S
ince the mid-eighteenth century the
development of market-based societies
in America and elsewhere, with consti-
tutional protections of property and
freedom, has had startling effects. Well over
90 percent of the improvement in the mater-
ial living standards of ordinary persons that
has occurred in the 6,000 years of recorded
human history has occurred in that last 250
years and in those nations. Mean life
expectancy in the United States rose from 35
years in 1800 to 50 in 1900, and around 76
in 2000. Famine in such nations disappeared
and many diseases were conquered. All this
resulted from replacing the caste and status
relationships of medieval society with con-
tract relationships between mutually con-
senting adults, while restricting the power of
government to enforcing contracts, provid-
ing national defense, preventing crime, and a
few other basic functions.

Despite the enormous gains this form of
social organization generated for ordinary
people, particularly in America, a political
and ideological reaction began after the Civil
War, when industrialization was proceeding
rapidly, and lasted more than a century. A
key claim of the partisans of this view—who
originally called themselves Progressives—is
that large corporations not only dominate
capitalist society economically, essentially
abolishing market competition, but also
dominate the political system. So most, if not
all legislation, serves the wealthy corporate
interests. Karl Marx may have originated this
argument, but to this day, shorn of its Marx-
ist metaphysics, it is the majority perspective
among the intellectual and political classes in
America. Even many conservatives, and a
few libertarians, adhere to this perspective.

Most staunch free-market advocates and
political libertarians argue, to the contrary,
that the dominant political and ideological
impulse of the twentieth century in America
and the West has been statist and anti-
capitalist. In this view the “corporate domi-
nation” argument is simply a key element in
that statist ideology, used to justify legisla-
tion enhancing governmental power and
reducing human freedom. In an essay pub-
lished several decades back, Ayn Rand made
the connection clear when she wrote: “Every
movement that seeks to enslave a country,
every dictatorship or potential dictatorship,
needs some minority group as a scapegoat
which it can blame for the nation’s troubles
and use as a justification of its own demands
for dictatorial powers. In Soviet Russia, the
scapegoat was the bourgeoisie; in Nazi Ger-
many, it was the Jewish people; in America,
it is the businessmen.”1 Rand went on to
claim, with some justification, that business-
men, big businessmen in particular, were
America’s most persecuted minority, using
the inequities of the antitrust laws to illus-
trate her argument.

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Certainly, things are somewhat more complicated than Rand claimed in that essay. One need not believe that an all powerful conspiracy of international bankers and wealthy capitalists lies behind the statist movements of our day to recognize that businessmen have often supported extensions of state power. This was particularly so in the decades after World War I. Woodrow Wilson had centralized power in Washington during the war and exercised regulatory command and control over the economy. He drew many corporate executives into the government to operate the bureaus he created, and many of them found they preferred issuing and enforcing orders over attempting to motivate and manage voluntary, contractual employees, who could quit at will.

Thus some big-business executives came to the same elitist, technocratic view held by most intellectuals and academics: that ordinary people are too ignorant to run their own lives, much less largely determine, through their consumption and employment choices, the allocation of resources in society. It follows, in this view, that experts should run things by fiat, maintaining only a thin veneer of democracy and free markets. Franklin Roosevelt drew heavily on this pool of statist business executives to staff his administrations during the Great Depression.

Economists have also found reason to recognize that businessmen often act to extend government power and attenuate market competition. George Stigler developed the economic theory of regulation in the late 1960s, arguing that, instead of regulation being imposed on industries in genuine democratic response to the desires of oppressed and abused consumers, firms often actually seek government regulation in an effort to gain monopoly or cartel powers they cannot obtain by market methods. The historian Gabriel Kolko, in a detailed study of the Progressive era, made a similar argument a few years before Stigler. Rand herself, in many of her works, recognized the existence of such corrupt businessmen. Thus statist and corporate interests and ideology may converge at least to some degree, leaving a limited-government, free-market perspective as the only logical opposition.

Temporary Allies

Still, businessmen and statists can at best be temporary and uneasy allies. The majority of businessmen are honest, and unlike the intellectual, academic, and bureaucratic classes in America, where a statist view dominates, business interests are too diverse to generate a consistently statist legislative impulse. Some import-competing businesses, for example, will lobby for government to pass a tariff to raise the price of a product they sell domestically. Other businesses that use that product as an input, however, will oppose the tariff. Also, attitudes of firms toward regulation sometimes reverse. The airline industry sought the creation of the Civil Aeronautics Board and the airline cartel in the 1930s. But when their profits were absorbed by airline unions in the 1970s and many airlines were frustrated by the CAB in their efforts to compete on particular routes, much of the industry supported deregulation. Business groups donate to all influential parties and political groups, unlike labor unions, which donate exclusively to statist groups. Much business lobbying is essentially defensive, aimed at staving off oppressive and costly regulation, often unsuccessfully.

Most of the basic legislative structure in America conflicts with the view that legislation is dominated by wealthy corporate interests. Consider the tax structure. If such interests dominated, would the Sixteenth Amendment ever have been adopted? Would the personal income tax it allowed Congress to establish have become progressive, with a top rate that at times has been as high as 90 percent? Would over 70 percent of all revenue collected through the personal income tax come from the top 20 percent of income-earning families, as it has since the mid-1990s?

Again, if the wealthy corporate interests dominated government and legislation, would there ever have been a corporate income tax? Such a tax, levied on the net
income of firms before distribution to investors, actually taxes the incomes of stockholders twice. That is because all the net income of the firm is generated by capital supplied by those investors, whose incomes are then taxed again, through the personal income tax, after distribution through stock dividends. As a result, the actual tax rate on investor income is enormously higher than the stated personal income tax rate. Certainly, rational capitalists would not have allowed such a grossly unfair and costly law to pass had they the power to stop it. The corporate income tax disadvantages corporations relative to other forms of business organization, such as partnerships and proprietorships, which suffer no such double taxation. If wealthy corporate interests dominated our political system, would they ever have allowed such a thing?

Similarly, would they have accepted a law compelling businesses to withhold the taxes of employees? Income-tax withholding forces firms to act as tax collectors for the government at their own expense. This is done without compensation of any kind, in violation of the Fifth Amendment takings clause of the Constitution, and against their wills, in violation of the Thirteenth Amendment injunction against involuntary servitude. Withholding imposes an economic burden that corporate or other business interests would not have willingly accepted had they the power to prevent it. Do not such policies in fact reflect an anti-capitalist animus?

**Corporate Control?**

The notion that a corporate elite dominates the nation politically presumes also that large corporations are able to control prices, output, and entry in their industries on an enduring basis, as John Kenneth Galbraith has long claimed. Though in some industries this has clearly occurred, precisely through corporate lobbying to secure franchises and monopoly or cartel protection (the electric utilities are a good example), there is precious little evidence of any successful system-wide abolition of competition. Precisely the opposite seems to be the case. The turnover of dominant firms in particular industries is far too high, and the market shares of firms in concentrated markets far too unstable year to year, to support any view that being top dog guarantees continued dominance. Add to this the rapid and constant innovation we observe, and such turnover and market-share instability indicates that most firms gain large market shares by satisfying customers with lower priced and/or higher quality products than their competitors, and lose share when they stop doing so.

The evidence regarding macro concentration points to the same conclusions. Any simple comparison of the Fortune 500 lists of the largest industrial corporations in 1980, 1990, and 2000, for example will impress an observer with the impermanence of corporate domination. Likewise, Gary Quinlivan recently compared the *Wall Street Journal* lists of the world’s top 100 firms ranked by market value for 1990 and 1999, and found that there were 66 new firms in the 1999 list. He also reports that the United Nations, comparing lists of the top 100 nonfinancial multinational corporations for 1990 and 1997, found a 25 percent turnover. This is less impressive than the *Wall Street Journal* comparison, but still an enormous turnover of top firms in just a few years.

Using data available in the 1986–to–1996 editions of the *Statistical Abstract of the United States*, I recently found some remarkable changes in U.S. macro concentration between 1980 and 1993. The 500 largest industrial corporations in the United States employ a large fraction of American workers, embody a large part of our productive assets, and produce a large share of our aggregate output. Over those 13 years, however, the assets of the top 500 industrial firms, as a share of total corporate assets, fell by over 20 percent. Employment in the top 500 firms, as a share of total employment in the country, fell even more, by 29 percent. And most amazing of all, the share of gross domestic product generated by those firms fell by an astonishing 39 percent over that short period.
Clearly, the turnover in any list of the largest corporations is inconsistent with the naïve view that large firms are able to abolish competition and insure their continued dominance. So is the evidence on the output, employment, and assets of large firms in the aggregate. Assets, employment, and market share have clearly shifted significantly to small- and medium-sized firms in the last two decades. Such firms have competed with increasing success against larger corporations in a computerized and internationally integrated economic environment. Would any economically and politically dominant class of wealthy capitalists in big corporations have allowed such an enormous decline in their relative wealth and power to occur if they could have stopped it?

In fairness, it should be noted that these economic events are also not entirely consistent with the view that the statist and anti-capitalist ideology held by most members of the intellectual, academic, bureaucratic, and media elites still dominates the legislation process. Certainly that was true for most of the twentieth century, as illustrated in the graph showing both federal government expenditures (FGE) as a fraction of gross national product and the sum of federal and state expenditures as a fraction of GNP from 1929 to 1990. The data come from various volumes of The Economic Report of the President, which is issued annually by the President’s Council of Economic Advisers. The growth in FGE/GNP, from about .025 (or 2.5 percent) in 1929 to .233 in 1990, nearly ten times as large, clearly, if imperfectly, documents the size and growth of the leviathan state.

Since about 1980, however, the ideological and political grip of statism has begun to loosen. Statist policies of regulation and income redistribution have visibly failed. Slowly, some of the statist fetters have been lifted from the economy, allowing entrepreneurship and economic growth to continue. Federal outlays actually fell from 21 percent of gross domestic product in 1994 to only 18.8 percent in 1999 (GDP replaced GNP in the National Income and Product Accounts after 1990). This nearly 10.5 percent decline in the relative size of government, and commensurate release of resources to the private sector, more than any other thing, accounted for the rapid economic growth of the late 1990s. Many statist policies still advance, of course. Things hang in the balance, but the tide seems to have incrementally turned toward restoration of a freer society. Whether that trend will continue or be deflected in a statist direction again by the terrorist attack of September 11 remains to be seen.