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Corporate Profits and the Assault on Democracy: A Review Essay

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Corporate Profits and the Assault on Democracy: A Review Essay

Abstract

A critical review discussing *Global Capitalism and the Crisis of Democracy* by Jerry Harris (Clarity Press, 2016), *The One Percent Solution* by Gordon Lafer (Cornell University Press, 2017), *Democracy in Chains* by Nancy MacLean (Viking, 2017), *The Long Depression* by Michael Roberts (Haymarket Books, 2016), and *Global Capitalism and the Crisis of Humanity* by William Robinson (Cambridge University Press, 2014).

Keywords

Corporate Power, Neoliberalism, Critical Review Essay, Transnational Capitalist Class

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Transnational corporations have accumulated what several observers have called a “hegemonic” position of power within capitalist states and within the structures of the global marketplace. An expansion of corporate power has occurred within a global capitalist system beset by profit crises and corporate reorganization. Corporations have restructured their global operations in response to falling rates of profit endemic to capitalism. At the same time, corporations have increasingly attempted to leverage their market power and their political power to compensate for declining rates of profit. That means ongoing efforts to privatize public services, to reduce regulation of corporate activities and to expand the opportunities for global accumulation through expansion of global supply chains. To fully understand the relationship between corporations, the market and the state, we need a holistic analysis that examines the structural crisis of contemporary capitalism as a starting point. Transnational corporations exist within a competitive logic of global capitalism whose very features create recurring crises of profitability. What Marx described as a “tendency of the rate of profit to fall” is the subject of Michael Roberts book, *The Long Depression*, which provides a structural framework for understanding the contemporary capitalist world economy.

Roberts in his first substantive chapter outlines and defends his classical Marxist theory against alternative Marxist, Keynesian and classical liberal (and neoliberal) frameworks. The central aspect of his approach is the theory adopted by Marx in *Capital*, especially a close reading of volumes 2 and 3, which develops the relationship between the organic and variable composition of capital that is used to explain the tendency of the rate of profit to fall in a capitalist economy. In short, Roberts argues that every crisis in capitalism from the late 19th Century to the present can be explained by a falling profit rate that precedes and generates the crisis. He examines data to illustrate a relationship between the organic and variable composition of capital and the tendency of the rate of profit to fall, following a trajectory established by Marx long ago, but subject to considerable dispute among a wide range of contemporary economists, both Keynesian, Marxian and mainstream. Roberts asserts that there is compelling evidence across diverse time periods in capitalist history that profit crises are caused by an inevitable increase in the ratio of the organic composition of capital (fixed costs of capital investment that includes technology, machinery, operating equipment, tools of production) relative to the variable composition of capital (labor).

There are several underlying assumptions of the theory that are essential to the argument. The first is that capitalist profits are dependent on the extraction of surplus value from labor exploitation, which is defined as “variable costs” to the extent that labor exploitation is dependent on getting workers to produce well beyond what they are being paid in wages. The ability of capitalists to increase the rate of exploitation is central to maintaining a profit rate that acts as an incentive to increase capital investment. Capitalists compete against each other in an attempt to maximize their profit rates, which involves efforts to expand market share (relative to other capitalists), increase the productivity of their workers through raising the gap between productivity and wages, and introduce capital-intensive technology (organic composition of capital) in an attempt to increase the production of a finished product. The problem arises, according to theorists of the organic composition of capital theory espoused by Roberts, as capitalists increase their reliance on the organic composition of capital relative to the variable composition. This means that fixed capital costs associated with technology, machinery, tools of production, rise against the costs associated with variable capital (labor), which is the basis of the extraction of surplus value. As more capitalists attempt to increase the utilization of labor-saving

machinery into the production process, the ability to extract surplus value diminishes, thereby generating a tendency for the rate of profit to fall.

The strength of Roberts analysis is his use of statistical correlation to demonstrate a plausible relationship between the increase in the organic composition of capital and the declining rate of profit that precedes major capitalist crises, including the capitalist depressions of the late 19th Century, the Great Depression of the 1930s, the global recession of 1979-1982, and the contemporary “long depression” associated with the capitalist crisis from 2008 to the present, where Roberts spends the majority of his analysis. What is striking about each of these time periods in global capitalist history is their association with major changes in the structure of capitalist production, from the introduction of iron, steel, chemicals, shipbuilding and railroad technologies at the turn of the 19th century to the shift toward assembly line production that characterized the move toward mass production of motor vehicles, machine tools, consumer appliances and armaments that accompanied the period of the 1920s, 1930s and 1940s. Meanwhile the period of the 1970s to the present has seen the growth and application of information computer technology that has facilitated the creation of globalized capitalist production, supply and value networks that have upended previous capitalist production structures. The incorporation of both new technologies and new production methods are compatible with Roberts identification of profitability crises, or lengthy periods of capitalist history where investment in the “organic composition of capital” increases substantially relative to the variable or labor composition of capital, thereby creating a falling rate of profit. For Roberts, these periods are endemic to capitalism as a system.

Critics of Roberts, on both the Marxian and Keynesian front, say that he has a conceptual difficulty demonstrating the separation between organic and variable capital investment. In other words, why does only labor generate surplus value at the point of production? Doesn't the creation of new technological innovations raise productivity beyond the extraction of surplus value in production? What about the complexity of separating technological innovation from the exploitation of labor? In a day and age where profits are closely associated with intellectual property rights held by a corporation, the ability of the organic composition of capital theory to disentangle “dead labor” from “living labor” might strike many observers as problematic. Namely because the introduction of technology into the production process is preceded by a series of steps undertaken by corporations to socialize the cost of acquiring new technology to the public, and to privatize the profits on which this technology is acquired. In other words, the very acquisition of intellectual property rights by a corporation involves acquiring a quasi-monopoly right to a technological innovation. The fact that the innovation often occurs through a range of intellectual and physical labor that is partly subsidized by the public through research institutions, tax credits, infrastructure and education, complicates efforts to distinguish so-called “dead labor” from “living labor.” The capture of surplus value by workers to capitalists goes through a series of mediated steps that are governed by the rules of particular markets that involve class struggle as mediated by states. Where labor is stronger, and public institutions are more robust, the process of public innovation is not captured by capitalists to the same degree. In other words, while I believe that Roberts has captured a central structural dynamic of the tendency of profits to fall over a long timeframe, his framework is less effective in capturing the ebbs and flows of profit rates within each structural cycle.

Despite this shortcoming, there is overarching power in Roberts' formulation. Structural factors appear to explain, over the long term, the increasing convergence of a wide range of nation-states toward similar long-term trends. For example, nation-states that have divergent

histories, diverse institutional cultures, distinct socioeconomic characteristics and different “production profiles” (i.e. the type of goods being produced), have all been experiencing, to varying degrees, declining rates of profits across all the periods that Roberts has theorized. Second, the declining rates of profit identified by Roberts do correspond to measurements he (and others) have used to trace an increased composition of organic capital relative to variable capital. Third, the falling rates of profit precede crisis tendencies in capitalism that capitalist firms then attempt to address through a variety of compensatory mechanisms. These mechanisms include the following: globalizing production across nation-states to reduce labor and regulatory costs of capitalist production (a tendency that began during the latter stages of the long decline in profit rates experienced by the Fortune 500 capitalist firms from 1965-1982); replacing investments in capital with a greater percentage of investments in financial services and speculation (a financialization of capitalist profits that began as a response to the falling rate of profit at the end of the 1965-1982 period, and accelerated with the most recent period of the falling rate of profit from 1998 to the present); and finally a lobbying assault that has eroded public spending on social welfare, labor and business regulations across a range of capitalist states, a process that is associated with the origins of neoliberal capitalism (1980s to the present) but has increased substantially with the most recent crises in capitalist profitability from 1998 to the present.

Roberts’ structural explanations for recurring capitalist crises proves useful in anticipating maneuvers by capitalist firms to restructure their operations in response to crises periods, defined by Roberts as crises of profitability generated by the increased ratio of organic to variable capital composition. But is Roberts’ theory of the cause of the profit crises essential to make sense of it? Or is his theory a broad-brushed explanation that underplays the importance of the crisis of consumption (the Keynesian approach which is also shared by a strand of Marxist theorists associated with the Rosa Luxembourge school)? Or does his theory underplay the central importance of the financialization of capital as a causal factor in capitalist crises? How an argument is sequenced is of crucial importance in determining plausible causation, because the best that Roberts, or any economic historian can do, is to provide evidence of strong correlation that lends credence to their particular theory. I believe that Roberts has accomplished this, but to fully explain the crises of contemporary capitalism, we need more than structural approaches, we need an application of structural factors with instrumental factors. With that in mind, the work of Jerry Harris is of central importance. Harris’ latest book, *Global Capitalism and the Crisis of Democracy*, is the latest publication among many that documents the growth of what Harris, and most notably Leslie Sklair¹ and William Robinson, among others, has identified as the Transnational Capitalist Class (TCC).

The transnational capitalist class emerges from what theorists associate with a crisis of global capitalism in the 1970s. That crisis, analyzed by early adherents of the Gramscian school of international political economy, notably the work of Robert Cox,² was generated by a failure of the previous system of capitalist production to overcome the limitations of a production structure that was concentrated around the nation-state. This system, often labeled Bretton Woods, attempted to limit the flows of financial capital across borders by allowing nation-states to implement capital controls. These controls, according to the pioneering work of Eric Helleiner, were supported by dominant transnational firms until the late 1960s, when leading transnational capitalist groups, including the U.S. based-Committee on Economic Development, began advocating for a relaxation if not elimination of capital controls. Corporations that at one time benefitted from the Bretton Woods system, were for the first time advocating for an easing

of restrictions that would decrease the costs of global investment strategies. It is no coincidence that transnational corporations began advocating for an easing of investment restrictions after facing a crisis of profitability that began in 1965. Transnational firms sought to cooperate with each other by working across nation-states as part of a political project that saw greater capitalist integration as part of the solution to capitalism's profitability crisis. The formation of the Trilateral Commission in 1973, documented in the work of Stephen Gill,³ was one of the first expressions of the political agency of transnational capital, which sought to mediate a global accumulation crisis reflected in the impact of the rising price of global oil and the ensuing stagflation of the Bretton Woods period. The role of the Trilateral Commission came alongside the growth of other transnational capitalist organizations, including the Business Roundtable of the U.S., formed in 1972, and the later emergence of the European Roundtable of Industrialists, formed in 1983. The expression of transnational capitalist interests in Japan was embodied by the emergence of Keidanren. At the same time, transnational capitalist interests were increasingly expressed by firms in the International Chambers of Commerce. This process of transnational accumulation was accelerated by the extent to which previously closed economies in China and Russia emerged as state conduits for the growth of transnational capitalist class interests.

There have been erroneous critiques of the transnational capitalist class theory that Jerry Harris discusses in his most recent book. William Robinson had already produced an extensive response to his critics in his book, *Global Capitalism and the Crisis of Humanity*. Contrary to what some critics have charged, the TCC does not represent a negation of the nation-state, or the elimination of conflict with other sectors of capital and popular social movements and/or governments that may emerge to challenge the prerogatives of transnational capital. Instead, the emergence of powerful fractions of the TCC has occurred within an uneven, contested and ongoing negotiation between the TCC, nation-state bureaucracies and other fractions of capital and, at times, oppositional social movements based in civil society. What Harris and Robinson have argued, though, is that the TCC has emerged as politically hegemonic within nation-states and within supra-national institutions that have become increasingly powerful in establishing the norms for global governance. The ability of TCC actors to leverage their political and economic power is both due to the changing structure of global capitalism as well as the active agency of the TCC itself. Transnational capital is integrated by a global structure of production and accumulation that has been determined by the ascendancy of TCC power within the marketplace and within the nation-state. Transnational investors led by financial interests have integrated global markets and production structures to produce webs of interconnected profit-making investors that I have labeled transnational interest blocs. My debt to the TCC theory has been well-documented in my previous work, but the difference is that I see the emergence of a truly integrated TCC as incomplete. Instead I describe "transnational fractions" of corporate interest blocs whose orientation to profits is constrained, predicted, and guided by longstanding relationships with particular nation-states and within regional networks of accumulation. In my formulation, transnational firms have not lost their ties to nation-states entirely, but have used their longstanding relationship with powerful states (their "home base") to transition toward transnational accumulation strategies that involve competition with other transnational firms, which I describe as "transnational interest bloc" competition. I share with TCC theorists the understanding that the ties between transnational interest blocs and nation-states have been fluid and shifting, so that, as with the concept of TCC, transnational interest blocs are quite willing to shift their locus of activity from one state to another, depending on a calculation of which

relationship gives the interest bloc the greatest avenue for profit-making. The difference between my own formulation and the TCC theory is one of subtle degree: I emphasize less a globally integrated TCC, indeed I reject the utility of the concept, in favor of a looser conception that I call “transnational interest bloc,” to highlight my analytic preference for the extent to which interest bloc actors are more competitive, conflicted and less organized than the TCC theorists would allow for.⁴

That being said, I am in complete agreement with the Robinson and Harris formulations regarding the following propositions, outlined in their recent books. First, the rise of transnational capitalist hegemony within the governance of nation-states has generated a “crisis of democracy.” That is, civil society interests within nation-states have steadily lost ground to powerful transnational corporations which utilize nation-states to further transnational profits tied to global accumulation strategies. Political party labels have lost all meaning as both self-described “socialist” and “conservative” parties have adopted the policies most favored by sectors of transnational capital. This has created a deepening crisis of legitimacy for Western capitalist states in particular, whose nation-states are most directly implicated in working to facilitate the conditions for profitable accumulation by transnational capital. The use of neoliberalism as an ideology to promote transnational capitalist accumulation strategies has accelerated the legitimacy crisis. The governments of nation-states in the U.S. and Western Europe are, in most cases, experiencing a steady decline in popular support, exemplified by the rise of far right parties that have often successfully challenged established orthodoxies and institutions. The relationship between these far right parties and neoliberalism has often been misunderstood, however, as Robinson and Harris make clear in their analyses. Neoliberal capitalists have sought to delegitimize the state to reduce regulatory and taxation barriers that interfere with further capitalist accumulation. That has redirected more of the state’s functions toward corporate welfare, and less toward social welfare for the working class and poor. The result has been a backlash led by ultra-rightist or neo-fascist groups that cannot be easily controlled or managed by transnational capitalist groups. These groups redirect the blame for the contemporary capitalist crises away from corporations and toward the most vulnerable groups in society: minority groups and immigrants in particular. In this regard, the far right is less threatening to transnational capital than left-wing movements would be. Indeed, neo-fascist movements are often complementary to transnational capitalist profits in helping to prop up a military-industrial-prison-intelligence complex that can then police the growing underclass with the use of force.

Furthermore, as Harris and Robinson have argued, the emergence of the far right is directly connected to the policies that have been promoted by transnational capitalists over the past 40 years: privatization of public services; austerity measures that have provided tax cuts and subsidies to the rich and to corporations while gutting public services for the working class and poor; investment agreements that enhance the power and privileges of corporations across state borders; attacks on unions spearheaded by transnational capitalist organizations; and the weakening of democratic institutions in favor of unaccountable corporate decision-making structures, evident in both the U.S. and the European Union. These policies have contributed to a widening global gap between rich and poor, and have been pursued in tandem with tougher immigration restrictions, enhancement of police and security services and defense budgets, and military interventions in the developing world. Faced with an increasingly precarious and growing division between rich and poor, capitalist governments in the West face a legitimacy crisis of stark dimensions. As the late political scientist Peter Mair⁵ had long observed, and as

others such as Wolfgang Streeck⁶ have documented extensively, there is an erosion of democratic accountability in Western capitalist governments that has led to a steady decline of legitimacy for governing institutions and dominant political parties.

Fueling the legitimacy crisis, transnational corporations have waged a steady ideological and political war to delegitimize government policies that do not serve corporate or private interests. Nancy MacLean's new book, *Democracy in Chains*, examines the ideological roots of a radical corporate neoliberal strategy to "deconstruct" government in the U.S. MacLean profiles the work of economist James Buchanan, whose public choice theory was developed as a PhD student at the University of Chicago and while he was a Professor of Economics at the University of Virginia from 1956 through 1968. MacLean argues that Buchanan's public choice approach was heavily inspired by the Austrian "neoliberal" or libertarian school of economics associated with the work of Ludwig von Mises and Friedrich Hayek, among others. Public choice theory rejects the notion that governments ever pursue programs in the "public interest." Instead, Buchanan argues that government bureaucracies and special interests reap "profits" or "rents" from government programs. In this view, politicians and government bureaucrats are not public servants, but instead rational actors pursuing their own individual interests by expanding government programs to benefit themselves and a few well-positioned clientele or special interests. Buchanan critiques majoritarian democracy as creating the conditions for a permanent expansion of government bureaucracy, which is fueled by the proliferation of special interests masquerading as the public.

The end result, according to MacLean, is a view of government as existing largely in competition with rational actors in the private sector who seek to maximize their return on their money, investments and talents. The difference between government employees and private sector entrepreneurs, in this perspective, is that the private sector creates the societal wealth that the government taxes and distributes as "rent" to special interests which live off the wealth creation of others. According to MacLean, Buchanan's theory operates in tandem with a libertarian orientation that sees the expansion of government as a threat to the private market economy and to those that drive wealth creation under capitalism: entrepreneurs themselves. Buchanan's work provided ideological fodder for those fighting against a more activist government, including those in Virginia who opposed the Supreme Court decision *Brown vs. Board of Education* in 1954, which held that segregated schools were unlawful. Buchanan became deeply engaged in supporting (a failed) privatization of the Virginia school system as a political response to *Brown vs. Board of Education*, a stance which provides a sharp illustration of his own preference for the private sector over "government interference" in the market, whether on racial grounds or any other grounds.

MacLean persuasively connects the legacy of James Buchanan to a much more robust and powerful libertarian movement of think-tanks, corporate elites and politicians who have railed against government expansion as the foremost problem confronting contemporary societies. For example, the movement known as "neoliberalism", although not exactly the same as libertarianism, has its roots in libertarian ideology, linking back to Buchanan and his antecedents in the school of Austrian economics and the University of Chicago. During the last phase of his career, Buchanan was employed at George Mason University, alongside his longstanding Center for the Study of Public Choice, whose position papers and scholarship would be closely connected with the emergence of corporate neoliberalism during the 1980s. The environment of the 1980s proved to be more hospitable to Buchanan's ideas than was the case in previous decades. Corporations provided funding for a wide range of right-wing and

libertarian think-tanks and lobbying organizations during the 1970s and 1980s, contributing to an environment that was very conducive for the spread of radical libertarian ideas.

If there is a flaw in MacLean's book, it is a far too narrow focus on particular ideologues associated with the libertarian movement. What goes largely unexplored are the structural reasons that help explain the expansion of corporate lobbying efforts during the 1970s and 1980s. The context in which Buchanan's ideas could move from the fringes of U.S. society to the center of policy debates in contemporary U.S. politics deserves more acknowledgment, especially given the large body of scholarly literature that critically examines the expansion of corporate power. While MacLean writes a book largely focused on individuals, the recent book by Gordon Lafer examines the broader structures of corporate power by locating recent policy changes within the arena of corporate lobbying networks. Lafer provides compelling evidence that the global capitalist crisis of 2008 provided an opportunity for well-funded corporate lobbies to dominate the policy-making agenda at the state level in the U.S. Lobbying organizations led by the American Legislative Exchange Council, the Chamber of Commerce, the National Federation of Independent Business, National Association of Manufacturers, and Americans for Prosperity have advanced a radical right-wing corporate program through lobbying efforts at the state level. The sum total of their work has included corporate financing to help create gerrymandered districts that would increase the proportion of right-wing state legislators and right-wing Congressional representatives sympathetic to "deconstructing the state," and in the process make state policy captive to well-organized business interests. Corporate lobbies have been at the forefront in advancing and writing legislative policy at the state level that has reduced taxes on corporations and the wealthy, reduced the scope and scale of business regulations, weakened public sector unions, reduced pensions for public sector workers, and made it much harder for private sector workers to unionize.

The ability of corporate lobbies to translate the one-time fringe ideas of the libertarian right-wing into active public policy is a product of both the structure of capitalism and the agency of individual capitalists and capitalist lobbying networks and think-tanks. The Roberts, Harris and Robinson books provide us with a big picture analysis that allows us to see the extent to which the crisis of global capitalism has led to capitalist reorganization of power within the state and within the market. The more specific case studies of Nancy MacLean and Gordon Lafer analyze the history and contemporary impact of radical corporate ideology on policymaking in the U.S. All are important contributions to the knowledge of citizen-activists who will need to be well-positioned to counter corporate power and their well-paid ideologues in global capitalist system.

¹ Leslie Sklair, *The Transnational Capitalist Class*, Wiley-Blackwell, 2000.

² Robert Cox, *Production, Power and World Order*, Cambridge University Press, 1987

³ Stephen Gill, *American Hegemony and the Trilateral Commission*, Cambridge University Press, 1992.

⁴ Ronald W. Cox, ed., *Corporate Power and Globalization in US Foreign Policy*, Routledge Press, 2012. See the concluding chapter for a development of my concept of "transnational interest bloc." Also see my article, "Transnational Corporations, the US State and Latin American Trade Agreements," *Third World Quarterly*, Vol. 29, Issue 8, 2008, pp. 1527-1544.

⁵ Peter Mair, *Ruling the Void: The Hollowing of Western Democracy*, Verso, 2013.

⁶ Wolfgang Streeck, *Buying Time: The Delayed Crisis of Democratic Capitalism*, Verso, 2014.