family farms to survive the wild oscillations of the free market. It has also produced many unintended consequences, such as the growth of gigantic agribusiness firms that benefit enormously from vast Federal price support subsidies.

Thus in the two most crucial aspects of our economy – food and fuel, two products every single American must buy – our economy is dominated not by the free market but by organized and effective efforts to manipulate prices for the benefit of producers. These market manipulation schemes have been tremendously successful, so we rarely notice they exist. But we should not deceive ourselves into believing that we have ever lived in a truly free market economy.

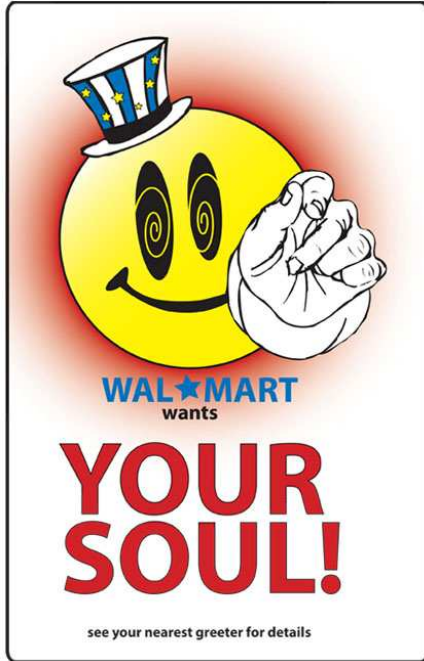
That idealized world never existed. Truly free markets by their nature tend to produce wild swings. A stable economy, therefore, requires producer protection and limits on production of certain kinds of commodity goods.

Supersizing Capitalism

The United States believes itself to be the world's greatest free market. While there is truth to this assertion, we Americans are also the world's best market manipulators, as we have seen in the markets for fuel and food. The other powerful trend that laid the groundwork for the new era of corporate socialism was the sheer size of some 21st Century American corporations. Under the conditions of true free market capitalism, companies compete to produce and sell a product. Profits are competed away relentlessly so that only the most efficient producers survive. A few prosper. Most go broke or sell out to their competitors. In the end, only a few survive.

In time the small group of survivors get together to form an *oligopoly*. An oligopoly is a small number of firms that control the market in a particular good, whether it is cars, computers, movies, video distribution, or television programming, just to name a few familiar to all.

In the process of forming these oligopolies, very large corporations are created. Both Ford and GM, for example, sell enough cars each year to equal more than 1% of our national GDP. Hewlett Packard's computer and printer sales are also more each year than 1% of our GDP. So are the sales of General Electric. Walmart's sales in the last year were nearly



3% of GDP – 3% of all the goods and services sold in our entire economy, from Honolulu to Maine, from Alaska to Miami.

It is fascinating to note that all the companies I named above, with the exception of Walmart, are aggregates – extremely large companies that got that way by buying and assimilating smaller companies. Oldsmobile, Buick, and Pontiac, for example, were once independent companies. They became part of General Motors through a process of aggregation. This is the usual practice in American capitalism. One company buys a competitor either willingly or unwillingly, reduces competition, and thereby better regulates production rates and profits. It is

exactly the same idea we observed with the Texas Railroad Commission, OPEC, and Federal Price Supports for Agriculture, but it is accomplished through private initiative, usually with the assistance of one of the large investment banks in New York. Hewlett Packard, for example, bought out Compaq computer in 2002, forming the largest computer company in the world.

When a company grows as large as 1% of the entire economy, its bankruptcy would threaten the entire economy. The collapse of GM and Chrysler in the fall of 2008 threatened to throw millions of Americans out of work and devastate the economies of every state that had significant



production facilities. Just the demise of the car *dealers* associated with these two firms would have thrown hundreds of thousands out of work in all 50 states. The resulting economic devastation would have fed on itself, and contributed to another Great Depression.

It was for this reason – and not because it harbored socialist designs on the economy – that the new Obama Administration decided it had no choice but to preserve GM and Chrysler and most of their dealers.

Fortunately, Ford, the other surviving American auto company, was able to survive without government assistance. It has now returned to profitability, and has assumed a

position as the Number One American car maker in terms of its market share for the first time since the 1920s.

The program of Federal bailouts for big businesses – begun by the Bush Administration and continued by Obama – has fundamentally transformed the relationship between business and government. While our country still has the *appearance* of free market capitalism in many respects, in truth we are already living in a new hybrid form of social organization first called *corporate socialism* by Ralph Nader in 2002.

This trend has almost nothing to do with Barack Obama. The Bush Administration had already decided to bail out the largest banks in America, and AIG, the largest insurance company in America. They did this not because they were a bunch of socialists, but because they had no other choice.

After assuming office, Obama DID decide to bail out GM and Chrysler. His rationale? There was no other choice. Allowing the bankruptcy of GM or Chrysler would have thrown an additional 1,000,000 Americans out of work, his economists believed, adding to an already vicious deflationary spiral and guaranteeing a Great Depression 2.0. Like Bush and the banks, Obama had no choice with the carmakers. Capitalism had failed, and something had to be done to preserve the American economy. Like Bush before him, Obama did what he had to do, not what he wanted to do. Sixty three percent of Republicans believe that Obama is a socialist, but in my view he is no more a socialist than George Bush or Henry Paulson.

Bush, Paulson, Bernanke, Obama, and Geithner ushered in the new era of corporate socialism unwillingly. None of them is a socialist by inclination. All of them believed in free markets prior to the Great Meltdown. It is a testament to the inherent pragmatism of Americans and American leaders that they were able to reorient their thinking as quickly as they did when they had to. They acted to bail out megacorporations only because capitalism had failed -- hugely, fundamentally, irrevocably.

Congress has clearly established the principle that it will save large banks like Morgan Stanley, Goldman Sachs, Bank of America, Citi, and Wells Fargo. It will bail out large insurance companies like AIG. It will bail out large automakers like GM and Chrysler. And there can be no doubt that Congress would act to save a company like Boeing should it encounter financial distress, or Exxon-Mobil, or Chevron, or Walmart or Caterpillar or any company large enough to be among the DOW 30. Few of these firms are distressed *at the moment*, but over time anything can happen. Every one of these companies is Too Big to Fail.

Many Americans despise this arrangement between the state and private firms. Politicians of both parties – from New York to Alabama – vow that we will end “Too Big to Fail.” Both Conservatives and Progressives rail against “bail-out nation,” and Americans across the political spectrum absolutely *loathe* our new hybrid form of economic organization. Many believe that, as a result of the massive bailouts in 2008, our country will end up as a Stalinist dystopia or at the very least a lazy, incompetent slacker nation like fucking *France*.

These fears are utterly delusional. There is no chance of anything like Stalinism in the U.S., or Nazism, or any other –ism except Americanism. There is no chance Americans will suddenly start wearing berets or making the best croissants in the world. We have accidentally invented a new form of social organization, and now we must learn to live with it.

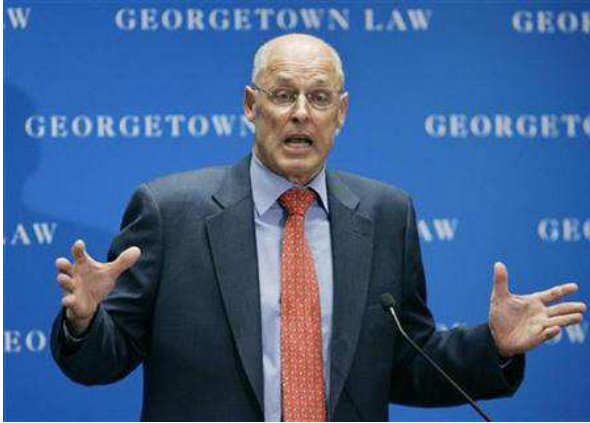
Hoping for Financial Armageddon

The only way to have avoided the sudden phase shift to corporate socialism might have been to let the Great Meltdown happen. Most Americans would have let all the big banks fail in 2008. Senator Richard Shelby of Alabama, for example, the ranking minority member of the Senate Finance Committee, has repeatedly said that the largest banks in the U.S. should have been allowed to collapse. The Great Bailout and the TARP legislation, in his view, were enormous mistakes. Polls show many Americans agree.



This is only because most people do not understand the true consequences of a massive financial meltdown involving many of the biggest banks in the country. It would have been the closest thing to financial Armageddon the world had ever seen.

The FDIC has no authority to protect deposits in excess of \$250,000 per person or entity. While this would have been enough to protect more 99% of all individual depositors, it would have left trillions of dollars unprotected in accounts owned by corporations, non-profits, and government agencies. All these



unprotected dollars would have been *vaporized* as soon as the banks failed.

As a consequence, thousands of firms would have been wiped out. Hospitals would have gone broke overnight – through no fault of their own. School districts would have been unable to pay their teachers or their janitors for months, until the next year's

property taxes were collected. States might have been forced to default on their public debts, setting off a panic in state and municipal bond markets, further demolishing what was left of the economy. It would have been, in a nutshell, worse than any financial panic we have ever seen in all of history. Few individuals would have survived unscathed, and hundreds of thousands would have actually *died* as a consequence of the stress caused by losing their jobs and their assets.

The consequences of such an unchecked financial meltdown – the wholesale destruction of much of the liquidity that existed in our banking system -- would have been worse – much worse – than a nuclear attack by terrorists. The deflationary spiral would have continued unchecked for years, as it did during the Great Depression. Eventually, normalcy would have returned, but only after a prolonged period of extreme economic dislocation, social conflict, terrorism, and violence.

There was, therefore no choice but for the Federal government to intervene to save these huge financial corporations. Absolutely no choice. No matter how much it cost, the price had to be paid. Treasury Secretaries Henry Paulson and Tim Geithner understood this, as did Federal Reserve Chairman Ben Bernanke, and that is why they acted as they did.

None of these men is a socialist. Paulson is a centi-millionaire who made his fortune working for Goldman Sachs – not exactly the prototypical background of a socialist revolutionary. All of America's top policy-makers acted pragmatically, violating their own principles, because that was the best way to protect the American people and the American economy.

They did what they had to do, like it or not. In the absence of such pragmatists in key positions of power, the entire edifice of our post-war economy would have collapsed.

The sudden phase shift to corporate socialism was therefore unavoidable in the fall of 2008. We never really had a choice.

What is to be done?

We have inadvertently created a new form of socialist capitalism whether we like it or not – and most of us don't. We have allowed the formation of a new relationship between the state and private economic interests in the U.S. Our choice is to either adjust to this new situation with a new set of ideas, or to turn back the clock to restore the economic system we imagined we had in the past.

The Great Attitude Adjustment, or...

Progressives tend to think there is no going back. Because Progressives are currently in control of both Houses of Congress and the Presidency, we will call their view "Plan A." It boils down to the idea that we must accept the new corporate state and regulate it. It would require sharp limits on executive compensation and/or a major increase in income taxes to equalize incomes between corporate fat cats and ordinary Americans. The new era of corporate socialism also requires an increase in shareholder rights, limitations on corporate interference in elections, and rules about how to break up huge corporations when they absolutely *must* be liquidated.

Plan A is extremely complex and fraught with difficulty, but it is not beyond the capacity of human reason.

...Back to the Future

The other, more conservative approach – Plan B – is to return our economy to what it should have been all along but never really was: free-market capitalism. This is the approach that the amorphous Tea Party movement seems to favor, and it is the approach most conservatives favor at this moment.



Plan B will also be complex and fraught with difficulty. Restoring real competition in every industry where oligopolies or monopolies currently manipulate the market will not be easy. It could be



accomplished only by downsizing dozens or even hundreds of mega corporations that dominate their industries. It would require reregulating the financial sector and breaking up the megabanks: Bank of America, JP Morgan Chase, Citicorp, and Wells Fargo. All would have to be dismembered and their assets sold off to smaller banks. While this would be a *wonderful* thing for shareholders (all of these banks are selling very close to their book values, a remarkably low valuation for such large and profitable enterprises), the public dismemberment of Bank of America, for example, would be adamantly resisted by its executives and their lobbyists in Washington.

And Plan B would afford no viable solution for companies like GM and Chrysler – or Boeing or Caterpillar, should they ever fall into a deep financial hole. Downsizing these gigantic industrial corporations would rob them of the economies of scale that enable them to compete with their gargantuan foreign rivals.

Inevitably, conservatives who Favor Plan B will have to accept the idea that some large industrial corporations are simply going to be Too Big to Fail and there is nothing we can do about that. Should Boeing be broken up into three firms, each making different types of aircraft, just so we can have competition in that global market? These mega industrial corporations must be treated as quasi-public utilities.

And Plan B could be implemented only if Congress gave regulators the power to shrink these mega corporations by selling off their assets. But their management teams would fight tooth and nail to prevent this. They worked so hard to get so large! Corporate execs believe in growth like the Pope believes in the Holy Trinity: it is an article of faith. American corporate executives are trained and programmed to boost revenues and maximize profits. Downsizing is not in the play book. Unless and until a new generation of execs can be trained with a broader view of corporate responsibility – I'm not betting on this *ever* happening – Plan B would be impossible to implement. The behemoth corporations that pose such a threat to our free-market economy would surely resist their own dismemberment. Most would survive by successfully lobbying Congress. Most would continue to dominate their industries, distorting the “free market.” The financial and political clout of the megacorporations would insure Plan B could never be fully implemented.

There is no choice, therefore, but to adopt Plan A.

Brave New World

This is the brave new world we now find ourselves in – the new era of corporate socialism. It does not help us to imagine we have a free market economy when in fact we have had for many years a manipulated market economy dominated by powerful corporate oligopolies. The first step in addressing the issues raised by the new era of corporate socialism is to toss aside the outmoded ideologies that no longer describe the world we are living in. These old ideologies – socialism, free-market capitalism, communism – no longer exist, if they ever did. These old ideas serve only to confuse us about the real issues.

We must face facts as they are, and think in new ways about the challenges – and opportunities – that lie ahead.



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