WEALTH, POWER, AND THE CRISIS OF LAISSEZ FAIRE CAPITALISM

DONALD GIBSON

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CHAPTER ONE

Serving Property or Promoting the General Welfare

Since the beginning of the country's existence there have been intermittent and often lengthy conflicts over what should shape the country's future. On one side have been those who embraced the idea that governmental powers could be used to shape, support, stimulate, or influence economic and social processes in order to promote the general welfare. On the other side have been groups who have argued that the future of the country is best left in the hands of those who control private wealth and property. Markets have often been represented as a mechanism by which private interests would be transformed into public good through the setting of prices and the rational allocation of resources.[1] These conflicts and this rivalry have been more subtle than that involving the global clash between socialism and capitalism, but in some ways, more profound and lasting. This rivalry has not been so much about property, profits, and markets as it has been about the purposes of our decisions, actions, and policies.

The arguments and specific issues have changed over time. Those arguing in favor of the wisdom of conscious national action to achieve specified goals have produced a fairly consistent and coherent tradition. This is not as true on the other side. There have been major changes in the nature of those speaking for property and markets, as well as changes in the nature of the property and markets. Wealth was rooted in agriculture and trade in the early decades of U.S. history and more in finance and industry in later times. The scale of private wealth changed dramatically in the post–Civil War period as massive private fortunes were created. The owner-operator was replaced in positions of private economic power by the investor and financier. This fundamentally changed the economy. At the end of the 1800s the upper class began organizing itself nationally into a private force that could not only influence government, but also was itself a form of private government. Also, beginning in the late 1800s the upper class in the United States began to assert its role in new and more aggressive ways outside of the nation. They began in the 1890s the process that led to the "globalism" of recent decades.

Although the nature of the private forces has changed in significant ways, there is still some continuity in the opposition those forces have displayed toward many of the uses of government. The forces of private wealth and power have opposed government actions that they did not like based on arguments about the sanctity of property, the ultimate wisdom of market forces and the profit motive, alleged dangers to individual freedom, or the need to protect the natural order of things. Underlying all of this are fundamental issues. Is it necessary or desirable for the majority of people to impose their purposes and desires on the workings of the society, or should that be left to property, profit, and the forces of the market place? In this choice is ultimately the choice between a democratic republic and an oligarchic society.

What follows is an exploration of key ideas, conflicts, and developments with an interest in clarifying the current situation. The purpose of this book is to illuminate a strand of American thought, sometimes referred to as the American System, that played an important role in the use of governmental powers to bring about economic progress. It is intended to clarify the conflict between that strand of thought and the numerous expressions of narrow, private interests that were given coherence in the laissez faire ideas of Adam Smith and John Locke. Along the way, I also hope to clarify the role of certain upper-class interests in some of the critical events of our history. This is not a chronicle of the conflicts between the American System and laissez faire. It is an analytical examination and elucidation of some of the conflicts, either in the realm of ideas or of policies and programs. This book provides some explanation of important events and developments, but it is not the history of such events and developments. We will end up with an examination of the laissez faire offensive that began in the 1970s in domestic policy and somewhat earlier in foreign policy. That will bring us to the crisis of laissez faire and to the most critical problem facing President Barack Obama.

A Solid Foundation

Two possible directions for the country were articulated in the period during and soon after the American Revolution. The two views played a central role in debates over national policy in the years after the Constitution was adopted. Our examination of them will give us a foundation for understanding everything that follows in this book and much of what has transpired in U.S. history. The debate involved two of the most famous names in Western history: Adam Smith and Alexander Hamilton. The debate revolved around several basic issues: the role of government in society and economy, the desirability of giving direction to economic affairs, and the wisdom of promoting domestic manufacturing. Behind these was the fundamental question—should people take charge of their future through carefully planned policies and laws or entrust the future to private interests and the forces of the market? Although the nature of those private interests would change in dramatic ways during the next two centuries, this fundamental question would remain in many ways the same. The ideas of Alexander Hamilton would become the core of what later in the nineteenth century was known as the American System, an approach to national affairs that reappeared in the New Deal and the policies of President John F. Kennedy. Adam Smith's ideas were an important part of British liberalism, or what we would call today laissez faire or free market or free enterprise conservatism.

Smith

Against the Hamiltonian idea of using government to shape economic affairs, an idea accepted in some form in Adam Smith's England during the 1700s, Smith argued for reliance on the individual seeking private gain in a market system as little influenced by government as possible. The self-seeking individual ends up serving the greater good.

According to Smith:[2]

> Every individual is continually exerting himself to find out the most advantageous employ for whatever capital he can command. It is his own advantage, indeed, and not that of society which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society.

In this view, self-interest is the same as social or national interest. The individual is someone who employs capital, that is, an investor, not the industrialist or entrepreneur or technological innovator. Smith[3] elaborated in the following:

> It is only for the sake of profit that any man employs a capital in the support of industry; and he will always, therefore, endeavour to employ it in the support of that industry of which the produce is likely to be

> of the greatest value, or to exchange for the greatest quantity either of money or of other goods.

It is important to note that Smith uses the term "industry" to refer to any activity that yields a profit. It had no necessary connection to the production of physical goods.

> But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavors as much as he can to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to produce an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.[4]

The way to measure a society's output is not in the numbers of houses built or kilowatts of energy produced; it is in the exchangeable value of whatever is bought and sold. A billion dollars in gambling casino receipts counts as much as a billion dollars in machine tool sales. Smith continued:

> What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation judge much better than any statesman or lawgiver can do for him. The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and

> which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.[5]

The individual investor, not someone claiming to act on behalf of the nation, knows best where capital should be invested. No leader, council, or senate knows as well as the self-interested investor where capital should be invested. Smith then went on to warn against the regulation of trade:

> To give the monopoly of the home-market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation. If the produce of domestic can be brought there as cheap as that of foreign industry, the regulation is evidently useless. If it cannot, it must generally be hurtful. It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. The taylor does not attempt to make his own shoes, but buys them of the shoemaker. The shoemaker does not attempt to make his own clothes, but employs a taylor. The farmer attempts to make neither the one nor the other, but employs those different artificers. All of them find it for their interest to employ their whole industry in a way in which they have some advantage over their neighbours, and to purchase with a part of its produce, or what is the same thing, with the price of a part of it, whatever else they have occasion for.[6]

In this example, Smith thinks or asks the reader to think that a nation has the same capability for diversified economic activity as does one person (the taylor or shoemaker). This ridiculous idea is carried over into the next paragraph as the proposed basis for national economic policy:

> What is prudence in the conduct of every private family, can scarce be folly in that of a great kingdom. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of our own industry, employed in a way in which we have some advantage. The general industry of the country, being always in proportion to the capital which employs it, will not thereby be diminished, no more than that of the above-mentioned artificers; but only left to find out the way in which it can be employed with the greatest advantage. It is certainly not employed to the greatest advantage, when it is thus directed towards an object which it can buy cheaper than it can make. The value of its annual produce is certainly

> more or less diminished, when it is thus turned away from producing commodities evidently of more value than the commodity which it is directed to produce. According to the supposition, that commodity could be purchased from foreign countries cheaper than it can be made at home. It could, therefore, have been purchased with a part only of the commodities, or, what is the same thing, with a part only of the price of the commodities, which the industry employed by an equal capital would have produced at home, had it been left to follow its natural course. The industry of the country, therefore, is thus turned away from a more, to a less advantageous employment. And the exchangeable value of its annual produce, instead of being increased, according to the intention of the lawgiver, must necessarily be diminished by every such regulation.[7]

By this reasoning, a country should never seek to produce in the future what is currently available from other countries at a price below what it would currently be if produced at home. Unless one can produce today at the world's lowest price, no effort ever should be made to produce that product.

> By means of such regulations, indeed, a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign country. But though the industry of the society may thus be carried with advantage into a particular channel sooner than it could have been otherwise, it will by no means follow that the sum total, either of its industry, or of its revenue, can ever be augmented by any such regulation. The industry of the society can augment only in proportion as its capital augments, and its capital can augment only in proportion to what can be gradually saved out of its revenue. But the immediate effect of every such regulation is to diminish its revenue, and what diminishes its revenue is certainly not very likely to augment its capital faster than it would have augmented of its own accord, had both capital and industry been left to find out their natural employments.[8]

Here Smith argues that no new money or credit can be created to finance investment or growth and, therefore, any money used for that purpose is a loss to the economy that can never be made up. He went on with this line of thinking, arguing that it never makes sense to regulate trade in order to promote domestic production:

> Though for want of such regulations the society should never acquire the proposed manufacture, it would not, upon that account, necessarily

> be the poorer in any one period of its duration. In every period of its duration its whole capital and industry might still have been employed, though upon different objects, in the manner that was most advantageous at the time. In every period its revenue might have been the greatest which its capital could afford, and both capital and revenue might have been augmented with the greatest possible rapidity.[9]

Here it is not the long-term ability to produce things that is important, but rather it is the short-term maximization of profit. It is clearly implied that countries have no real reason to attempt to modernize and develop or diversify.

> The natural advantages which one country has over another in producing particular commodities are sometimes so great, that it is acknowledged by all the world to be in vain to struggle with them. By means of glasses, hotbeds, and hotwalls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expence for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland? But if there would be a manifest absurdity in turning towards any employment, thirty times more of the capital and industry of the country, than would be necessary to purchase from foreign countries an equal quantity of the commodities wanted, there must be an absurdity, though not altogether so glaring, yet exactly of the same kind, in turning towards any such employment a thirtieth, or even a three hundredth part more of either. Whether the advantages which one country has over another, be natural or acquired, is in this respect of no consequence. As long as the one country has those advantages, and the other wants them, it will always be more advantageous for the latter, rather to buy of the former than to make. It is an acquired advantage only, which one artificer has over his neighbour, who exercises another trade; and yet they both find it more advantageous to buy of one another, than to make what does not belong to their particular trades.[10]

By this account, it is just as difficult to build a new industry as it is to change part of the world's climate. Arguments about grapes, wine, and climate were used by Smith, in effect, to eliminate debate about producing versus importing steel. He has used an unchangeable to justify not changing the changeable.

We can reduce much of this discussion so far to a series of propositions or assertions. For Smith, and for those he spoke for, the success of an economy is measured by its annual revenue, that is, the total exchangeable value produced by its industry (which is anything producing exchangeable value). Success of an economy or of an employer of capital is measured by the amount of revenue produced, not by physical production. As we will see, this is the theory that has guided economic practice and government policy at various times, notably in the United States since the 1970s. In Smith's view, people will always seek maximum return on investments. The individual naturally "employs his capital" where it will create the greatest value and this increases the value created by society. Judgments about what is of the greatest value should be left to individuals. This is part of the working of the "invisible hand" wherein the increase in value for society is a by-product of self-interested activity. The individual "neither intends to promote the public interest, nor knows how much he is promoting it."[11] In order to achieve the maximum increase or augmentation of capital, it should always be applied where it currently achieves the greatest increase. New money or credit created to develop new industries is not part of Smith's version of economic processes. It is a strangely frozen and zero-sum world that Smith conjures up. Finally, according to Smith, individual investors naturally find domestic industry a safer place to put investment than foreign locations.

Smith acknowledged the value of machinery and technology, but he never gives them a central role in his analysis.[12] In numerous ways he relegates them to a secondary if not irrelevant status. According to Koebner,[13] Smith was "unfavorably disposed towards manufacturing and had little or no interest in the promotion of technology, but was intensely interested in money transactions and soil conservation." For example, when Smith discussed average wages of labor and what determines those averages, he did not relate that to technology or to the role of technology in increasing labor power.[14] He connected increases in "the productive powers" of labor to the division of labor but not to technology or machinery.[15] When Smith talked about the total production of society's labor, he did not talk about it in terms of physical wealth or output or production, but rather in terms of the total price at which it is sold.[16] He broke down price into wages, profit, and rent, leaving out physical capital. When he talked about fluctuations in price, he focused only on short-term changes, allowing him to avoid the role of technological progress in long-term changes in price.[17] Instead of thinking about how technology brings down these real prices, he thought about value and price in terms of immediate exchanges.[18] When he talked about the systems that enrich people, he referred to commerce and agriculture, giving science, technology, and manufacturing, at best, a subsidiary status.[19]

The individual, according to Smith, is close to a situation and knows best where capital should be employed. No statesman or lawgiver should "attempt to direct private people in what manner they ought to employ their capitals." This admonition reflected Smith's ideas of government, ideas essentially rooted in the outlook of John Locke. According to Smith,[20] the sovereign should never attempt to control or influence the economic decisions of private individuals and should limit itself to three tasks: (1) national defense; (2) protecting us from each other and administering justice; and (3) taking care to maintain "certain public works and certain public institutions" that are needed and do not attract individual investments. This is one of the earliest statements of the laissez faire view.[21] A primary component of item 2 was the protection of property, something Smith allowed might be the reason governments are instituted.[22] Smith did support, perhaps surprisingly, a progressive tax.[23] He went on to assert that expenditures to facilitate commerce (roads, ports, etc.) should be made by private interests where possible, by local government if government is needed, and in response to existing needs.[24] This made government a reactive force, not a leading one as in the American System approach. In general, Smith[25] thought that private capital was always used for productive (meaning revenue) purposes, while government usually maintained "unproductive labourers."

Any attempt to control or regulate trade to promote domestic industry is the kind of attempt to direct private people in decisions on how to employ capital that Smith warned against. Smith admonished that societies should never "make at home what it will cost him more to make than to buy" from abroad. This allows for no concept of long-term development in production. Smith used a completely inappropriate comparison between an individual and a country, suggesting they are comparable when in fact an individual can only do a limited number of things while a country can do many different things. This comparison that Smith made in several examples is not in any way valid or even reasonable. Smith also confused two entirely different sources of economic advantage, climate and level of technological development, implying that for policy purposes they be treated as the same. One is, of course, natural and unchangeable, the other subject to conscious change. These strange arguments are then parlayed into an argument on trade, which says that countries should do forever whatever they do profitably in the present. Again, there is no conception of economic development or progress.

Smith made what to many people is the amazing argument that even if a manufacturing industry is created through the uses of taxes and regulations, it is not worthwhile because it means that in the short term, capital, meaning here money or precious metals, is not augmented or increased as fast as it could be. This excludes all possibility of creating "capital" and also says that no short-term sacrifice is ever justified by its role in long-term development. Smith claimed that if you lose revenue in the short term by protecting domestic industry, you can never make that up. Along these lines he also made the case that countries should do whatever they are currently doing that is profitable, even if their current activities are a result of earlier policies and changes rather than natural conditions. Again, these are arguments in favor of the status quo with not only no concept of development or progress but also, in fact, these are arguments against any attempt by society or government to develop its industries. In that way, Smith's arguments actually shared with mercantilism, as practiced by England, the same goal—preserving England's then-current upper hand by, in this case, admonishing less developed countries to accept their situation.[26] This was compatible with the preoccupation of economists in the eighteenth century with the exchange of wealth rather than its creation.[27]

Smith implicitly criticized England's colonial economic policy but explicitly advised other countries to accept the colonial economic relationship. On the one hand, Smith[28] observed that

> while Great Britain encourages in America the manufactures of pig iron, by exempting them from duties to which the like commodities are subject when imported from any other country, she imposes an absolute prohibition upon the erection of steel furnaces and slit-mills in any of her American plantations. She will not suffer her colonists to work in those more refined manufactures even for their own consumption; but insists upon their purchasing of her [Great Britain's] merchants and manufactures all goods of this kind which they have occasion for.

Smith observed that England was open to agricultural products, raw materials, or products of "what may be called the very first stage of manufacture" but reserved for the homeland the production of the "more advanced or more refined manufactures."[29] To this end, high duties on imports to England or out and out prohibitions in the colonies were used to prevent the development of production in the colonies.

Smith, in an illogical manner, recommended that those trading with England should accept their role. Specifically, he asserted that the progress of American colonies was due to their reliance on agriculture, and he argued that any attempt to divert capital to manufacturing would "retard instead of accelerating the further increase in the value of their annual produce, and would obstruct instead of promoting the progress of their country towards real wealth and greatness."[30] At another point, Smith said that if countries would just accept their trade position then England could avoid the high costs of maintaining colonies.[31] Smith was writing against the backdrop of 100 years of British mercantile policy.[32] The protectionist aspect of this did not clearly emerge until about 1722. Until then, tariffs were used to generate revenues to fight wars and to wage economic warfare against other countries, primarily France.[33]

Smith ended up making a quasi-feudalist argument for the status quo while simultaneously promoting the interests of what was in global terms a relatively advanced English economy. In important ways Smith was developing a view of the world that was derived from the past, not one oriented to creating a future. That view of the world was to some degree produced a century earlier by John Locke. As John Gray has noted, the free market doctrine, with its focus on property and its commitment to limited government, has its roots in the worldview of John Locke, a worldview of a distinctly counter-revolutionary flavor.[34]

Locke-Smith

When Smith made the interest of the individual who applied capital to an economic activity, an investor, the central focus of his economic thinking, he made himself the successor to John Locke. What Smith did for economics, Locke had done for the state, law, and politics. That is, Locke chose to make property the reason for and the purpose of government and law. His arguments for this were not based on facts and historical developments, but on imaginary situations or constructs. Locke's constructs contain or symbolize what were real issues and real conflicts of his era, but those remain in the shadows. The issues and conflicts are not presented in their reality, but in a series of philosophical assertions that follow logically from other assertions, often unsupported and unproven.[35] Locke did take clear positions on some real issues. Locke, himself an absentee land owner, investor, and speculator, once wrote that four-year-old children of working people should go to work.[36]

John Locke, born in 1632, was the son of a quite well-off lawyer and landowner. Locke was educated at Oxford, where he acquired the reputation of being more interested in the cultivation of his social ties than in his studies. He eventually settled down to the study of medicine and science and became a fellow of the Royal Society in 1668. For many years after this, Locke was employed as the "confidential servant" of Lord Shaftesbury, and he was involved in 1669 in drawing up an aristocratic and pro-slavery constitution for the colony of Carolina. For an extended period Shaftesbury was part of political intrigue against the Catholic church and the crown. Locke left England in 1683 for a couple of years, returning amidst the intrigues and plots against King James.

Locke's political ideas were developed in the period leading up to and during the Revolution of 1688, and his ideas reportedly dominated English political thought from 1689 to 1704.[37] He was considered England's leading philosopher for a much longer period.[38] Locke was a member of and a creator of the important Board of Trade in the late 1690s and was the creator of a network of members of Parliament, who acted more or less as what we would call a think tank today.[39] As an expert on colonial trade, Locke was directly involved in developing a plan to prevent Ireland from producing woolens that would compete with English producers.[40] For more than seventy-five years after its creation in 1696, the Board of Trade was part of the apparatus that shaped and maintained the relationship between the colonies and the mother country.[41]

Locke's famous political arguments on property and government were produced in part to defend and promote the Glorious Revolution of 1688.[42] Locke's concept of property sometimes included various things that one could lose, like possessions, liberty, and life; at other times it referred to material possessions only.[43] To Locke, it was the preservation of property that was the reason for government and laws. Such protection did not exist in what Locke called a state of nature, which is any community not organized under agreed-upon laws and government. Because a powerful or absolute monarchy is not subject to the rules of the community, that is an example of power in a state of nature.[44]

Given the nature of Locke's arguments and the context in which he produced them, it is obvious that he was writing against arbitrary government on behalf of "those with a great deal to lose."[45] Locke's essays are a political argument in favor of creating stable rules and protections for commercial interests, landowners, investors, and other worthy people of means and substance. Government should provide a predictable environment for making money, including police and military services, and, above all else, the protection of property.[46] If one carefully follows Locke's arguments on the "True Original, Extent and End of Civil Government," that is where his sometimes tortuous arguments end up. Even Locke's discussion of labor and property and of equality leads up to a defense of the accumulation of unlimited wealth. While ostensibly defending the right of people to the products of their own labor he casually asserted that an individual had the right to the products of his servants' labor.[47] Apparently, servants were not really people, or not people in any sense that was relevant.

Locke repeatedly asserted that government was created to protect property.[48] In an essay written around the time of the Glorious Revolution, Locke said that "political society is instituted for no other end, but only to secure every man's possessions of the things of life."[49] Locke asserted that people "enter into society" in order to secure properties and to provide protection against "foreign invasion." In a state of nature where people are not restrained by law, property is insecure. Property is also insecure where a monarch has powers beyond what are agreed to by the community. Locke was deeply concerned with the protection of those with property against others—other people, other societies, and other domestic powers, particularly the ruler or monarch. Locke provided a rationale for the defense of the interests of existing and emerging holders of property and wealth, that is, capital. Smith created an economic doctrine that made the employer of capital, the investor, the central figure, the source of everything good. Neither Locke nor Smith was interested in national development as such. They did not take this as an important focus and neither had much interest in its sources. For Locke, society and government were to be organized to give maximum freedom to property; for Smith, it was maximum freedom for the employer of capital. To Locke, the nation was nothing more than a "mere association" of self-seeking individuals.[50] Logically, the wealth of the nation would be nothing more than the combined wealth of individuals. Locke's political philosophy defended private wealth against everybody, including the monarch. Smith's economic philosophy made the free activity of private wealth holders the goal of government and society. A very different idea of government was developed out of the American Revolution. No one was more important in the elaboration of that idea than Alexander Hamilton.

Hamilton

Alexander Hamilton came to the United States from St. Croix as a teenager, and he attended King's College (later Columbia University). He was an early and outspoken supporter of revolution, served as an aide to General Washington during the American Revolution, and became a staunch advocate of strong national government and was the primary author of the famous *Federalist Papers*. He was a New York representative to the Constitutional Convention. Hamilton came to believe that through reason people can rise above self-interest and serve what is in the interest of humanity. Where the interests of humanity come into conflict with the rights of property, the human rights must be made superior. Hamilton was a cofounder in 1785 and later president of the New York Society for Promoting the Manumission of Slaves, and he argued that the races were equal.[51] When Washington became president he appointed Hamilton as his secretary of the Treasury.

Some fifteen years after the publication of Smith's *Wealth of Nations* Alexander Hamilton did for President Washington, the Congress, and the country exactly what Adam Smith said should not be done. In his "Report on Manufactures," submitted to the House of Representatives in 1791, Secretary of the Treasury Hamilton laid out a program that sought to influence or direct the way private individuals use their capital and to regulate the trade of the country. The purpose of this program was to foster the development of manufacturing, not to benefit existing manufacturers or other property interests. Alexander Hamilton was proposing government intervention in the economy for purposes that were far more democratic than those that had been driving England's long-standing government activism. Much of the English government's activity up to the time of the American Revolution was designed to control its colonial trade, protect existing economic interests, or further England's power and influence. Hamilton was proposing government activism on behalf of general economic development and broad prosperity. That is, it was democratically informed.

It was England's determination to suppress manufacturing in the colonies and to force the colonies to trade agricultural products and raw materials for English goods that brought on the American Revolution.[52] The Board of Trade that Locke helped to create not only outlawed the production in the colonies of specified goods beginning in 1705, but also continued earlier interference in colonial economic affairs by preventing the colonies from creating and controlling their own money.[53] Against this backdrop it is not surprising that many revolutionary leaders were focused on economic development generally and manufacturing specifically.[54] The first political statements Washington made after he knew he would be elected president were in letters to Lafayette and Jefferson indicating that his primary goal was to set the Union on the path of economic independence and prosperity by promoting internal trade and manufacturing.[55]

Hamilton began his "Report on Manufactures," which Nettels[56] referred to as the "charter of American industrialism," by briefly paraphrasing arguments that had been made against the active promotion of manufacturing. Part of the argument against manufacturing was the physiocratic claim that agriculture was the primary source of wealth.[57] Hamilton worked his way past this false claim and moved to the more important argument that had been made about using the power of government. The argument against government promotion of manufacturing cited by Hamilton appears to have been drawn directly from Adam Smith. Hamilton noted that those who object to government promotion of manufacturing argued that "it can hardly ever be wise in a government to attempt to give a direction to the industry of its citizens." Those maintaining this view, Hamilton continued, asserted that the

> quick-sighted guidance of private interests, will if left to itself, infallibly find its own way to the most profitable employment; and it is by such employment that the public prosperity will be most effectually promoted. To leave industry to itself, therefore, is, in almost every case, the soundest as well as the simplest policy.[58]

Hamilton went on to observe that on the question of trade, the opponents of the active promotion of manufacturing claimed that the use of trade regulation to promote a domestic industry was contrary to the "natural course of things." It is best, for example, that countries relying on agriculture should continue in that way, as any attempt to protect the growth of a particular industry will create unnecessary costs for other segments of the society.[59] It appears that Hamilton was paraphrasing Smith's arguments.

Hamilton offered a somewhat lengthy discussion of the long-term value for any nation of manufacturing. He did not try to prove its value against agriculture, nor did he claim that there was sufficient factual data to resolve all arguments. He only made the case that manufacturing is useful for a nation. He then offered up a program to do what Adam Smith claimed should not and could not be done—that is, to use the government to encourage and promote the development of manufacturing. In order of presentation, but not necessarily of importance, Hamilton's[60] ideas included the following:

1. Placing taxes (or tariffs) on imports to favor domestic production (something that is also a source of revenue).
2. Prohibit imports to promote domestic production.
3. Prohibit export of materials needed in domestic production.
4. Government subsidies for desired industries.
5. Shape tax policy to encourage desired imports.
6. Encourage new inventions and discoveries with rewards and protection.
7. A coherent, national program to develop systems of transportation.
8. Evaluate general tax policy in light of what favors manufacturing and the "industrious poor."
9. Support development of or acquisition of raw materials.

A year before this report was submitted, Hamilton had sent to the House of Representatives a proposal to create a national bank, the main purpose of which was the promotion of economic development.[61] A government role in banking, regulation of trade, and the development of transportation systems was later dubbed "the American System." As Ha Joon Chang has pointed out, the proponents of this approach (Matthew and Henry Carey, Daniel Raymond, Friedrich List, etc.) "have now been airbrushed out of the history of U.S. economic thought."[62] This American System approach came into existence as part of Hamilton's conscious rejection of Smith's system, which was based on the Lockean idea giving central importance to private interests.

Hamilton had clearly rejected this trust in private interests almost a decade earlier in arguments he made then about the regulation of trade. In one of his essays entitled "The Continentalist," Hamilton had the following to say:

> The vesting Congress with the power of regulating trade ought to have been a principle object of the Confederation for a variety of reasons. It is as necessary for the purposes of commerce as of revenue. There are some who maintain that trade will regulate itself, and is not to be benefited by the encouragements or restraints of government. Such persons will imagine that there is no need of a common directing power. This is one of those wild speculative paradoxes, which have grown into credit among us, contrary to the uniform practice and sense of the most enlightened nations...
>
> To preserve the balance of trade in favor of a nation ought to be a leading aim of its policy. The avarice of individuals may frequently find its account in pursuing channels of traffic prejudicial to that balance, to which the government may be able to oppose effectual impediments...[63]

Regulation of trade would be achieved in part through the use of tariffs. The average tariff rose from 5 to 12.5 percent right after Hamilton offered his report. By 1812, the average was 25 percent on its way to the 40 to 50 percent range where it was from the 1860s to World War I. For a century the United States was the most protectionist country in the world.[64]

Whereas Smith wanted to place the fate of the country in the hands of investors, Hamilton viewed such trust in self-interest as a serious mistake. Hamilton thought that in order to achieve national progress one had to think of national actions and purposes. These, he felt, were indicated in the Constitution.

Hamilton and the Constitution

In his reports to the House of Representatives Hamilton was creating the practice to match what he thought was the theory of government embedded in the Constitution. That is, the Constitution was written to guide the society in forming "a more perfect Union" and in promoting "the general Welfare." These are goals for government stated in the preamble of the Constitution. The "general welfare" clause reappears in Section 8 of Article I of the Constitution and is alluded to another time in that section. The right of government to regulate trade to promote the general welfare is explicitly provided for in Section 8. Hamilton referred to this in his "Report on Manufactures," and in that part of the report he used the phrase "general welfare" six times.[65] The right of the government to engage in a wide range of activities to promote the general welfare would later be given additional and emphatic support in the famous 1819 Supreme Court decision, *McCulloch v. State of Maryland et al.*, authored by Chief Justice John Marshall. Hamilton promoted this idea of government, the idea that government had implied powers to be used for the purpose of promoting the general welfare.[66] Both Hamilton and Marshall refuted the attempt by opponents to interpret the phrase "necessary and proper" in the Constitution, referring to the means that are employed by government, so narrowly that government could only do what the Constitution specifically stated it could do. Hamilton and Marshall effectively argued that the Constitution allowed government to create means useful to achieving a legitimate end and that government had a fairly wide latitude in doing this—that is, it was not limited to what was explicitly identified in the wording of the Constitution.

As I noted earlier, the nature of the ideas supporting activist government have been quite consistent over time and there has been consistency in the kinds of people backing such policies. The same cannot be said for the pro-property or Smithian forces. They undergo the major changes referred to earlier. We will not examine here the many conflicts over the roles of government and property that transpired in the pre–Civil War period. These conflicts are of great interest and importance, but we are interested here in the way the American System ideas developed and in the ways that these issues were carried over into the modern period—the late 1800s to the present.

Up to the Civil War the primary opponents of the Hamiltonian or American System policies were connected to the agricultural and plantation economy of the South and the South's trade relationship to England. Trading and financial interests in Boston and New York were connected to the Southern plantation economy, the trade with England, or both.[67] Under the banner of states' rights and free trade these Southern and Boston-New York interests were the primary opponents of the Hamilton or American System policies up to the Civil War. Conflicts between the South and North unfolded around a series of related issues: "America's economic relationship with England in the 1810s, the tariff in the 1820s, states' rights and the money and banking system in the 1830s, and the extension of slavery into new territories in the 1850s."[68]

At the heart of all of this was the split between agriculture and industrialization.[69] The Southern plantation class and related interests were satisfied with the economic status quo, did not want to be interfered with in either local or international affairs, had little interest in or were opposed to policies aimed at promoting manufacturing, and preferred a government amenable to all of that. In Hamilton's time the leaders of that Southern plantation–Boston-New York set of interests were men such as Thomas Jefferson, James Madison, Albert Gallatin, George Clinton, John Taylor, and James Jackson.[70] During the 1800s the ideas of Hamilton were picked up and developed by many significant figures. Before we jump to the modern period we will examine some of those figures and the development of the ideas.

CHAPTER TWO

American System v. Smith

Adam Smith spoke for entrenched interests. His theories provided a rationale and parts of a strategy for maintaining England's recently developed advantages over other countries in manufacturing and provided a defense of the developing investor class. Smith argued that other countries should trade with England to get manufactured goods and should not undertake policies to promote their own production. Government should not try to direct the behavior of wealth holders. Cain and Hopkins point out that in an English economy still dominated by agriculture at the end of the 1700s, at least 75 percent of all agricultural land "was owned by no more than 4,000–5,000 aristocrats and gentry."[1] Smith had no apparent problem with this, and his ideas supported freedom of action for these aristocrats and gentry, who also were part of the investor class, as well as for financiers, traders, and manufacturers. At its core this was completely consistent with John Locke's argument that government and society exist to protect property and to carry out various military and police functions. The American System school of thought was in opposition to the ideas of Smith and Locke and others of the English "liberal" school such as Thomas Malthus and David Ricardo.

Henry Clay introduced the term "American System" in 1824 "to describe his three part program of protective tariffs, internal improvements and a national bank."[2] As we have seen, the regulation of trade, government investments in transportation, and a national bank had been key components of Hamilton's program. As with Hamilton, the essence of these ideas was an active national government shaping the economic future rather than the program of free trade and limited government proposed by the British liberals.[3] By the time Clay began using the phrase "American System" to describe this school of thought, a regional division had developed on these issues. Michael Hudson describes some of this in the following:

> As the [American] school matured, it found itself increasingly at odds with narrow Southern and Northeastern self-interest, especially where these regions' status quo ante was concerned. It also found itself at odds with the class and political prejudices of these two regions: their anti-labor attitude; their deflationist hard-money attitude, hence their opposition to a national bank; their opposition to an active program of federal internal improvements; their desire for any doctrine that would endorse westward expansion; and their belief that national and world economic development connoted a growing role played by international commerce. Both the Northeast and the South sought to maintain America's dependency pattern as a raw-materials exporter to England, and therefore espoused the Ricardian doctrine of comparative advantage.[4]

The British liberal school, resting on Smith and Locke, dominated American academic institutions, where it was taught, typically by clergymen, as a mixture of moral or legal philosophy and laissez faire economics. Against this aristocratic and antinationalist viewpoint the American School of political economy developed an approach oriented to the improvement of the nation's productive powers and focused on technological progress, industrialization, national development, and social transformation.[5]

The American School did achieve a presence in academia in Pennsylvania, Maryland, and New York at schools such as the Wharton School in Philadelphia and at New York University, Cornell, and Johns Hopkins. Its primary impact, however, was based on its role in the world of politics and journalism. Among the journalists and lawyers writing on the American System were Matthew and Henry Carey, Friedrich List, Daniel Raymond, and E. Peshine Smith. Important political figures included Henry Clay, William Henry Seward, and William Kelley.[6] American System economists had influence based on personal connections to political figures such as John Quincy Adams, Henry Clay, and Abraham Lincoln, who was the most prominent supporter of Clay's American System.[7]

By comparison, the English liberal school was indifferent toward or actually opposed to industrialization and uniformly rejected government efforts to encourage industrialization. British economists like Smith and their followers in the United States were not interested in the physical sciences, material improvement, or methods of increasing production and wages. That made support of the status quo, an emphasis on distribution of income rather than creation of wealth, and a focus on the prerogatives of property the logical preoccupations of the English school. Since there was little or no role for creativity and technological development in these British theories, it was also natural that they were pessimistic and lent themselves to arguments in favor of acquiring wealth instead of creating it. This in turn easily led to defense of concentrated wealth and imperialist policies.[8] In the United States in the late 1800s the British school of laissez faire and free trade naturally found a political partner in the various ideas of Social Darwinism.[9] Both laissez faire and Social Darwinism posited a world that could not be consciously improved but did allow for success for some, the adapting survivors of the struggle.

The laissez faire, free trade doctrine and its implicit assumption that the interests of property are paramount was the primary enemy of the American System. Behind all of the conflicts was the fundamental question—will the affairs of nations be organized to increase the labor power of society, to promote the general welfare, or to serve the interests of existing holders of wealth? It was Smith's and the British school's elevation of property interests above the goal of increasing labor power that brought forth the American System.

One of the British school's severest critics was John Rae. In his *New Principles of Political Economy*, published in 1834, he observed that the British school is a system of "preconceived notions" with little or no attention to facts.[10] Over a century later, Michael O'Connor noted that early textbooks displayed an "inattention to factual investigations and scientific research."[11] John Rae (1796–1872) proceeded along three tracks in his analysis. First, he offered what he thought was a reasonable approach to the use of government for the purpose of increasing the wealth of nations. Second, he attacked the economic doctrine of Adam Smith. Third, he made an argument in favor of an inductive approach and in the process criticized what he perceived to be Adam Smith's reliance on a deductive systems analysis based on assumptions and assertions. These three tracks are intertwined in Rae's book, but we will partially disentangle them by emphasizing each in turn.

Promoting the Real Wealth of Nations

It was Rae's view that humans have an innate potential for progress. It is a potential, not an instinct or imperative, and it must be cultivated. The potential has an intellectual and a moral dimension and both are interconnected with the political affairs of society. In these affairs humans display capabilities that clearly distinguish the human species from all others. According to Rae:

> It is unquestionably the capacity for perceiving, and retaining in his mind, the course of events and the connexion of one with another,

> that leads man to perceive what advancing futurity is to bring forth, and enables him to provide for its wants. This provident forethought distinguishes him from the inferior animals, and the degree in which he possesses it marks his rank in the scale of civilization.[12]

Comprehending complex cause-and-effect relationships and thinking about the future are two things that separate humans from animals. Attention to the future is an important source, in Rae's view, of the progress of civilization. In this regard, Rae[13] quoted Cicero, saying that

> the Chief distinction between man and the inferior animals consists in this. They are moved only by the immediate impressions of sense, and, as its impulses prompt, seek to gratify them from the objects before them, scarce regarding the future or endeavoring from the experience of the past to provide against what is to become. Man again, as he is endowed with reason, by which he is able to connect effects with their causes, to perceive the principles which guide the progress of affairs, and to join together the present and the future, easily discerns the course of his whole life and prepares whatever may be necessary for passing it in comfort. The same intellectual powers also, which nature has bestowed on him, give scope to his affections, and join him to his fellows by the ties that spring from language and the connexions of social life. It is from this source that we must trace his peculiar provident love for his offspring, his concern for the interests of society, and his desire to mingle in its business and pleasures.

For Rae, a key to political economy was the human capacity to understand and improve the conditions of life. The power of reason allows humans to relate to the needs and interests of future generations as well as to the society as a whole. Thus, improving the conditions of life can become a purpose for people's lives. Achievement of that aim requires the understanding of and the domination of nature. Man's reasoning powers and his creations, however, are in the end also part of nature. Rae observed that

> he [humans] never, indeed seeks to conquer nature otherwise than by obeying her, but his aim, nevertheless, always is to conquer her. By observing the order of events, he acquires the power of changing that order. He does so, by that which distinguishes him from other animals, the reasoning faculty, which so directed we term art and without aid of which so directed, we scarce attain any object.[14]

For progress to occur, humans must develop knowledge of what is needed to create more positive conditions and must have the morality, which is the foundation for the commitment to make things better. The morality and the commitment were, in Rae's view, part of the subject of political economy.[15]

Anything humans create to achieve a purpose Rae called an "instrument."[16] An instrument can be a tool, an industrial process, or a government policy. Morality and knowledge and the conditions conducive to their development are the nonphysical factors needed for the creation of useful instruments. Rae describes the nonphysical factors in the following:

1. The prevalence throughout the society of the social and benevolent affections, or, of that principle which under whatever name it may be known, leads us to derive happiness from the [future] good we communicate to others…

   In so far as to procure good for others, gives a real pleasure to the individual, he is released from that narrow and imperfect sphere of action, to which his mere personal interests would confine him, and the future goods which the sacrifice of present ease or enjoyment may produce, lose the greater part of their uncertainty and worthlessness.
2. The extent of the intellectual powers, and the consequent prevalence of habits of reflection, and prudence, in the minds of the members of the society…in opposition to the passions of the present hour…

   These two principles of our nature, the social and benevolent affections, and the intellectual powers, serve indeed mutually to move each other to action, the affections exciting the intellect to discover the means of producing good, the intellect opening up a channel to the affections by giving the power to do good.
3. The stability of the conditions of the affairs of the society, and the reign of law and order throughout it.[17]

The last factor is part of the tone set by leaders and the feelings and desires of people generally. It follows from Rae's outline of these factors that the desire for mere selfish gratifications, the underdevelopment of reasoning powers, and instability will weaken or prevent progress.[18] The first of those three was made the basis for policy by the English school.

With the foundation of morality, knowledge, and conducive social conditions people can achieve progress. The legislator (monarch, parliament, congress, government, etc.) can increase the society's productive capability, its "stock," by promoting expanded use of what exists, by promoting invention through its support within the nation of science and its application ("art"), and through efforts to absorb advances from other nations. Anything that the legislator can do to promote general intelligence and morality contributes to success.[19]

Among the specific policies Rae mentioned was the policy of directing the funds of the community away from luxury and toward expansion of the nation's productive capability.[20] Rae also argued that the progress of commerce and manufacturing requires "increasing regulation and restraint" and that the legislator should use "every possible means" to encourage that progress.[21] With regard to duties or tariffs, for example, Rae suggested practical guidelines.[22] Will a tariff promote better or more productive capability? Will it be beneficial in the long term? Can the burden of the tariff be assigned in part or in whole to income that would go to luxuries? Rae juxtaposed this practical approach to that of Adam Smith and the leading school of political economy in England. Smith and that school automatically rejected all tariffs and duties, claiming they were detrimental. This view fits with what Rae[23] said was the general attitude of Smith and the laissez faire school; that is, they were not interested in the best ways for government and the people to act on the economy—they assumed that there should be no action. The laissez faire school specified that the economy, or economic system, is one area in which humans should not use their abilities to understand and act on things.[24] This brings us to the second track of Rae's work, his critical analysis of Adam Smith and laissez faire economics.

Rae on Adam Smith

Adam Smith did not deny the value of science and technology, although he did not give it anything like the degree of importance that Rae did.[25] What Rae found to be the primary problem in Smith's economic doctrine was the role of self-interest and the relationship between private wealth and national wealth.

> My main object, in this book, is to show that the notion of the exact identity of the causes giving rise to individual and national wealth, on which the reasonings and arguments of Adam Smith all along depend, is erroneous, that consequently the doctrines he has engrafted on it, cannot be thus maintained, and are inconsistent with facts admitted by himself.[26]

Whether Smith took this identity to be a self-evident truth or a "deduction from an ingenious theory," said Rae, it is "the basis on which his whole system is built." Rae went on to say that Smith thought that the nation's capital is the sum total of individual capital, and the individual is the best judge of how to use his capital. Smith assumed the identity of interests between individual and nation.[27]

This last, which also happens to be in a different form a bias or prejudice actively cultivated within the upper class,[28] is part of Smith's conviction that self-interest is the necessary and sufficient cause of the increase of wealth, both private and public wealth. This means that the pursuit of self-interest always leads to an increase in public wealth.[29] Rae brings up gambling and shrewd bargaining as two examples of private wealth acquisition that add nothing to national or public wealth. In later times, high interest rates, speculation and financial manipulation, certain kinds of mergers and acquisitions, price gouging, and other activities might be added to this list. Smith's failure to consider these kinds of things led Rae to remark that Smith's work may provide some interesting interpretations of some phenomenon, but it is not science.[30]

Smith's premise that individual interests and public interests are synonymous and his view that aggregated individual wealth and national wealth are the same allowed him to make general arguments against government intervention into the economy or specific arguments against government intervention in trade, and allowed him to ignore the real source of national wealth: creativity and the use of the products of creativity. Rae observed that

> as individuals seem generally to grow rich by grasping a larger and larger portion of the wealth already in existence, nations do so by the production of wealth that did not previously exist. The two processes differ in this, that the one is an acquisition, the other a creation.[31]

We in the United States have been living for decades in an era of acquisition. Rae went on to argue that the progress of nations is based on knowledge, science, and technology, not individual accumulation. Invention, observed Rae, is "the only power on earth that can be said to create."[32]

Smith's emphasis was on preventing government, or the "legislator," from attempting to direct economic affairs. In the international arena this translated into a recommendation that nations accept existing conditions and seek the best trade position possible given those conditions. Domestically it means the least government possible. Rae observed that to Smith, the creation of wealth is a by-product of the pursuit of self-interest and this pursuit is the basis of a natural system.

> When we say, a thing is produced by art, we mean, that it is the result of the agency of man, designedly directed to its production. When we say, a thing is produced by nature; we mean that it is produced either without the agency of man, or, if by his agency, without its being his intention to produce that, which he, nevertheless produces.[33]

The last, Rae noted, was Smith's idea of the production of "national wealth." To Smith the individual intention to advance his own wealth adds up to advance of national wealth. Any attempt by the legislator to influence the economy disrupts the process.

According to Smith, the natural state of affairs in trade between countries should also be left alone. Smith argued emphatically that the international division of labor required that countries produce what they are currently best at.[34] Smith introduced and used arguments that Rae found to be, at the least, irrelevant. For example, Smith pointed to the production of wine by Spain and argued that it would hardly make economic sense for England to produce wine, so trade is the natural answer. Rae pointed out, as was done here in chapter one, that the most important issues arise where one country's disadvantage in trade, as in the case of manufacturing, results from a lack of production capacity, while Smith has chosen an example related primarily to climate.[35] It is the climate of Portugal and Spain that makes it logical for them to grow grapes. Rae[36] also mentioned Smith's misuse of the comparison between the relationship between a farmer and a tailor, and that between nations that was mentioned earlier in chapter one.

Rae argued that rather than doing forever that which a nation currently does, or that which is compatible with existing trade, it is much wiser to adopt the best methods of industry from all over the world wherever that is possible.[37] This may require, Rae pointed out, action by government to boost or protect industry in countries where it is just beginning, later known as the "infant industries" argument. Smith acknowledged that it is possible to do this, but he recommended against it. Rae noted that Smith

> admits that a manufacture may be introduced by the operations of the legislator, sooner than it could otherwise be, and thus come to be made at home as cheap, or cheaper, than abroad. But then, he says, in spite of these apparent advantages of such a proceeding on his part, it must be wrong, because it is contrary to my system. And, before you can prove that it is justifiable, you must prove that the benefits resulting from it could not possibly have happened some other way.[38]

This last argument was used in the United States against the creation of a national bank; the opponents of the bank argued that it must be proven that no other way of doing things could work. This was discussed in the Supreme Court's famous *McCulloch v. State of Maryland et al.* decision, which was mentioned earlier. The opponents of the national bank and of the regulation of trade were demanding something that was, in practical terms, impossible. That is, there was no practical way to first try out all possible alternatives to a national bank.

These arguments made by people in one country against the efforts by those in other nations to use their national governments to promote industry were dishonest, since in the case of England, and later the United

States, the country recommending against active government measures had itself used such measures earlier with positive results. In Rae's view, Smith was not attempting to make an objective or scientific argument but was instead attempting to construct plausible explanations and justifications for an English commitment to free trade. To Rae, Smith's system of thought was made up of internally consistent and plausible arguments based on plausible but ultimately invalid assumptions. The critique of Smith's systems analysis was the third track in Rae's work.

Smith's Systems Analysis

Rae made a strong case that Adam Smith's economic ideas were a set of somewhat internally consistent assertions based on plausible but false assumptions. Rae placed these issues in broader philosophical context in the following:

> Lord Bacon affirms, that there always have been, and must be, two sorts of philosophy—the popular, and the inductive; or, as they might perhaps be denominated, the philosophy of system, and of science. In the one, the mind explains natural phenomena according to its preconceived notions, in the other, it traces out, by a careful interpretation, the real connexions between them. The former will always be the more popular, and on account of its facility of explication, and its fitness for the purposes of argument, will maintain its place in the discussion of all subjects of general interest; while the latter must be confined to a few, its spirit being difficult to seize, above the grasp of the commonality and only to be comprehended by them in its effects.[39]

Commenting on the idea of preconceived notions, Rae observed that the systems thinker used ideas that are accepted because they are familiar or have an appearance of being obvious in order to create a "media for explaining all other things."[40] On the other side, the inductive approach is aimed at discovering the truth and attempts to get there through a strict investigation of facts and causes. The systems thinker, Rae observed, takes unproven observations and transforms them into laws.[41] Rae argued that Smith selected and arranged facts to fit his assumptions and preconceived notions. Rae saw evidence for this in Smith's aims and methods and in the implications or results of Smith's views.[42] The followers of Smith, Rae noted, spent their time developing arguments rather than investigating facts or the actual "nature of things."[43] According to Rae, Smith's own assessment of what he was doing was building "common facts and familiar observations into a system, not to inquire into the causes or real laws from which they spring."[44]

Smith said that he was interested in explaining the causes of national wealth; that was in a sense the whole reason for his work. But nowhere did he provide a clear definition of what he considered wealth to be, and his conception of what wealth was changed from one context to another.[45] This lack of clear and consistent meaning did make it easier for Smith to confuse and confound private and national wealth. A similar critique of Smith's ideas was produced by Friedrich List.

Friedrich List, Peshine Smith, Daniel Raymond, and Others

Friedrich List became a leading German advocate of the ideas of Alexander Hamilton, Matthew Carey, and Daniel Raymond. He lived for six years in Pennsylvania and was a friend of Carey and Lafayette. His major work was the *National System of Political Economy*, which was first published in German in 1841 and then in English in 1856.[46] List charged that Adam Smith understood economics in terms of the private interests of merchants and that Smith never really focused on the wealth of nations.[47] In an earlier work List observed that although Smith's book was entitled *Wealth of Nations*, Smith never analyzed the wealth of nations, but, instead focused on individual acquisition of wealth and the ways in which society and economy affect that.[48] List observed that while the wealth of nations was actually dependent on the ability to develop resources and produce physical wealth, Smith concentrated on capital as a form of income accumulated by merchants and rentiers.[49] Like other opponents of Smith in this period, List became a supporter of protectionism. Like others in the American System school, List supported free trade between equal trading partners.[50] Smith's notion of economics was generally viewed by his opponents in relation to his support for free trade. His critics saw these things as being intertwined, and they naturally gravitated to protectionism as an approach that could be used to promote the physical capital or wealth of the nation.

Willard Phillips, writing in the mid-1800s, argued that the free trade theorist viewed economics as buying and selling, ignoring production. Protectionism, Phillips argued, is interested specifically in the stimulation of productive powers. Hudson has observed that protectionists such as Phillips "accused free traders of having elaborated only a theory of private economy which failed to acknowledge the theory of productive powers."[51] To Adam Smith, productive labor was what provides a profit to its employer "irrespective of its contribution to society's real economic surplus." Along these lines, Peshine Smith (1814–82) charged that British political economists based their analysis of economies on "moral philosophy and political prejudice."[52]

Peshine Smith, as part of the American School, focused on technology and the material basis of human progress.[53]

Another of Adam Smith's and the British school's most astute critics was the Canadian-American Daniel Raymond. In his two-volume *The Elements of Political Economy*, published in 1836, Raymond made the case that Adam Smith's analysis was based on a confusion of personal acquisition of wealth with national prosperity. Individual wealth has to do with the possession of property—"land, goods, money, stock." National wealth is related to the capacity to produce for consumption or for trade.[54] The capacity to produce wealth is related to natural conditions, the qualities of the people, physical assets (roads, canals, etc.), and developed skills in the arts, science, and in manufacturing. Property is more about the distribution of what exists. Individual wealth and national wealth are not the same thing, Raymond argued. Individual pursuit of wealth and national pursuit of wealth may be in harmony, but they also may not be. In fact, Raymond noted, they are often in direct conflict.[55]

Raymond argued that Smith failed to understand the difference between individual and national wealth and consequently failed to separate the nation's interests from either individual interest or a group's or faction's interest.[56] Smith went so far as to equate the interests of money lenders with the interests of the nation.[57] Raymond noted that it would be difficult for Smith to clearly state the nation's interests, since he "gives no definition of national wealth nor does he undertake to say in what it consists." Elsewhere, Raymond observed that

> it seems to be an admitted dogma with Dr. Smith that national and individual interests are never opposed, but a more unsound doctrine in principle, or a more abominable one in its consequences, cannot well be imagined. Such a doctrine, if adopted in practice, would destroy all government, and tear up the very foundations of society.[58]

Against Smith's promotion of individual interests, Raymond was an energetic defender of a strong and active national government and a promoter of the implied powers doctrine developed by Hamilton and Marshall.[59]

Beyond confusing private with national or general interests, Smith's doctrine was also peculiar, Raymond argued, in its treatment of technology. Although Smith acknowledged the usefulness of machinery,[60] he also took positions inconsistent with that acknowledgement. Smith asserted that the productivity of "capital" is positively related to how much labor it sets in motion.[61] Of course, the whole object of technology and the meaning of things like efficiency and productivity is the reduction of labor time in production. Raymond observed that if Smith's theory was valid, it follows that "all labour-saving machines, ships, boats, &c. are prejudicial to national wealth." This is another strange element in Smith's thinking.

As noted before, technology, manufacturing, and labor power played very little role in Smith's economic thinking. Perhaps this reflects the fact that in 1776 manufacturing still played a small role in England's economy, and, as indicated earlier, Smith wrote on behalf of landowners, investors, merchants, bankers, and other interests, which were, in his time, the dominant forces of England's gentlemanly capitalism.[62]

One important exception to the generalization that Smith paid little attention to technology and manufacturing is in his doctrine of free trade where he recommended that everyone maintain their then-current roles in international trade. That made Smith a proponent of what would eventually be dubbed "free trade imperialism." Because of free trade's importance in recent times and its importance in the development of the upper class in the United States, we will end this section with America's leading nineteenth-century critic of England's free trade policy, Henry Carey.

Henry C. Carey and the Critique of English Policy

Although Carey never explicitly repudiated his early appreciation of at least some of Adam Smith's work, he nevertheless became one of the world's most important critics of English political economy, particularly Ricardo and Malthus, and a leading critic of England's and Smith's free trade policy. Carey charged that England embraced free trade policies and opposed protectionism because its relative advantages in wealth and production gave it an advantage in trade relations, which allowed England to prevent the rise of competitors. Carey took up the cause of protectionism in the mid-1840s as a direct response to England's free trade policies. The United States had become a high tariff country in the early 1800s, but there were ongoing conflicts over this and related policies.[63] Even Thomas Jefferson, once an enthusiastic free trader, switched to a pro-tariff position in 1816, seeing the tariff as a way to promote industrialization, which he had come to accept as necessary.[64] Although the English school dominated U.S. universities, the views of Carey and other American System thinkers dominated American politics during much of the first third of the country's history.

Writing about English policy in the 1600s to mid-1800s, Carey made the case that both colonialism and free trade as it was practiced by England were destructive of all the nations involved, including England, and benefited only England's ruling class, an amalgam of mercantile, landed, and manufacturing interests. Carey's work anticipated the insightful analyses a century later of Gallagher and Robinson, Cain and Hopkins, and others.

Carey not only produced a model of colonialist economic policy and its consequences, but also made a case that certain free trade policies were alternatives to and substitutes for formal colonial administration. What Carey did was to identify the suppression of development as the central feature of English colonial policy and as a goal of its free trade policy. The pursuit of that goal is the constant or the common denominator that explains what are otherwise two very different arrangements, free trade and colonies. The existence of this strategic purpose in the 1600s to mid-1800sis a key to unlocking the essential nature of England's role in the world for centuries and that, perhaps ironically, of the United States during much of the time after 1890, and especially since either the 1957 to 1964 period or since the beginning of the Reagan presidency. The suppression of development stands out in Carey's analysis as the central feature of both colonialism and what would later be called "free trade imperialism."

Suppression of Development

Around 1690 the producers of woolen cloth in England pressed their government to prohibit that activity by competitors in Ireland. As we saw earlier, John Locke and the Board of Trade were involved in this. Not long after this, Carey pointed out, the House of Commons declared "that the erecting of manufactories in the [American] colonies had a tendency to lessen their dependence upon Great Britain."[65] That observation by the House of Commons was made in 1710, very early in or even before England's manufacturing development. That observation was of a much broader nature than the complaint twenty years earlier from England's woolen manufacturers. The latter complaint relates to many colonies, to manufactures in general, and to the issue of dependency, not merely to the narrow interests of one sector of business. It is a statement of general policy. The House of Commons and the monarchy did continue to respond to specific trade issues as they arose, but with a consistency that reflected the presence of a general policy. The English Board of Trade directed royal governors in the colonies to veto laws that placed any "duties on European goods imported in English vessels (1724) and on the produce or manufactures of Great Britain (1732)" and any laws giving advantage to colonists over British subjects. In 1705 the Board of Trade had disallowed a Pennsylvania law intended to promote shoe production, saying that it was against the interests of England.[66] Action was taken to limit production of hats in the American colonies in 1732. The rolling of iron in those colonies was prohibited in 1750. In this period, Lord Chatham, sounding the general line, declared that "he would not allow the colonists to make even a hob-nail for themselves."[67] In 1765

King George III prohibited any artisan from leaving England. In 1781 he prohibited the exportation of any utensils or machinery that could be used by others to produce wool or silk. In the next year, that was extended to other cloth. In 1785 George prohibited the export of any tools that could be used by others in the production of iron or steel and the emigration of workmen trained in these areas. These were general policies until 1824 and applied selectively for some time thereafter.

About these policies, Carey concluded that

> we see thus, that the whole legislation of Great Britain, on this subject, has been directed to the one great object of preventing the people of her colonies, and those of independent nations, from obtaining the machinery necessary to enable them to combine their exertions for the purpose of obtaining cloth or iron, and thus compelling them to bring to her their raw materials, that she might convert them into the forms that fitted them for consumption, and then return to the producers a portion of them, burdened with great cost for transportation, and heavy charges for the work of conversion. We see, too, that notwithstanding the revocation of a part of the system, it is still discretionary with the Board of Trade, whether or not they will permit the export of machinery of any description.[68]

The policy, which may have been at times a response to a specific English economic interest, became a general policy of preventing economic development "everywhere."[69] Carey said that the policy was directed at both colonies and independent nations. It is in relation to the latter, as we see later, that Carey addressed the issue of trade as an economic weapon.

Carey quoted a 1750 official English report on trade, which included the following recommendation:

> Manufactures in American colonies should be discouraged, prohibited…We ought always to keep a watchful eye over our colonies, to restrain them from setting up any of the manufacturing which are carried on in Great Britain; and any such attempts should be crushed in the beginning, for if they are suffered to grow up to maturity, it will be difficult to suppress them.[70]

This kind of policy was a major reason for the American Revolution.[71] The thinking here on the part of the British was long term, strategic, and general. If ever the policy was merely a tactical and limited response to a specific economic interest, it had morphed into something much bigger. According to Carey, it was a system continuously accompanied by war, involving not only commercial interest, but also involving matters of power and featuring activities such as the opium trade, which had nothing directly to do with English industry. In Carey's view, English choices were not originally dictated by an economic system; rather, English choices dictated the nature of the economic system. The suppression of economic development was a policy decision, and policy was a result of intentions.[72] Much of England's colonial and imperial policy, according to Carey, was tested and developed in Ireland. Ireland was suppressed and exploited in a calculated fashion, and the practice of blaming the victim was developed and refined in the Ireland policy. Many English intellectuals alleged that it was defects of Irish character, not brutal English policies, which explained the barbaric conditions of most of Ireland's people.[73]

Practice in Ireland became practice elsewhere. The policy of suppressing economic progress was applied in Canada as well as in India, in Australia as well as in Jamaica.[74] As in Ireland, English policy in India partly involved the destruction of a domestic cloth industry. As in Ireland, the result of Britain's policies was a transfer of wealth out of the country, fueling the growth of huge fortunes for English families such as the Hastingses and Clives, leading "men of the great race." In Carey's view there was very little benefit of any kind for countries affected by English policy. According to Carey, not even the roads and bridges that carried India's rice and cotton to port were improved. Carey compared investments in works of improvement in India for a seven-year period with those in the state of Rhode Island in the same period. He found that more was done for Rhode Island's 100,000 people than for India's 100,000,000. Carey argued that, like Ireland, India experienced avoidable famine.[75]

Free Trade Imperialism

Because England was the dominant manufacturing nation, it could also achieve its colonialist goals via what would later be called "free trade imperialism." England's goals in relation to independent nations were the same as with the colonies, and free trade was the means to achieve those goals.[76] As long as inferior economies made little use of protectionist measures, England's superior producers could enter those markets and destroy or take over the weaker competitors.[77] In his forties, after an earlier and perhaps partial attraction to free trade, Carey became an energetic defender of protectionism and an ardent critic of free trade, which he said in 1851 had become the primary objective of the "dominant class in England."[78] Carey was then one of the earliest analysts, perhaps the earliest, to see free trade as a continuation of and alternative to formal colonialism. He arrived at this insight a century before a similar understanding of this phenomena was provided in the famous 1953 article by Gallagher and Robinson, entitled "The Imperialism of Free Trade." In Carey's view, free trade and colonialism were both means to achieve economic and political power.

Henry Carey made the argument that England's free trade policy and her colonial policy were part of one thing.

> The *free trade* of England consists in the maintenance of *monopoly*, and therefore is it repulsive. The protective system of this country [United States] looks to the breaking down of monopoly, and the establishment of *perfect free trade*, and therefore is it attractive.
>
> The one [English free trade] looks to "cheap" labor, and therefore does it expel individuals as well as communities. The other [the protective system] looks to raising the value of labour, and therefore does it attract both individuals and communities.
>
> Protection tends to the maintenance of peace, and the increase of wealth and power [of the nation]. The colonial system tends to the production of causes of war, and the diminution and ultimate destruction of both wealth and power [of the nation].[79]

Note that in the third paragraph the term "colonial system" replaces "free trade" and is used as a synonym for free trade; both are juxtaposed with protection. He is arguing, among other things, that protectionism works better than free trade, for both those nations promoting free trade and those acquiescing in it. Carey was making the case that America had to adopt or maintain protectionist measures to develop its economy and to challenge the monopoly position that England's more advanced economy enjoyed. English free trade sustained England's monopoly position, at least for a time. In relation to the present discussion, Carey was showing that he viewed English free trade and the colonial system as part of one thing. Elsewhere, in a discussion of trade relations between England and a number of other countries, including Canada, Russia, and Germany, Carey used the terms "free trade system" and "the colonial system" to refer to the same thing.

It is important to note that Carey's objections were to unequal free trade, that is, free trade between an advanced nation and a backward nation. English free trade was trade between unequals; perfect free trade is trade among equals. Free trade among unequals and colonialism were in Carey's mind two ways in which England, or, more accurately, the English upper classes, sought to acquire wealth and power.

The English system, Carey argued, was the maintenance of England as the world's workshop.[80] Free trade and colonialism were two ways to do this. After reviewing the various measures taken by England beginning in

1710 to prevent manufacturing in the American colonies, Carey observed that England pitted itself against continental Europe and the United States, seeking to prevent diversified development. He made identical or similar assertions and arguments in other places[81] and he emphasized that free trade was promoted as a global policy.[82] Carey observed that "Such is the effect of the colonial system, established for the purpose of preventing combination of actions [economic development] by the pursuit of measures destructive alike to the interests of the people of England, and of the world at large."[83] Individual and collective development were, to Carey, the central concerns of social science.[84] This view he shared with Raymond, Rae, and other advocates of American System ideas.

Carey described the destructive consequences of England's colonial and free trade policies for other nations and peoples and for most people in England itself. The impact of England's imperial policy was measured by Carey in terms of its destructive effects on other countries' ability to produce, on the people themselves, and on the general wealth of those societies. Referring to an earlier stage of England's involvement in Ireland in the 1600s, Carey observed that

> the poverty of the people rendered them turbulent, and armies and taxes were rendered more necessary. The people paid the taxes, and their masters filled the offices, and squandered on luxuries in Dublin, what was collected at the point of the bayonet from people who ate potatoes in mud cabins, and went clothed in rags.[85]

In Carey's view, Ireland's development was blocked by England's occupation. Ireland fell under the rule of the "Norman Aristocracy," which Carey described as "a body whose most distinguishing feature has at all times been unbounded rapacity."[86] Carey went on to call Ireland "the prey of England," and he observed that the seventeenth century witnessed the transfer to the aristocracy of England and their friends of nearly the whole land of Ireland that was fit for cultivation.[87]

Speaking of the time closer to his own life, Carey observed that after Ireland was drawn closer to England, through union in 1801, Ireland's ability to produce declined as Ireland lost manufacturing and its people became less and less able to purchase its own agricultural output.[88]

In Carey's view, one of the effects of the British system was something like perpetual global war.

> The British system gives us, thus, perpetual war upon the nations of the world, by means of soldiers and sailors, guns and gunpowder; and a perpetual "warfare" within the bosom of all those nations—this last

> being carried on by aid of those great capitalists, who can afford to make the "sacrifices required for gaining and keeping possession of foreign markets."[89]

According to Carey, it was that same British system that had produced the "dissensions between the mother country and her American colonies, and had thus produced the war of 1776."[90] Much later, in 1935 in an article entitled "The First American Revolution," Louis M. Hacker made essentially that case, arguing that the revolution was a revolt against the economic policies of a colonialist power.[91] Curtis Nettels made a similar case in a 1952 article entitled "British Mercantilism and the Economic Development of the Thirteen Colonies."

The Unfavorable Division of Labor, Who Loses?

For colonies and for countries subjected to English trade policy, Carey argued, the division of labor with England was not beneficial. To import what might otherwise be produced brings about the waste of all of the labor and capital involved in transporting those goods from England and then within receiving countries. For the importers of English manufactures, the separation of manufacturing from agriculture meant the loss of all of the skills and capabilities and knowledge that come with manufacturing and that in turn meant that agriculture remained backward and all of the labor connected to it was devalued.[92] That in turn leads to the devaluation of land and labor in England as people outside of England are less capable of purchasing goods from England. Without the power and capabilities of production, everything loses value in exchange with other nations.

For most people, Carey argued, England's policies led to impoverishment and war.

> Adopting as her motto, "ships, colonies, and commerce," England has glorified the former, and has, therefore sought everywhere to magnify the obstacles standing in the way of her own improvement and that of the world. To increase the number of her ships, she required colonies [to secure materials for ship building], and to obtain colonies she has involved herself in almost endless wars. To find employment for ships, she made herself the contractor for supplying negro slaves to the Spaniards; and to enable herself to obtain supplies of slaves, she stirred up wars in every part of Africa. As Portugal, Turkey, and Ireland became more and more impoverished and exhausted, she became more and more dependent upon India; and as India became more and more

> exhausted, it became more and more necessary to deplete China by help of opium—and hence the opium war.[93]

The attempt to dominate the world involved huge expenditures for the military and massive debt to finance colonial wars, and involved England in slavery and the distribution of opium.[94]

Resources that might have been used at home were diverted to these purposes. Carey observed that

> the colonial system of England has been, and is, her greatest curse. To acquire, and to retain, colonial subjects: for as equals they have never been regarded: wealth has been expended that would have made of every field in the United Kingdom a garden from which the occupant, enabled by its aid to bring into activity the better soils, would have drawn an amount of food thrice exceeding what the poorer ones have given him.[95]

Far from being a solution to economic problems, the British empire was, in Carey's view, an immense burden and waste for the majority of England's people.[96] Also, and perhaps more importantly, in England, as was true earlier for Genoa, Pisa, Venice, Portugal, and Spain, there was a natural connection between the attempt to manipulate world trade and the dominance at home of an aristocracy that was indifferent to the domestic economy.[97]

Imperial Advantage—For Whom?

It was Carey's view that England's "long-continued warfare upon the industry of other nations" was supported by the "mistaken idea that the prosperity of the British people was to be promoted by "stifling in the cradle all the manufactures of the world outside of Britain." Carey likened submission to the British system to "descent towards slavery."[98] As we will see further on, the aggressive promotion of international investment becomes more important in the late 1800s.

The policy of suppressing development was, in Carey's view, essentially unique to England, and it was a long-term policy passed from one generation of rulers to the next. It put England's upper class, much like Zeus, in opposition to the development of human creativity. In Carey's view, rightly or wrongly, only England's policy toward foreign territories among all of history's colonial or imperial powers has been aimed at prohibiting the internal development of those colonies.[99] This policy of suppressing development was not, in Carey's view, an inevitable consequence of an economic system; it was the policy choice of certain socioeconomic groups or interests. That policy choice had disastrous consequences.

> Purely selfish, it [English policy] has sought to annihilate commerce [domestic production and exchange] everywhere, and everywhere to substitute trade—thereby lessening the value of man—increasing the value of all the commodities he needed for his purposes—arresting the development of his intellect—preventing him from obtaining command over the forces of nature—and thus keeping him in that state of poverty which makes him a mere instrument in the hands of the soldier and the trader. For the accomplishment of these objects, the world has been belted round with colonies—alliances have been made and broken—thousands of millions of pounds have been spent on ruinous wars—millions upon millions of lives have been sacrificed; and the result is seen in the fact that she now stands emphatically alone among the ruins she has made.[100]

The schools of thought created to justify this English policy, as in those of Malthus and Ricardo, were, according to Carey, directly opposed to the growth of human progress and to the development of powers that allowed for the control of natural forces for the benefit of people in general.[101] The English establishment's view was that most other people were little different from and little better than cattle. England's upper class didn't appreciate or even recognize that the capacity for reason, based on the ability to formulate ideas using language, allowed for general progress.[102] In the end, Carey's analysis indicated that trade policy and class interests were thoroughly intertwined. Carey asserted that the maintenance of an advantaged position was at the heart of England's trade policy, but also that such a policy had negative consequences for England as a producer.

> A great error exists in the impression now very commonly entertained in regard to national division of labour, and which owes its origin to the English school of political economists, whose system is throughout based upon the idea of making England "the workshop of the world," than which nothing could be less natural. By that school it is taught that some nations are fitted for manufactures and others for the labours of agriculture, and that the latter are largely benefited by being compelled to employ themselves in the one pursuit, making all their exchanges at a distance, thus contributing their share to the maintenance of the system of "ships, colonies, and commerce." The whole basis of their system is *conversion* and *exchange*, and not production, yet neither makes any addition to the amount of things to be exchanged.

> It is the great boast of their system that the exchangers are so numerous and the producers so few, and the more rapid the increase in the proportion which the former bear to the latter, the more rapid is supposed to be the advance towards perfect prosperity. Converters and exchangers, however, must live, and they must live out of the labour of others: and if three, five, or ten persons are to live on the product of one, it must follow that all will obtain but a small allowance of the necessaries or comforts of life, as is seen to be the case.[103]

England's dominant classes were, in Carey's view, simultaneously dependent on and indifferent toward production.

To Carey, it was economic wealth and political power that drove English free trade and colonialism. As noted earlier, Carey suggested that "free trade with the world" was "the object of the now dominant class in England."[104] In one context Carey describes that dominant class as the "landowners of England"; in another as "a great mercantile, manufacturing, and landed aristocracy."[105] In his 1872 book, *The Unity of Law*, Carey quoted an essay by Goldwin Smith in which Smith argued that after the mid-1800s, British capitalists acquired titles, country estates, aristocratic education, and careers in government; that is, they merged with the existing landowning class as part of an oligarchy or a new aristocracy of wealth.[106] This aristocracy, or oligarchy, was, in Carey's view, committed to preserving its own power. That was the essence of England's "monopoly system" and both free trade, given England's economic superiority, and colonialism were methods to preserve and exploit that superior position.[107] The relationship of England's dominant classes to industrial production was opportunistic, not causal. They used it; they did not create it. Unfortunately, Carey did not explore or investigate the makeup of that dominant class and, therefore, did not clarify the relationship between the various parts of that class and the colonial-imperial policy.

Summary

For more than seventy years a rather clear struggle was waged in the United States between the proponents of an English approach based broadly on the ideas of Smith and Locke and an American School, which emerged from the experiences of the colonial period and the American Revolution and from the thinking of Hamilton and his successors. The protectionists, such as Carey, were part of that American School. According to Hudson:

> Neither profits nor the increase in money incomes was the mainspring of economic growth, but the progress of technology and invention, and

> the increasing productivity of the nation's labor, capital and land. In this respect, it would be erroneous to view American protectionist thought primarily as a doctrine of international trade. It was rather a theory of the means by which a nation could most rapidly increase its economic activity by augmenting both the number and the productive powers of its population. Raymond and Rae, List and Carey were in fact able to set forth their basic principles independently of direct reference to the issue of protective tariffs.[108]

The issue was not protectionism or free trade as such. The issue was what would best guide the nation in the effort to improve its general welfare, what should we trust to get us to a better future. Locke offered up an unequivocal answer—the interests of property. Smith added to this that we should entrust the future to those seeking to apply their capital in such a way that it increases their individual wealth—the interests of the investor. Smith allowed for a somewhat greater range of activities for the state than did Locke, but only in reaction to needs defined by the market and the interests of investors. Neither Locke nor Smith nor others of that school allowed for the idea of a society directing its activities to increase its wealth-producing capabilities.

The American School or American System thinkers all believed in the use of government to stimulate, support, and encourage progress in human and technological capabilities. The opposition to this effort in the first seventy to eighty years of the country's history was in the landowning class of the South and an assortment of related interests in the Northeast, plus smaller or less significant elements based on other factors (local interests, individual proclivities, anarchist sentiments, ignorance, etc.). This opposition to American System policies was not a tightly organized collection of people. By European standards, particularly English standards, the opponents of the American System were not fabulously wealthy. They did not have an institutional capacity to formulate national strategies, and they did not have any institutional capacity to implement such strategies. A case could be made that they were more reactive than anything; that is, mobilizing against the initiatives of the Americanists. The things to be protected were land, slaves, freedom of trading, and commercial activities.

In the late 1800s a new kind of opponent to the American System ideas was to emerge. This new opponent would be far better organized, much wealthier, and probably much more aggressive and proactive in its approach to the affairs of the nation than its predecessors. This opponent probably developed at the national level first as an economic group, but it quickly turned itself into a political and social class that would strive to constitute itself as an oligarchy. Things have not always gone well for them, but things have gone well enough for them to cause the rest of us more than enough problems. One of the most astute observers of the changes taking place around 1900 was Thorstein Veblen. He understood better than most that a new kind of capitalist or businessman was developing.

CHAPTER THREE

Emerging Oligarchy: Absentee Owners Take Control

The end of the 1800s and the beginning of the 1900s featured a series of fundamental changes in the nature of American society. Among those changes were the closing of the American frontier, the movement of people away from the farms and the growth of urban areas, the growth of a new urban middle class, large-scale immigration, the decline of small business in favor of large corporations and monopolies, and the emergence of the United States as a world power.[1] In the decades following the Civil War the two tendencies, which were already articulated by the time of Washington's presidency, Smithian and Hamiltonian, continued to be the main rivals in U.S. politics. National policies were often compromises or admixtures of the two. Throughout the post–Civil War period, as noted earlier, the United States was the most protectionist country in the world, perhaps more protectionist than it needed to be in trade with economic equals. Throughout the period, the federal, state, and local governments continued various programs of internal improvements. These ranged from land grants for railroad construction and the funding of agricultural research at the national level to pure-food laws and expenditures for public education at the state and local levels. In 1878 there were only about 800 public high schools in the country. By 1900 there were more than 6,000. The number of students in high school rose from around 100,000 to 520,000 in the same period. Antitrust and labor laws were created at the state level, and there was state regulation of banks and municipal ownership of utilities.[2]

During the period spanning the Civil War to World War, I there were both old and new alternatives to the laissez faire doctrine. Henry Carey published his *Unity of Law* in 1872, and followers of Carey and the American System, such as Peshine Smith, were active in the late 1800s. Political movements emerged to challenge laissez faire, including laborites, progressives, populists, and American socialists, most notably Eugene Debs. In academia the anti-laissez faire Lester Ward became a major figure in American sociology.[3]

In spite of these things, the period from 1865 to the early 1900s is perhaps the most laissez faire period in U.S. history[4] until the 1970s to 2009 period. Laissez faire and the English economists continued to dominate academia, and advocates of laissez faire and Social Darwinism such as Herbert Spencer and William Graham Sumner became highly influential. Spencer's rendition of laissez faire was particularly extreme; he even opposed public health measures and public education.[5] In this period businessmen began embracing the idea of minimum government and were "loath to have it assume positive duties in the interests of the general welfare."[6] Many of those businessmen also developed a practical hypocrisy that allowed them to accept those government actions which benefited them.[7] Businessmen were supported in their laissez faire views by large numbers of judges, lawyers, and Protestant clergy.[8] As early as 1884 this laissez faire opposition to government was extreme enough that some opponents of a proposed law to limit the work day to eight hours labeled the law as "communistic."[9]

This was also a period in which a new type of businessman or capitalist developed. It was this development that preoccupied one of the last well-known intellectual representatives of the American System, Thorstein Veblen. Although Veblen did not use the term, he was describing the development of the economic aspect of an emerging oligarchy, or aristo-finance elite.

Veblen

Veblen continued the American School's focus on production and technology. He also continued the tradition of strong opposition to the English school. Veblen observed that even though Smith did acknowledge that productive efficiency is a good thing, he nevertheless was a pre-modern thinker with little appreciation of machine industry.[10] Veblen pointed out that Smith thought that society's wealth is merely the sum total of all individual gains and that this, and other elements of Smith's viewpoint, led Smith to promote freedom of investment for self-seeking individuals.[11] Veblen also pointed out that for Smith, Ricardo, Malthus, and others, the "ideas of production and of acquisition are not commonly held apart, and very much of what passes for a theory of production is occupied with phenomena of investment and acquisition."[12] In this English "classical school" of economics, the term "capital" can refer to "anything that involves investment and gain."[13]

In Veblen's view, the direct successors to Smith and Malthus in his time were the utilitarians.[14] Like Locke and Smith, the utilitarians asserted that "unrestrained human conduct will result in the greatest human happiness." If anything, the utilitarians were, in Veblen's view, even worse than Smith.[15] Although Smith did recognize the relevance of labor in relation to value, the utilitarians, á la Jeremy Bentham, conceptualized value in terms of what is given up to get something. This idea allowed the utilitarians to make the teleological use of the pleasure-pain principle the key to understanding economic processes. Like Smith and Malthus before them, the utilitarians did not think about the ways humans could shape their world. Instead, the environment is simply accepted and given; people seek pleasure (Smith's self-seeker) and avoid pain within an environment that is simply taken for granted. In important ways, America's economy was not organized to obey the theories of England's classical and utilitarian schools of thought until the late 1800s. It was only then that a class of people developed that not only viewed the economy through Smith's or Bentham's eyes, but was in a position to shape the economy based on those ideas. The class that did emerge in the late 1800s became the focus of most of Veblen's attention. Veblen referred to this class as "absentee owners." Their wealth and organization would allow them to act with much greater impact than the coalition of interests that promoted laissez faire prior to the Civil War.

Veblen and the Problem of Absentee Ownership

As Veblen saw it, the problem of absentee ownership, meaning generally the separation of ownership from use, had been developing over a long period, but it was only after about 1890 that it was becoming the "main controlling factor in the established order of things." By around 1920, according to Veblen, absentee ownership was the most critical form of control over material wealth. It was also a form of business organization, a set of economic interests and tendencies, a type of businessman, and a defining characteristic of the economy. It shaped government in its domestic and foreign affairs and constituted an emerging kind of social class, which was in some respects a throwback to an earlier era. Both absentee ownership itself and its role in the world were in a continuous process of development, part of the "drift of things."[16]

Veblen's concern with absentee ownership focused on the problem it presented to the further development of and employment of industry and technology and, therefore, to the development of human productive powers. This was an issue Veblen viewed as distinct from issues related to wealth, poverty, and inequality. At the heart of Veblen's critique of the economic order as it was unfolding during his lifetime was his charge that it was indifferent to or even hostile toward the economic progress of the majority of peoples.

As Veblen put it:

> It is a question of the effectual use of the country's industrial resources, man-power, and equipment. Investment and corporation finance have taken such a turn and reached such a growth that, between them, the absentee owners large and small have come to control the ways and means of production and distribution, at large and in detail, in what is to be done and what is to be left undone. And the business interests of these absentee owners no longer coincide in any possible degree with the material interests of the underlying population, whose livelihood is bound up with the due working of the industrial system, at large and in detail.[17]

The absentee owner was, in Veblen's view, a new kind of captain of industry. There were two basic kinds as well as others of a mixed type. One kind, which Veblen associated with earlier stages of modern economic development in the United States (roughly up to 1875) and Europe, was the entrepreneur who was a creator and builder. This type of businessman worked directly in the everyday processes involved in making and moving things. This was an era of relatively smaller-scale enterprise and an era of competition and rapid development. This "responsible owner" type gave way to the new type of captain of industry, the absentee owner. The new type was actually in some respects a throwback to earlier owners, or what Veblen saw as "kept classes," classes living off the production of the underlying population.[18] This raises important issues and we will return to this later.

The emerging situation was one in which the physical processes—industry, farming, trade—were carried out by one group of people but controlled by another, a group that not only had no direct connection to the physical creation of and movement of consumable wealth, but also actually had reasons to sabotage that existing process or its progressive development. Absentee ownership, then, existed when the owner ceased to be involved in productive work but had control over the process.[19]

This separation of ownership from workmanship occurred in all areas of the economy. In trade the early figure who handled the buying and selling and arrangements of transportation gives way to the "merchant prince" whose wealth allowed him to hire people to take care of the actual handling of goods.[20] In industry the absentee owner takes the form of the investor and creditor. To some extent these are the kinds of owners favored in the ideas of Locke and Smith. Smith's entire framework is keyed to investors, those who command capital. The direct organizer of production is not an important figure in Smith's ideas. The inventor, entrepreneur, and innovator have no important role. The investor, Veblen observed, is neither producer nor builder; his only interest is in return on investment. According to Veblen:

> Under the new dispensation the owner's guiding interest centered on the earnings of the concern rather than on the workman and their work. The works—mill, factory, or whatever word may be preferred—became a business concern, a "going concern" which was valued and capitalized on its earning-capacity; and the businesslike management of industry, accordingly, centered upon the net earnings to be derived in a competitive market ...[21]

The new captain of industry, the absentee captain, was an investor businessman who was concerned with earnings, not with production or workers. This investor businessman, the absentee owner, was interested in making money, not goods.

The modern corporation developed as a means by which to provide return on investment. As Veblen put it, "the corporation is always a business concern, not an industrial appliance. It is a means of making money, not of making goods." The growing system of production needed capital. The corporation as a form of business organization provided the means by which that capital could be provided. In the process, though, the control over industrial production passed to a system and a group of people who had a financial interest, not an industrial one. The investor who fueled the corporation was interested first and foremost, if not only, in "net gain." This gave money, not machinery, the aura of real substance.[22] This is obviously a dangerous tendency. Making money can come to be at odds with production.

In the development of big business and the corporation this investor was the controlling interest. This absentee owner, whose goal is financial, ends up in control of a system based on knowledge, skill, technology, and machinery. The ownership or control over the system gives the investor the power to destroy that system. Ownership gives someone the power of sabotage; absentee ownership gives someone the same power at a distance. The absentee owner views technology, machinery, buildings, and so on, only in terms of net return. It is the thing's earning capacity that is important, not its production capacity. Earning capacity can be influenced by influencing the prices at which products sell, which, in turn, can be influenced by suppressing production.[23]

The arrival of the big corporation created the possibility of securing return on investment through the organization of industries into monopolies or oligopolies, something Adam Smith had no sense of.[24] Such would also be encouraged by bankers, as lenders or investors, who were much more focused on reliable cash flow than on industrial expansion. All of this could and often did come to rely on the curtailment of output as a way of setting prices and increasing net gain, what Veblen saw as the "whole end and duty of [absentee owned] business enterprise."[25]

In Veblen's view the competitive system came to an end as a dominating influence around 1875 in the United States. Between 1880 and 1890 a new order was appearing in which key industries under the control of absentee owner-controlled big business were brought into a state of cooperation allowing for limits on production. This was a step forwarding the organization of key industries into interconnected, absentee owner-controlled cartels, moving beyond earlier, less successful attempts.[26]

Viewing this also as a continuing process, Veblen[27] noted that

> the several branches and strata of the industrial system overlap and interlock in such a way as to vest a strategically effectual control of the whole in the hands of those who command the standard natural resources and control the key industries. All that remains needful to be done is to bring the several absentee concerns who control the key industries to a settled and facile footing of collusion, and much has been accomplished along that line in the last few years.

One of the key industries brought largely under the control of big business absentee owners was oil. This was also one of those industries in which the same group of absentee owners would dominate both the industry and the financial institutions on which the industry was dependent.[28] Veblen remarked that

> in the course of nature the older oil-fields have passed this [competitive] stage of development and have duly come to rest secure and orderly under the absentee ownership and absentee management of economically regular corporations, of the large and stable type which is known colloquially as Big Business. So also is very much of the business of refining, transporting and marketing the output. These things have already come under the head of business-as-usual and are managed discretely by collusion and coercion on the principle of what the traffic will bear; that is to say, these lines of business run on a settled plan of competition between absentee owners and the underlying population, according to which the absentee management makes the terms for the underlying population on the principle of what the traffic will bear.[29]

One of the most important forces engaged in reorganizing American business and industry was the country's financiers, led by J. P. Morgan. Many of the nation's key industries were ripe for takeover at the end of the nineteenth century. This included the companies in industries such as steel, coal, and railroads. In general, many companies in these key industries had become inefficient, were overcapitalized, developed financial problems, and were operating in competitive markets.[30] Led by J. P. Morgan and his associates, much of the country's key industries were reorganized through mergers or through combination under holding company control.

According to Veblen[31] the holding company "served to bring these industrial business concerns together into larger agglomerations than had been practicable up to that time, and it served also to detach the ownership of these concerns from their management more widely and effectually than before." They also increased the role of credit and corporate finance and elevated the banks to an even more central role in the economy and in the nation's affairs.

The holding company, the credit relationship, and other methods allowed control to be lodged in the "hands of that group of investment bankers who constitute in effect a General Staff of financial strategy and who between them command the general body of the country's credit resources." In Veblen's view, the era of the investment banker arrived roughly in the 1895 to 1920 period, and it is the dominance of the investment banker rather than trust-making that is the real defining factor.[32] The investment banking or financial houses became intertwined with or aligned with commercial banking, and together they administered the country's finances to the benefit of themselves and their clients. Veblen went on to say that "Out of this drift of things the 'Investment Banker' has emerged, to serve as a powerful instrumental factor in working out the new alignment of ownership and industrial business, and presently to take his place as one of the essential" parts of the business community.[33]

At the top of the economy, affairs were increasingly handled via collusion.[34] According to Veblen, the "recourse to mergers and recapitalizations under the auspices of the investment bankers" had led to banking houses becoming "an effectual controlling interest in the corporations whose financial affairs they administer."[35] Corporations are typically overcapitalized, and the payments made to creditors and investors end up being a claim against the product of industry, ultimately at the expense of the worker, consumer, or the industrial process itself. The common interests of the investment bankers have brought on a high level of cooperation and the only remaining competition is "against the underlying population."[36] The collusive corporation itself, or "collusiveness" itself, was a kind of asset; it allowed a price to be set that allowed a higher level of profit. The cooperation itself might create more profit than did the normal operation of business.[37]

Through control of credit, absentee owners also became the corporation's administrators, deciding who gets money or credit, deciding on the levels of output, and making decisions about prices. Credit was extended to corporations tied to banking interests or to those providing the most reliable cash flow.[38] Absentee owners shape the economy. In general, according to Veblen,

> the productive use of the country's man-power and industrial plant, likewise waits on the collusive fiscal strategy of the same custodians of absentee credit. Whereby the livelihood of the underlying population becomes, in the language of mathematics, a function of the state of mind of the investment bankers, whose abiding precept is: When in doubt, don't.[39]

Just as the fate of the underlying population became a function of the absentee owner's state of mind, so did the role of the United States as a nation in the world. Under the dominance of absentee ownership the nation and its government became coercive and predatory, mere instruments of the owners. As an instrument of absentee owners the modern nation is by nature predatory and of use to the owners in their conflicts and competitions with other groups in the world.[40] Under absentee owner domination, the state is used as a vehicle for "force and fraud" outside the country and as an instrument to suppress the "underlying population at home."[41]

This was not inevitable in Veblen's view. That is, the nation can be something else and the state is not necessarily an agent of the absentee owners. Veblen observed that government could be used for other purposes (e.g., to support industrial activity) and that in the United States it was used to further the "material interest of the community" in the first half of the nineteenth century.[42] Elsewhere, Veblen remarked that many positive things might be said about the "nation as an institutional factor in recent times" and he implied that patriotic and national ambitions can operate and have operated to good purpose.[43]

Veblen thought, however, that once a nation was committed to imperialist policies, as it is under the rule of absentee owners, its foreign policy would serve the interests of property and big business. According to Veblen, absentee owner-led foreign involvement meant that

> external politics (war and diplomacy) take precedence of its domestic concerns. The exigencies of external politics are paramount, and the conduct of internal affairs therefore are in effect, required to conform to the needs of the nations' external policies. And the administration of external politics, being in the nature of an enterprise in chicane and coercion, is necessarily furtive, runs forever on sharp practice, carefully withholds "information that might be useful to the enemy" and

> habitually gives out information with intent to deceive. In effect, external politics is a blend of war and business and combines the peculiar traits of both.[44]

Veblen observed that in public, the representatives of absentee owners, including government officials, tried to present absentee owner interests abroad as the nation's interests. Otherwise, the absentee owners tried to keep the underlying population in a state of ignorance.[45]

> Statecraft as a gainful pursuit has always been a furtive enterprise. And in due proportion as the nation's state craft is increasingly devoted to the gainful pursuit of international intrigue it will necessarily take on a more furtive character, and will conduct a larger proportion of its ordinary work by night and cloud. Which leads to a substitution of coercion in the place of consultation in the dealings of the official personnel with their underlying population, whether in domestic or foreign policy… So, therefore it also follows that any overt expression of doubt as to the national expediency of any obscure transaction or line of transactions entered into by the official personnel in the course of this clandestine traffic in gainful politics, whether at home or abroad, will presumptively be seditious; and unseasonable inquiry into the furtive movements of the official personnel is by way of becoming an actionable offense; since it is to be presumed that, for the good of the nation, no one outside of the official personnel and the business interests in collusion can bear any intelligent part in the management of these delicate negotiations, and premature intimation of what is going on is likely to be "information which may be useful to the enemy."[46]

Beyond this, Veblen's discussion of imperialism was quite limited and seems to be an area where his knowledge was also limited. He seemed to be unaware, for example, of arguments in favor of protectionism and unaware that free trade might in certain circumstances be an imperialist strategy.[47] He also seems to have been unaware of Carey's arguments about this, or he was unimpressed by them.

Veblen's Conclusions

Veblen viewed this class of absentee owners as a force at odds with progress and opposed to any sharing of power. The "concrete working-out" of the interests and tendencies of absentee ownership were in conflict with the "full and orderly operation of the industrial system."[48] Those people directly involved in this industrial system are inclined to realize its potential, while absentee owners were interested in suppressing that potential to support high prices and were in general prone to pursue financial gains by extracting money from the industrial system. Their tendency to overcapitalize, their focus on return from investment, and their everyday separation from industrial processes made maximization of production unthinkable. Veblen emphasized the financial aspect of this in the following:

But such a free run of production [creating and adopting all possible technologies],

> such as the technicians would be ready to set afoot if they were given a free hand, would mean a full employment of the available forces of industry, regardless of what the traffic would bear in point of net profit from sales; it would bring on such an inordinate output of vendible goods and services as to glut the market and precipitate an irretrievable decline of the price-level, and consequently also a fatal decline of earnings and a default and liquidation of capitalized intangibles. Therefore such a free run of production has not been had nor aimed at; nor is it at all expedient as a business proposition, that anything of the kind should be allowed.[49]

The tendency to oppose technical progress for pecuniary reasons was reinforced in Veblen's view by the pre-industrial, feudalistic nature of this class's orientation to property.

> Included in the scheme of ownership as it stands in recent times there is also an alien strain, not warranted by the principles of Natural Right and not traceable to workmanship [i.e., some kind of contribution to the physical process of production and distribution]. Ownership of natural resources—lands, forests, mineral deposits, water-power, harbor rights, franchises, etc.—rests not on a natural right of workmanship but on the ancient feudalistic ground of privilege and prescriptive tenure, vested interest, which runs back to the right of seizure by force and collusion. The owners of these natural resources own them not by virtue of their having produced or earned them, nor on the workmanlike ground that they are making use of these useful things in productive work. These owners own these things because they own them. That is to say, title of ownership in these natural resources is traceable to an act of seizure, legalized by statute or confirmed by long undisturbed possession. All this is wholly foreign to the system of Natural Rights, altogether at cross purposes with the handicraft principle of workmanship, but quite securely incorporated in the established order of law and

> custom. It is, in effect, a remnant of feudalism; that is to say, absentee ownership without apology or after thought.[50]

Ownership without justification is ownership justified by itself; it is an absolute. This idea of property as a right justified by its own existence and a right derived from the past was in Veblen's view a throwback to the concepts of feudalism. Thus, he argued that the rights of absentee ownership are a holdover from common law and from feudalistic principles and that such rights provided the foundation for the "rights, powers, and immunities of ownership." No violation of those rights is to be tolerated. Constituted authorities, Veblen argued, have come to be the defenders of "the rights, powers, and immunities of absentee ownership, at any cost to the underlying population."[51] This, along with the economic power of absentee ownership, would make property, or big property, the central focus of the economy and the society, all in the spirit of John Locke.

Through the control of credit and the key industries, absentee owners had become the dominant force in the economy and in the political affairs of the country. They had transformed the country into an instrument of absentee owner ambitions abroad. Veblen's presentation of this bleak picture of the United States in the early 1920s did not mean he had no hope for the future. He noted that technical creativity and innovation continued to take place and that organized labor might take part of the money away from absentee owners.[52] More generally but vaguely, Veblen[53] suggested that it was always possible that parts of the population will seek ways to rearrange things so that they work better for the underlying population. The Great Depression would soon create the conditions in which some rearrangement would take place.

Veblen's analysis of the economy and of the emerging power of absentee owners would have been even more powerful if he had been able to see what was only nascent in his time, that is, the political and social organization of the upper class. Veblen thought of the absentee owner class as a throwback to earlier times and as a kind of aristocratic "kept class" that lives off the production of the underlying population. They were, in fact, developing into an American version of what Cain and Hopkins have called the English "aristo-finance" elite. By the 1920s the absentee owners had not only achieved a high level of economic organization, but they were also creating a high level of social and political organization.

The Self-Organization of Absentee Owners

The organization of absentee owners into a coherent national force did not happen in one year or one decade. It probably had some origin in marriages and business alliances from the early history of the country and even earlier in the colonies. It has been shown, for example, that there were extensive connections in the form of interlocks among boards of directors of banks, insurance companies, and railroads at the local and regional level well before the Civil War.[54] After the Civil War, railroads were a primary focus of attempts to privately organize and regulate the economy. Dissatisfaction with the results of these private efforts led to corporate and banking support for federal regulation in the form of the Interstate Commerce Commission, created in 1887. For decades, the Morgan interests, which controlled many of the railroads, influenced and shaped federal regulation.[55] Interlocking of corporations beyond the local level began primarily with railroads and banks in the 1880s and was extended to other core industries in the 1890s (coal, telegraph, meat packing, petroleum, sugar refining).[56] This coincided with the emergence of the large corporation as the dominant form of business organization. Between 1896 and 1905 the largest 100 corporations increased their size by four times and came to control 40 percent of the industrial capital.[57]

Corporate interlocks remain a significant factor up to the present, although some of the role they played in 1905 may have been taken over by other forms of organization.[58] Also of continuing importance is the role of financial institutions, which played a critical role in all of this beginning with the railroads in the 1880s.[59]

In Veblen's analysis, bank or financial control of corporations was one form that absentee ownership took, the other being control by investors who were not part of the everyday workings of the industry. Up to 1919 the leaders in this were the investment banks. Commercial banks and insurance companies became more important after that. Financial institutions increased their level of interlocking with nonfinancial corporations during the middle of the twentieth century. Throughout the period from the 1880s up to, at least, the 1980s, the leading financial institutions were associated with the names of Stillman, Baker, Rockefeller, and, above all others, Morgan.[60]

Much of this situation was documented by a subcommittee of the House Committee on Banking and Currency created after Democrats took control of the House in 1910. Some of this was being presented in what Teddy Roosevelt called the "muckraker press." Important parts of it were reported earlier (1905) by Sereno Pratt, associate editor of the *Wall Street Journal*. The House subcommittee came to be known as The Pujo Committee after its chairman, Congressman Pujo of Louisiana. The Pujo Committee focused on the growing concentration of control over money and credit with a focus on New York City. This concentration had been achieved through consolidations, group control of separate institutions, confederation based on interlocking directorates, and the influence of financial institutions on "insurance companies, railroads, producing and trading corporations, and public utility corporations, by means of stockholdings, voter trusts, fiscal agency contracts, or representation upon their boards of directors" or as a source of credit and finance.[61] Also, a variety of joint operations and partnerships have contributed to concentration.

The Pujo Committee's investigation of the period leading up to 1911 identified a network of financial institutions led by J. P. Morgan & Company and its sister company in Philadelphia, Drexel and Company. Managing these firms was a group of eleven members: J. P. Morgan, E. T. Stotesbury, Charles Steele, J. P. Morgan, Jr., Henry P. Davison, Arthur E. Newbold, William P. Hamilton, William H. Porter, Thomas W. Lamont, Horatio G. Lloyd, and Temple Bowdoin. George W. Perkins was also a member of this group from 1901 to 1911. The financial institutions controlled by or aligned with this group included J. P. Morgan and Company; Drexel & Company; First National Bank of New York; National City Bank of New York; Lee, Higginson and Company of Boston and New York; Kidder Peabody & Company of Boston and New York; and Kuhn Loeb & Company. Morgan had partial ownership of First National City (with George F. Baker) and J. P. Morgan, Davison, and Lamont were on its board. J. P. Morgan & Company and First National controlled another important New York bank, Bankers Trust. Morgan and First National also controlled Guaranty Trust and Astor Trust Company. The Pujo Committee also concluded that a close relationship had recently developed between Morgan and the National City Bank,[62] joining Stillman-Rockefeller interests to Morgan's. The group also became involved in the sole or shared control of National Bank of Commerce, Liberty National Bank, Chase National Bank, Farmers Loan & Trust, and the Equitable Life Assurance Society. The Morgan group controlled or had a share in the control of a large number of railroads and other corporations. Among the more notable companies were the Atchison, Topeka & Santa Fe Railway, American Can Company, General Electric, United States Steel, AT&T, and Western Union. The members of J. P. Morgan & Company alone held seventy-two directorships in forty-seven large corporations.[63]

The Morgan interests had pioneered or contributed to a system of "intercorporate relations that transcended the individuals who comprised that structure."[64] In addition to financial control of corporations, the system of ownership, as Veblen correctly noted, was shifting. The family or small group-dominated company was giving way to a system of socialized ownership where individuals had investments in many companies and companies had many owners.[65] These corporate directors were also connected to each other through social clubs, cultural organizations, and groups created to advise government.[66] In the period from roughly 1900 to the mid-1920s a variety of very important organizations would appear. This included two organizations which we will focus on next—the National Civic Federation (1900) and the Council on Foreign Relations (1921). It also included the Institute of Pacific Relations and the International House, both formed in the mid-1920s. The modern think tank appeared by this time with the creation of the Hoover Institution in 1919 and the Brookings Institution in 1927. A number of upper-class foundations were also created in this period, including the Russell Sage Foundation (1907), the Carnegie Corporation (1911), and the Rockefeller Foundation (1913). These foundations served economic and political purposes. Money could be sheltered from taxation but still be under upper-class control, and the money given out could be directed to causes or organizations favored by upper-class interests. Other elements of upper-class life also developed in this time period. For example, ten of what Cookson and Persell[67] have identified as the elite sixteen prep schools were created between 1883 and 1906. The Social Register, long considered the guide to who was in or out of the real upper class, was started in 1887. The Bohemian Grove was created in the 1890s providing a meeting ground for elites from politics, business, and the upper class. Description of the organization of and much of the history of the upper class in the United States can be found in the various books by G. William Domhoff.[68] From early on there have been warnings that the development of a super rich and socially isolated elite threatened the "fundamental principles of a republic."[69]

As the earlier text indicates, between the late 1800s and the 1920s a long and continuous process of upper-class self-organization got under way. Many of the people involved in this were absentee captains or owners of industry, and some of them continued to be such absentee owners, but in the process of self-organizing they were also creating something that was a kind of private government. The most important development in this regard was the creation of the Council on Foreign Relations, an organization that also symbolized the growing interest among absentee owners in extending their influence into areas outside of the United States. The council's official creation in 1921 was quickly followed up by several other related ventures, including International House and the Institute of Pacific Relations.

The creation of national corporate organization and the emergence of organizations involved in formulating policy for the nation signify a major change in the nature of America's economy and its class system. It did not mean the end of the firm or of the importance of markets and profits, but it did mean that many decisions related to the economy and the affairs of the nation would be made in the context of a new form of social organization. Two examples of this new national corporate organization were the National Civic Federation and the National Industrial Conference Board. The first of those is the more significant one in the present context even though it had a relatively short life span.

The Conference Board, as it came to be known, survives as an important corporate organization to the present time. However, in its early history it was probably of less significance. It formed in 1916 as an amalgamation of twelve existing business and trade associations, and it acted initially as a research organization that had ties to small- and medium-sized businesses. In the 1930s and 1940s it adopted extreme right wing positions. Through the early decades it was not very effective and did not really represent the absentee owner or aristo-finance interests. That would change later, by the 1960s, as the organization came to be dominated by internationally oriented big business.[70] We turn then to the National Civic Federation, which was for a time more significant.

National Civic Federation

The National Civic Federation (NCF) was formed in 1900 with its headquarters in New York City. Its early supporters included Teddy Roosevelt and Roosevelt's Secretary of State Elihu Root.[71] As we will see, Root was playing a major role in shaping America's role in the world—transforming the United States into an imperial power. NCF's founders apparently used the Chicago Civic Federation, created in 1894, as something of a model. They were also influenced by the Church Association for the Advancement of the Interests of Labor, a reform group led by leaders of the Episcopal Church.[72] The NCF was a response to problems and circumstances (e.g., business-labor conflicts, economic instability, rapid change); it was a way to bring together forces that might otherwise operate at cross purposes or as rivals. The organization was made up of leaders from about one-third of the 300 largest U.S. corporations and it included politicians (notably Grover Cleveland and William Taft), some reformers, academics, and labor leaders.[73] Its first leader and a top official for forty-five years was Ralph Montgomery Easley.[74] The NCF was closely associated with the American Association for Labor Legislation, which was created in 1906. That organization was financially supported by many of the wealthiest people in the United States (John D. Rockefeller, Charles Cabot, Felix Warburg, etc.) and by foundations, and it worked in ways consistent with the NCF's efforts. Morgan interests were involved with the American Association as leaders and financial backers.[75] The NCF would be of use to corporate interests in several major areas: dealing with corporate competition and rivalry; creating a practical relationship with conservative labor leaders; dealing with numerous and often problematic policies of various state governments; and formulating an idea of the right kind of government role in the economy.[76] Although the NCF was more flexible and pragmatic than the forces around the National Association of Manufactures, it was deeply opposed to socialism and wanted to minimize the role of the federal government in any changes or reforms.[77]

One of the most important of the issues that the NCF dealt with during the two decades in which it was a significant force was the development of some role for the federal government in the regulation of business. Among the reasons to consider the bigger role for government were business-labor conflicts, unwanted competition, and the danger of a type of reform that would damage big wealth. There was an assortment of socialists, radicals, labor groups, antimonopoly populists, and reformers who wanted change.[78] After several years of exploring this issue, the NCF polled 30,000 businessmen in 1911 and claimed that the poll showed that most businessmen favored an interstate trade commission similar to the Interstate Commerce Commission (ICC). The ICC, as noted earlier, was created in part to solve the problems of railroad owners. Such efforts at self-regulation were supported by Morgan and other financial interests.[79] It was apparently ideas favored by the NCF that became the basis for the Federal Trade Commission Act of 1914.[80]

The Federal Trade Commission (FTC) was not created as an anti-big business government organization. Instead, it was the result of efforts by the big business community to use government to eliminate cutthroat competition and to establish rules for corporate behavior. The FTC Act provided no means to reverse economic concentration, and some of its provisions could actually facilitate price agreements. It was compatible with the drift of things. Under FTC procedure, complaints about business would often be handled in informal proceedings. The system being created was shot through with discretionary decision-making and therefore open to influence. The creation of some level of cooperation had been partially accomplished through private means in areas such as steel and banking and with government assistance in railroads with the creation of the ICC.[81] The FTC was intended to further those efforts.

A complete or near-complete private organization of important industries remained unachievable. Kolko has made the case that in the beginning of the twentieth century many of the key sectors of the economy were becoming more competitive in spite of the efforts toward cartelization. For example, Kolko observed that in the first decade of the twentieth century, the role of the leading New York banks was declining a little and that the Federal Reserve Act, not private action, actually enhanced the role of those banks.[82] Kolko argued that in a number of areas of manufacturing there was more competition and instability after 1900 than before in spite of the wave of mergers that took place between 1897 and 1901. In Kolko's view, the evidence indicates that it was the failure through private means to reduce the instability and insecurity of the market that led big business to become the leaders in the fight for government regulation.[83] In this regard, Kolko noted that the effort to consolidate the steel industry between 1899 and 1909, including the creation of U.S. Steel, essentially failed. As of 1909 there were still eleven other sizable firms and 208 companies that had blast furnaces.[84] Even in the case of oil, Kolko pointed out, Standard's share of refining fell from 90 percent in 1900 to 80 percent in 1911 to 45 percent in 1926 and it faced new competition from the Texas Company, created in 1902, and from Gulf Oil, created in 1907.[85]

The FTC grew out of the work of the NCF, particularly the NCF's 1907 National Conference on Trusts and Combinations and the 1911 polling mentioned earlier.[86] The creation of the NCF and the 1907 conference were attempts to shape the national environment in which corporations operated, especially that part of the environment that involved the enforcement of antitrust law and government regulation of business. This went beyond the familiar efforts by large corporations to manipulate and control the forces with which they contended in the processes of hiring, buying, and selling.

NCF leaders thought that part of the price of national domination was acceptance of social responsibility. They wanted things like workmen's compensation, minimum wage, public utility regulation, and child labor laws, but they wanted all of this handled at the state or local level.[87] Also, reforms in these areas were approached with a heavy dose of self-interest. For example, only some big business interests accepted the unions, and they accepted only the more conservative ones, and those interests were opposed to further growth in the union movement.[88] In the early years of the NCF there was an attempt to get the unions to act more as mediators between corporations and labor than as representatives of labor.[89] Also, some of NCF's proposals were intended to forestall more dramatic measures and were as business friendly as the NCF could make them.[90] In some areas the problems were just too extreme to be ignored. For example, part of the widespread support for workmen's compensation was fueled by the huge death and injury problems. Between 1888 and 1908 there were 35,000 killed and 536,000 injured annually in work-related events.[91]

Some of what NCF did was to weaken existing laws. For example, even though the Sherman Antitrust Act did not prevent the corporate merger and acquisition movement of the 1897 to 1904 period, NCF people proposed to weaken the Sherman Act by establishing a procedure whereby federally registered corporations could notify the government of an intercorporate arrangement or of a merger and if the government didn't object within thirty days, it would be legal. This plan was proposed in the Hepburn Bill, which apparently died in 1908 in part because Teddy Roosevelt objected to a concession to labor in the bill that exempted unions from prosecution under the Sherman Act.[92]

The NCF and associated efforts brought corporate interests into a governmental role, writing legislation and creating policy. The NCF held the conferences, and government participated at the NCF's invitation.[93] This would eventually become the way things usually worked. The leading forces behind the National Civic Federation were interests that were part of or associated with the Morgan group. Among the NCF's leaders and top financial backers was George W. Perkins, a vice-president of New York Life and a partner in J. P. Morgan & Company from 1902 to 1911, who played a prominent role in the country's politics.[94] Another leader of the NCF was Elbert H. Gary who was known as Morgan's man at U.S. Steel.[95] Other NCF leaders included major figures in business and finance, including Andrew Carnegie, August Belmont, Marcus Hanna, Samuel Insull, and Charles Francis Adams, and, as noted earlier, two American presidents, Cleveland and Taft.[96]

The NCF would not last, but as James Weinstein pointed out, it represented for the nation's elite a move away from specific corporate interests to a longer-term, national, social, and political outlook.

> Yet even at this early stage of the Civic Federation's development, its leaders were concerned with more than the immediate, or direct, relationship between the employer and his workers. That is, the business leaders who participate in the activities of the NCF had transcended a narrow interest-consciousness and were emerging as fully class conscious. In 1910, George W. Perkins explained that "the officers of the great corporation instinctively lose sight of the interest of any one individual and work for what is the broadest, most enduring interest of the many." Their situation at the "commanding heights" of American industrial life enabled them to view matters "from the point of view of an intelligent, well-posted and fair arbitrator." What this meant was that the businessman was merging "into the public official." "No longer controlled by the mere business view," he was more and more acting "the part of the statesman." Frank A. Vanderlip, president of the National City Bank, shared Perkins' view. "We should demand," he wrote to Ralph Easley, that leadership in business be "accompanied by a more thorough spirit of service to the community at large."[97]

Setting aside the self-serving remarks about serving the community, at least two things are of interest in the comments quoted by Weinstein. First is the emphasis placed on the idea of rising above particular economic interests. This became much easier as America's upper class moved from being industrialists to absentee owners and, as we will see, to gentleman capitalists. We will turn to that third incarnation next. The second point of interest is that George W. Perkins, a representative of the Morgan interests, used the language of government and politics to describe this new transcendent capitalist, indicating that this economic class was thinking of itself as a governing class. In a sense they became absentee owners of the nation's economy and of the nation as well. This new level of organization, above particular corporations or groups, could also mean that business organizations could serve class interests.

Gabriel Kolko has also noted that an essential transition was occurring. According to Kolko, the period from 1900 to World War I is not one in which reform led to governmental regulation of business, but, rather, a period in which the major economic interests gained control over politics, creating a type of political capitalism. Political regulation of the economy was only acceptable once a substantial control of politics was achieved.[98] Kolko explains that this is a key to understanding the Progressive Era.

> It is business control over politics (and by "business" I mean the major economic interests) rather than political regulation of the economy that is the significant phenomenon of the Progressive Era. Such domination was direct and indirect, but significant only insofar as it provided means for achieving a greater end—political capitalism. Political capitalism is the utilization of political outlets to attain conditions of stability, predictability, and security—to attain rationalization—in the economy.[99]

Rationalization included a reduction in competition, some level of planning, and protection from democratic forces.

The convergence of political and economic elites created what was later termed "The Establishment."

> This identification of political and key business leaders with the same set of social values—ultimately class values—was hardly accidental, for had such a consensus not existed the creation of political capitalism would have been most unlikely. Political capitalism was based on the functional unity of major political and business leaders. The business and political elites knew each other, went to the same schools, belonged to the same clubs, married into the same families, shared the same values—in reality formed that phenomenon which has lately been dubbed The Establishment.[100]

By around 1900 most of the business elites were from privileged families, and the leaders of business and finance were part of the country's social elite.[101] Kolko implies that this Establishment emerged in the 1890s.[102] It may be more accurate, as we saw earlier, to say that it emerged over a period of several decades, from the 1890s to the 1920s.

The first major organization to display the new political or governing orientation of America's absentee owners that would survive to the present was the Council on Foreign Relations. This organization, which has been credited with at least influence, if not power, over the nation's affairs by people from all parts of the political spectrum, was and is in fact a thing of great significance. The interests associated with this organization would find most of the American System approach to be unacceptable. They would attempt to impose the ideas of Locke and other English thinkers on the United States. The creation of the Council on Foreign Relations, more than the NCF, reflected the development in the United States of a class of people that was similar in many respects to England's aristo-finance elite.

Council on Foreign Relations

The Council on Foreign Relations (CFR) was founded in 1921, taking its name from an organization started in New York in 1918 by Elihu Root and much of its original leadership from a group that gathered at the Paris Peace Conference at the end of World War I. That group was closely connected to J. P. Morgan and Company, as was Elihu Root. The CFR organization was, in some respects, an alternative to and substitute for what the British had hoped would be an English-affiliated American Institute of International Affairs.[103] The American group, which met their British counterparts in Paris, was put together by President Wilson's chief of staff, Colonel Edward House, and was known as the Inquiry group. Wilson had asked House to put this group together in the fall of 1917. This was, in part, a reflection of Wilson's lack of confidence in Secretary of State Lansing. Whatever the case may be there, Wilson was often relying on a man, Colonel House, who deceived and manipulated him and who was more consistently pro-British than was the president.[104] The Inquiry's members included Thomas W. Lamont of the Morgan bank, Walter Lippman, George Louis Beer, Whitney Shepardson, James Shotwell, and Archibald Cary Coolidge. At least half of the Inquiry personnel came initially from five institutions—Harvard, Yale, Princeton, Columbia, and the American Geographical Society.[105] Within this group there was an interest in promoting some kind of free trade.[106] A number of the Americans (Beer, Lamont, Shepardson) had been closely associated with the British Round Table Groups from which the Institute of International Affairs was formed.[107] The Round Table Groups had been initiated in 1891 by Cecil Rhodes and were led by, among others, Rhodes, Lord Milner, Lionel Curtis, and Lord Lothian. The purpose of the Round Table Groups was to coordinate the policies of all English-speaking countries in such a way as to perpetuate the British Empire. Racism played a major part in all of this, as indicated in the following:

> At the time of the Paris Peace Conference in 1919, Lord Milner, then Colonial Secretary, represented par excellence the ideals of enlightened British Imperialism. In his own phrase he was "a British race patriot" in much the same sense that Cecil Rhodes had in mind when he founded the Oxford scholarships. One of Milner's key ideas was to draw the United States into the colonies, possibly as a mandatory power in Africa or the Middle East, and to bring certain Americans with pro-British sympathies into the affairs of the British Empire. It was the vision of an Anglo-American colonial alliance.[108]

Lord Milner was a self-described imperialist and race patriot who emphasized the goal of British racial solidarity across national boundaries. The alliance between U.S. and English upper classes was a crucial part of this plan.[109] The American Inquiry group, generally pro-British and pro-imperialist, was linked to the Round Table through Lamont, Shepardson, and Beer.[110]

When the American Institute of International Affairs, created in Paris by Lamont, Lippman, Beer, and others, merged in 1921 with the Council on Foreign Relations, the council's first president was the Morgan group's chief counsel, John W. Davis, who would be the Democratic Party's presidential candidate in 1924.[111] Elihu Root became the CFR's first honorary president. As we will see later, this is of major symbolic importance, given Root's role in the development of imperialist policies. Generally, the early leadership of the CFR was drawn from what Veblen would have called the absentee owner class. It was from the world of finance, the investor class, elite universities, and the law firms that served those interests that the founders and early leaders came. Most of the original fifty-one members were bankers and lawyers.[112] CFR connections to American industry were mostly indirect and limited to the groups that financed, held stock in, and occupied seats on the boards of directors of industrial firms. In other words, money and finance played the leading role.

Inderjeet Parmar analyzed the CFR's fifty-five directors and officers serving from its creation in 1921 up to 1946. Apparently, few if any of these men could be described in any meaningful way as industrialists. They did hold directorships in dozens of corporations, banks, investment houses, and insurance companies. Significantly, forty-four of the fifty-five declared membership in a social club, each having on average more than three such memberships. This is an important indicator of the gentleman status of the early CFR leaders.[113] Twenty-three of the forty-four were members of one club—the Century in New York City. Nine of the fifty-five were members of British clubs. Twelve of the fifty-five had held appointed positions in government, and others had been ambassadors or had done some other kind of work with government.[114] While a lower percentage of the CFR group attended exclusive private schools than did a comparable group of Royal Institute of International Affairs leaders (50 percent versus 84 percent), this may be partly due to the relatively recent development in the United States of a coherent national upper class. My own examination of the fifteen original directors found that eight of the fifteen received at least part of their education at Columbia, Harvard, or Yale. Two of the fifteen were Harvard professors, and three others held some kind of academic post. Although several of the fifteen held directorships in industrial firms, none were executives in such firms.[115] This was, overall, a very gentlemanly group of financiers, lawyers, and well-to-do academics. It was this network of people that came to be referred to as "the Establishment." That term was first used in the 1950s by Henry Fairlie to refer to a network of elites in Great Britain and then used in 1961 by Richard Rovere to refer to a similar network in the United States, one that was, to some extent, centered in the Council on Foreign Relations.[116]

Great Britain and the CFR's Purposes

Godfrey Hodgson observed that "the foreign policy establishment, as I understand it, is defined not by sociology or education, and still less by genealogy; but by a history, a policy, an aspiration, an instinct and a technique."[117] While I don't agree that the establishment's "sociology" should be overlooked, I do agree that the Establishment must be understood in terms of its history, policies, aspirations, instincts, and techniques (or methods). As we will see next, one of the most common mistakes made with the history of the Establishment is to begin its examination with World War II or with the Paris Peace Conference and World War I. To do this is to leave the roots of today's foreign policy partly, perhaps substantially, unexposed.

Certainly, the Establishment's aspirations are critical. One of those original fifteen directors of the CFR was Edwin F. Gay. Gay was president of the *New York Evening Post*, owned by Thomas W. Lamont of J. P. Morgan & Company,[118] and longtime (1908–19) dean of Harvard's Graduate School of Business Administration. Long before the CFR was created, Gay had said "When I think of the British Empire as our inheritance I think simply of the natural right of succession."[119] According to Hodgson, the American Establishment viewed itself as "the lineal heir of Britain, and to a lesser extent of the other European powers, especially France."[120] Edwin Gay was referring to the rising role of American interests in the world and to the close connection this had to the British upper class and the British Empire. Consciously or not, he was also alluding to the aspirations of the U.S. Establishment, a focus of the next chapter. First, a few things need to be noted about the developments leading up to the creation of the CFR.

From the 1890s to the 1919 Paris Peace Conference was a period in which there were conflicts over the nature of the United States' relationship with England and over the question of America's role in the world. For example, President McKinley did not share the enthusiasm of his Secretary of State Hay or of his successor in the White House, Teddy Roosevelt, for a foreign policy based on a close alliance with England.[121] Also, a predecessor of Hay's, Secretary of State Richard Olney, had supported an interpretation of the Monroe Doctrine in 1895 that would have defined England's relationship to Canada, New Zealand, Jamaica, Trinidad, British Honduras, and British Guiana as unnatural. There was also significant opposition to imperialism in general in the U.S. population and in Congress. The overall drift of things within higher circles, however, was in the direction of an imperial role for the United States and a close alliance with England.

As the 1800s came to an end, it was clear that in one fashion or another, the United States was about to be more involved in world affairs. England was anxious to ensure that the United States would be an ally, particularly in England's competition with European powers.[122] Those people in England and in the United States who supported imperialism saw America's acquisition of the Philippines and the invasion of Cuba as proof of America's new global importance.[123]

One of the early efforts at joint action between Great Britain and the United States was in regard to trade with and loans to China.[124] England enjoyed over 70 percent of China's trade and wanted U.S. cooperation in protecting England's position against France, Germany, and Russia and their efforts to secure zones of influence in China. President McKinley offered little more than sympathy for England's goal of preserving its position. McKinley and Secretary of State John Sherman may have thought that England was trying to get the United States to fight its battles in China, or McKinley was just in general opposed to an economic-political alliance with England.[125] McKinley maintained this position against his later Secretary of State, John Hay, who was an enthusiastic advocate for a global U.S.-British alliance.[126]

Once Sherman and then McKinley were gone, the way was open to a much closer relationship between the United States and England. When Teddy Roosevelt replaced McKinley, an enthusiastic imperialist replaced a more reluctant warrior.[127] Under Teddy Roosevelt, the United States would not only move closer to England, but would even change the official understanding of the Monroe Doctrine to allow England and others the right to take action against countries in the Western Hemisphere so long as no occupation of territory was involved.[128] Teddy Roosevelt thereby moved the United States in the direction proposed by England's imperial strategist Cecil Rhodes during the decade prior to his death in 1902.[129]

Consistent with this, the Russo-Japanese War of 1904–5 brought New York and London banks into a joint effort to make financial resources available to Japan.[130] Although not all U.S. banking interests were cooperating with England, there was close cooperation between the House of Morgan and the Chase National Bank in the United States and the city of London.[131] In London and New York there was a desire to build this cooperation on a private base as much as was possible.[132] When the U.S. and British elites met in Paris in 1919, they continued that effort to form private alliances.[133]

During this time, from the 1890s up to the 1920s, the British did what they could to protect their interests, but the growing economic power of the United States and England's growing problems in maintaining its global role forced England to rely more and more on its relationship with the United States. This was true in the Middle East and Russia, where England found that it could not control oil supplies by itself. At the end of 1922 the English had opened up the Middle East and Russia to shared control with the U.S. oil companies.[134] The "open door" in the Middle East thereby came to mean Anglo-American management of oil with the possibility of subleases for other interests. Winston Churchill, for decades a leading political figure in foreign policy, had written in 1922 that as long as "Americans are excluded from participation in Iraq oil we shall never see the end of our difficulties in the Middle East."[135]

Michael Hogan has observed that

> in Mesopotamia, when the distinction between private and governmental responsibility blurred, the State Department was forced to redefine the Open Door, bringing it into line with the realities of business enterprise as defined by private petroleum officials. This permitted the institutionalizing of Anglo-American cooperation at the private level, allowed American interests a share in Middle Eastern resources, preserved the ban on state management, and avoided politically destabilizing economic competition.[136]

Hogan went on to say that new arrangements in Mesopotamia, Latin America, and Persia reflected a shift from more nationalistic and competitive relations to a new accommodation based on the ideas of managed and "cooperative capitalism."

The cooperation in the Middle East strengthened British interests against the threat of communism and of "revolutionary nationalism."[137] The Anglo-American relationship developed in close connection to cooperation on oil and banking, with J. P. Morgan & Co. playing a leading role in the development of financial cooperation. The goal was to build these relationships along private lines as much as was possible.[138] The Royal Institute of International Affairs (or Chatham House) and the Council on Foreign Relations and the relationship between them were to be the basis for this arrangement, joining the Establishment in the United States to the gentleman elite in England. The creation of the institute and of the CFR took place in the context of diverging situations for the two countries, making the establishment of common purpose both difficult and necessary. The British upper class was rooted in a pre-industrial, quasi-feudal past. The American upper class developed in an industrial period and had closer connections to industry than did its English counterpart. The state in England had long been firmly under the control of the upper class; somewhat less so in America. The British upper class at the beginning of the 1900s was showing signs of stress and deterioration.[139] The U.S. elite was clearly on the rise. In spite of these and other differences, Parmar asserts that a comparison of the CFR and the Royal Institute at the time of their creation indicates that their "aims and aspirations, their ideas about the world were almost identical."[140] We need to explore this in order to understand the nature of the imperialism promoted by the Council on Foreign Relations and the various private interests that are related to the council.

Based on his extensive analysis of the Royal Institute and the CFR, Parmar has identified a shared outlook.[141] The leaders of both the CFR and Chatham thought that they were objective and impartial and even scientific in their approach to issues when in fact their thinking was heavily biased. Both elites thought that the masses were incapable of real insight, a view promoted in the United States by Walter Lippman and, recently, by the so-called neocons. In his 1922 book, *Public Opinion*, Lippman argued that there was a need for a "new secular intellectual priesthood" that would instruct both the general population and its elected representatives on how to think about the world.[142] This arrogance is rather natural for people with their background (isolated, insulated, privileged) and their purposes (global dominance). Both the English and American elites intermixed their political views with their religious beliefs. Both groups could tolerate some reforms and government programs while they still maintained an essentially Social Darwinist view of the world. Both groups agreed on the need for an international order and international institutions, led by them of course, and they believed in the necessity of an open world trading system, meaning a system free of unwanted government intervention and open to investment.

It is this final point that constitutes the focus of the next chapter. An "open world trading system" was one of the two primary strategies of global power employed by the English upper class; the other was colonialism. The American upper class would not in any serious, sustained way entertain colonialism as a viable international strategy. From early on in its existence, the U.S. Establishment would opt for "free trade" as its primary method. To understand this we need to better understand the English imperialists, their U.S. successors, and the nature of imperialist free trade. The creation of the CFR signified that Veblen's absentee owner class had arrived at a new stage of development. They were not only ready to be the English upper class's successor as a globally oriented imperial power, but the U.S. upper class had developed into an American version of England's aristo-finance elite.

CHAPTER FOUR

Imperialism and the Rise of an American Oligarchy

Of course, the United States has had an upper class, or classes, as long as it has existed, and before that in the colonial period. This was an evolving and changing upper class, and the evolution and changes that took place in the late 1800s and early 1900s produced something that was new for the United States. What emerged in that period was a national upper class that was socially cohesive, politically organized, in command of great wealth and large economic institutions, and increasingly international in its orientation. In important ways, that international orientation came to resemble England's colonial and imperial policies. There was some irony in this since the United States was created in the midst of a struggle against those English policies. The extent of the irony is, however, reduced by at least two factors. First, much of the colonial upper strata did not want a revolution. There was at the upper levels an indifference to revolution or a loyalty to England and its rulers. This Anglophile tendency would survive to the 1919 Paris meeting and beyond. Second, neither the United States as a nation nor the upper class had the capacity to be an imperial power in its early history; that changed by the late 1800s.

As we saw in chapter two, one of the United States' most prominent economists, Henry Carey, produced an extensive critique of England's colonial and imperial policies. Carey argued that England utilized both a formal colonial policy and a free trade imperialist strategy to dominate other nations and that England sought to suppress development in other nations and to prevent the rise of competitors. Carey, as noted before, used the term colonialism to refer to both colonialism and free trade imperialism. Both colonialism and free trade imperialism were, in Carey's view, means to achieve economic and political power for England's ruling class, an amalgam of mercantile, landed, and manufacturing interests, an oligarchy of wealth. Carey's emphasis on the continuity between colonialism and free trade imperialism was at odds with Marxists, like Rosa Luxemburg and Lenin, who treated imperialism as a product of a relatively late stage of capitalism.[1] In Carey's view, these policies developed much earlier and were an expression of class interests more than of capitalism as a system. Also, these English policies were, in Carey's view, destructive of all the nations involved, including England. The victim nations of English policy were denied development while England as a nation and the majority of its people bore the burdens of empire, which included endless wars and the diversion of resources away from domestic needs. As we will see further on, it also meant other problems that come with the dominance of an oligarchic faction.

The essentials of Carey's analysis would be validated by others who studied England's history and by events and developments. Carey was not around to comment on the developments of the late 1800s and beyond. Also, parts of his analysis were underdeveloped, especially his view of the forces within England that committed the country to colonial and free trade imperialist policies. To rectify at least some of these deficiencies we turn to work done on the history of free trade imperialism and on the British Empire.

English Colonialism and Imperialism

There is a vast literature dealing with the history of English colonialism and imperialism. This history relates to several hundred years and dozens of territories and countries. That history features significant changes in English policy and in the nature of the forces shaping that policy. We cannot begin to cover that history, and much of it is not directly relevant to the emergence of U.S. imperialism. We do need to identify the essential characteristics of the English imperialists around the time that the modern U.S. upper class itself formed and simultaneously created, or attempted to create, an imperialist role for the United States. As we have already seen, the history of the Council on Foreign Relations (CFR) was tied closely to English imperialists and members of the U.S. upper class who thought of themselves as natural successors to British imperialists, or as partners of some kind in a continuing imperial enterprise. Well, what were the Americans successors to or partners in?

The story of English colonialism and imperialism has been told in the research and writing of dozens of historians, but the master storytellers are P. J. Cain and Anthony Hopkins, even if in the end they are far, far too kind to the British Establishment. With some help from some other sources we will get from them an idea of what the U. S. upper class was continuing. Cain and Hopkins say that

> the argument we have advanced suggests that there is a broad unity underlying Britain's overseas expansion and her specifically imperialist ventures during the period 1688–1945. This unity stems not from a stereotype of capitalist advance or from a vague multicausality, but from a particular pattern of economic development which was set in train at the close of the seventeenth century and which survived, through various mutations, to the end of empire and indeed beyond. The cohesion of the period as a whole is supplied by the evolution of the gentlemanly interests we have identified; sub-divisions are defined by significant shifts of power within the group.[2]

There were, according to Cain and Hopkins, two distinct phases in the history of English colonialism and imperialism. The first lasted from 1688, when John Locke was offering up his influential ideas on property, government, and society, up to 1850. The second was from 1850 to 1945, or as they have recently indicated, 1850 to the present.[3] Both phases were part of what they term "gentleman capitalism." England's international policy became "strongly imperialist" after 1688.[4] Tendencies in this direction might be located in the earlier mercantile policies, which were often based on zero-sum economic views, including the idea that all economic activity involved losers and winners.[5] Cain and Hopkins use the term "imperialist" to refer to both formal colonial possessions and the informal empire based on free trade and the spread of English influence. As we will see later, there are reasons to use the two terms in a clearer way to refer to two partly different things. For our purposes further on and for clarity's sake, it should be emphasized that this early phase, 1688 to 1850, was clearly not led by industrial interests. That is, England became a colonialist country before it became an industrial country.[6] During the 1700s the dominant forces in England were landowners, merchant capitalists, and the crown, not industrialists.[7]

In this early period landed interests were transforming themselves into commercial farmers and investors. Their primary ally was not industry, but rather the developing financial interests in London.[8] In this first phase the landed interests remained dominant.[9] A small elite in possession of most of the valuable land constituted itself as market-oriented rentier capitalists, living off the revenue from land and from investments. As we saw at the beginning, it was the investor who played the leading role in Adam Smith's economic theorizing. Industrial interests played a relatively minor and secondary role in these early developments and in Smith's thinking.

The developments of this period did not mean the end of aristocracy, but rather, a process by which the previously feudal aristocracy embraced profit-making and the market but also imposed much of its values and outlook on the emerging commercial system. This post-1688 modern aristocracy continued to emphasize the importance of "order, authority, and status" and continued to view land as the core asset.[10] The great aristocratic land owners became interested in profits but were still aristocrats. These landowners would dominate English government into the 1830s and beyond.[11] They and their allies in London, who bought estates and acquired titles, made national policy until the mid-1800s.[12] Manufacturing interests, even though they became a significant factor in the economy, never became a dominant force. Those wishing to be part of the gentleman capitalist elite had to emulate the lifestyle of the gentleman and maintain or create some distance between themselves and the dirty world of manufacturing.[13] The gentleman capitalist "was concerned with managing men rather than machines."[14] The gentleman capitalist class, led by landed interests and their financial and trading allies in London, displayed definite preferences during the 1688 to 1850 period. These preferences reflected the perceived self-interest of an evolving class and were not irrational sentiments left over from a feudalist period as argued by Schumpeter.[15]

Immediately after the Glorious Revolution, gentleman capitalists led the way in promoting overseas involvement.[16] This included tighter parliamentary control over the colonies and increased power for the East India Company. During the 1700s, the English elites chose to base their economy on empire rather than competing economically on the continent. This meant that England's primary orientation to Europe became one of preventing the rise of rivals, rather than becoming involved in and benefiting from the economic progress of Europe.[17] England's chief rival from the early 1700s up to the defeat of Napolean was France, and much of England's foreign policy was devoted to the destruction of France as a naval and commercial power.[18] England's success in these efforts is one of the reasons that England became a leading industrial producer, accounting for 40 to 45 percent of the world's production in 1860.[19] Preventing the rise of rivals also became a goal of colonialism that was consciously debated as such in the 1700s.[20]

During the end of the 1700s and the early 1800s the land-finance alliance, with land still in the lead, had adopted policies that, in varying degrees, would shape the future of England. This alliance sought to reduce the role of the state in the economy and, specifically, they led the way in the reduction of tariffs and the promotion of free trade. Although free trade benefited major export industries, it was part of a program initiated by the gentleman elite.[21] A thorough going-national free trade policy did not develop until the mid-1800s, but England began moving in this direction in a selective way earlier. Discussion of free trade as a foreign policy strategy had begun in the late 1700s.[22] For example, while the United States and Europe moved toward protectionism after 1815, England promoted free trade outside of its formal empire, particularly with Latin America. This was part of what Gallagher and Robinson later dubbed free trade imperialism and was partly what Henry Carey reacted to with his protectionist program. In the 1830s Palmerston intensified England's commitment to free trade, a policy the gentleman elite had proposed around 1800 or earlier, and he was willing to use force "to impose free trade on reluctant rulers."[23] One striking, even if atypical, example of this, as noted earlier, was the use of force to open up China to the opium trade.[24] The English were joined in this trade by wealthy New England families.[25]

This free trade imperialism was described by Gallagher and Robinson, apparently with no awareness of Henry Carey's earlier work on this, in an influential article published in 1953. Gallagher and Robinson argued that "It ought to be a commonplace that Great Britain during the nineteenth century expanded overseas by means of 'informal empire' [i.e., free trade] as much as by acquiring dominion in the strict constitutional sense."[26] The critical point made by them is that free trade, arranged with governments who were consequently designated as "responsible" (i.e., cooperative and submissive), was part of imperialism and was an alternative means to achieve the same ends that motivated formal empire and the acquisition of colonies.[27] As noted earlier, Carey used the term colonialism to refer to both formally administered, openly controlled colonies and free trade imperialism. The term imperialism has been used to refer to many different things and there is no consistency in its use over time or from one analyst to the next. According to Koebner and Schmidt, the term imperialism was occasionally used in the 1500s and 1600s to refer to the political interests of the Habsburg Empire.[28] The term was then applied by some to Napolean III's France and to English practices in Africa and Asia. The term even had a positive meaning when it was used to refer to England's Empire. The term was sometimes used to refer loosely to all forms of domination or exploitation.[29] Explanations for the imperialist trade practices of England have focused on various alleged causes, including the need to find outlets for excess production or for capital or the economic and political ambitions of England's upper class. Imperialism has been explained as a product of the capitalist system and as a result of the schemings of the Anglo-American elites.[30]

Semmel, who does discuss Henry Carey as a nationalist critic of English policy, has pointed out that free trade was proposed as a substitute for colonial administration in 1779 and was shortly thereafter entertained as a policy toward Ireland by Adam Smith and by William Pitt.[31] In Gallagher and Robinson's view,

> the many-sided expansion of British industrial society can be viewed as a whole of which both the formal and informal empires are only parts. Both of them then appear as variable functions of the extending pattern of overseas trade, investment, migration, and culture. If this is accepted, it follows that formal and informal empire are essentially interconnected and to some extent interchangeable. Then not only is the old legalistic, narrow idea of empire unsatisfactory, but so is the old idea of informal empire as a separate non-political category of expansion. A concept of informal empire which fails to bring out the underlying unity between it and the formal empire is sterile.[32]

They went on to say that while many have noted the great commercial and trading success of Britain, they have failed to connect it to the political goals, which are in important ways the same as those of formal colonialism. Ultimately, the overall goal was the extension of British upper-class influence throughout the world. The growth of British industry, which is given too much importance by them, they say, added to the goal of global influence the desire to open up markets to English manufacturing exports. Also, investment in other countries was a central feature of British expansion and openness to this investment was a critical test of a foreign government's willingness to cooperate with British expansion. Foreign investment quite likely became a—if not the—primary interest of the British upper class in the late 1800s and of the American upper class after the 1960s. Once involved with these economic activities, local elites would become allies to British imperialism. Commercial and investment penetration of other countries or areas and the growth of British upper-class influence and power went hand in hand, were intertwined, and interdependent.[33]

The idea that free trade could be a functional substitute for colonial administration, an idea critically examined by Henry Carey, surfaced during the American Revolution. According to Harlow, Sir William Petty conveyed to the American government in 1782 that England would recognize American independence in exchange for a guarantee of complete free trade.[34] This offer could be made because free trade as practiced by England with less developed countries would be a different means to the ends of colonialism. What John Darwin has asserted about England in the nineteenth century was true throughout the entire colonial-imperial period; that is, the English upper class was always flexible, pragmatic, and responsive to conditions and circumstances.[35] This was especially true in the period in which free trade imperialism was debated and then developed, when virtually every conceivable policy and combination of policies was raised and debated.[36]

English policy, however, was not haphazard or spur of the moment or based on any conscious or unconscious sentiments or impulses. It was based on highly conscious, collective decision-making processes in which everything could be and would be discussed and evaluated. When the Board of Trade was created in 1696 one of its duties was to examine manufacturing in the colonies and decide "which ones should be discouraged in the interests of the home manufacturers."[37] Colonies were intended to be "an economic appanage of the mother country."[38]

These policies would be tested and revised in Ireland and the American colonies. With the active cooperation of part of the Protestant minority in Ireland, England dominated Ireland from 1495 to 1768. During the reign of Queen Elizabeth the English confiscated Irish land, and in the 1600s English and Scottish Presbyterians established themselves in Ireland and were given all military and political power and most of the land. This transplanted oligarchy knew that any concessions to the Irish would lead to their demise. Their status in Ireland made the Protestant minority dependent on the British, who in turn depended on that minority to hold Ireland. Ireland was made a colony, which in the pre-industrial world of the 1600s meant preventing Irish agriculture from competing with England's agriculture and not allowing Ireland to develop shipping and ports that would compete with those of England. To do this the interests of the majority Catholics, and therefore much of the economy, had to be thoroughly suppressed.[39] The majority of the Irish people were dispossessed and many were forced into involuntary labor.[40] The suppression of Ireland's economy led to the Irish migration to the American colonies where this group and its experience of English policies later played a role in the American Revolution,[41] an early case of blowback. The distant American colonies would prove to be much more difficult to control than neighboring Ireland.

The American Revolution might have occurred before the 1770s had it not been for some laxity in the enforcement of colonial relations, England's opening up of colonial lands for settlement, and some economic privileges awarded to the colonists during the various years before the revolution in which England was at war. England did maintain tight control over the Southern colonies, which had the contradictory effect of creating a Southern ruling elite that was both like that of England and deeply resentful of England's control.[42] Part of this control over the colonies was the legislative acts of the 1660s, which forced Southern colonists to buy their goods from England and required that Southern trade be handled by English merchants, carried by English ships, and financed by English credit.[43] As Nettels pointed out, elements of this English policy led directly to the rapid growth of slavery.

> The initial enforcement of the Navigation Acts in the 1660s reduced the profits of the tobacco planters and forced them to cut the costs of production. Slavery was the answer. Appropriately at this time the English Government undertook to furnish its colonies with an ample supply of slaves. The planters were obliged to buy them on credit—a main factor in reducing them to a state of commercial bondage. The English Government forbade the planters to curtail the nefarious traffic. American slavery was thus one of the outstanding legacies of English mercantilism. That resolute foe of English mercantilist policy, George Washington, subscribed to the following resolve in 1774: "We take this opportunity of declaring our most earnest wishes to see an entire stop forever put to such a wicked, cruel, and unnatural trade."[44]

After 1763 England abandoned its relatively benevolent treatment of the middle and northern colonies and sought to gain much tighter control over economic developments in those areas.[45] This control took many forms, not only the well-known arbitrary imposition of various taxes. This included England's decision in 1763 to deny the colonists access to western territories west of the Appalachian Mountains. There were increased limits on and closer supervision of trade activities, continuing English control over the creation of currency and credit, and increased prohibitions on manufacturing.[46] Between 1700 and 1770 the percentage of total British exports sent to North America rose from 10 percent to 37 percent.[47] In 1782 a segment of the English elite was hoping that free trade could be used to retain its advantages after the colonies got their independence.[48]

Phase Two, after 1850

After 1850, according to Cain and Hopkins, landed interests lost their leading role in England and "an amalgam of rentier money, service employments [universities, civil service, Church, army, professions], and the remains of landed society…came together to form the new upper class."[49] This is the alliance that Carey only briefly and vaguely identified. Out of this arose the leadership by gentleman investors who put their stamp on the nation's economy, politics, and culture. International trade and overseas investment took on increasing importance and, after 1870, there was less growth in domestic manufacturing. The foreign investment may have been both a consequence of and a cause of economic decline.[50] The representatives of manufacturing were fragmented and divided, and they "lacked both prestige and direct access to the 'charmed circles' where policy was formulated."[51] While in the United States and Germany finance was closely aligned with big industry, in England it stayed separate from what was for a time smaller-scale business.[52] Landed interests, although no longer in the lead, were themselves heavily involved in overseas investments, were directors of banks and businesses, and were intermarried with the financial elite. Also, into the late 1800s they still occupied the highest places in political and social life. They were part of the new amalgam, which Cain and Hopkins at one point characterize as "an aristo-finance elite." At the end of the 1800s this elite relied on financial power more than on England's industrial production.[53] According to Cassis, the banking aristocracy at that time centered around six banks, three merchant and three private deposit banks; the six were Baring Brothers & Co.; CJ Hambro & Sons; Morgan, Grenfell & Co.; Glyn, Mills, Currie & Co.; The Smiths group; and Robarts, Lubbock & Co.[54] The families controlling these banks and other banking families associated with them were extensively intramarried and also intermarried with aristocracy. These bankers often left day-to-day operations to subordinates and spent their time in politics or working on larger economic issues. Something like this would later be true of figures in the United States such as David Rockefeller, John J. McCloy, and Walter Wriston.

The post-1850 amalgam of gentleman capitalists continued to support the free trade policies that Palmerston brought to the fore in the mid-1800s. A leading supporter of free trade said in 1846 that free trade was the "beneficent 'principle' by which 'foreign nations would become valuable Colonies to us, without imposing on us the responsibility of governing them.'"[55] This empire of trade, like colonies, would provide wealth and power.[56] There were voices associated with both older industries and many new ones that favored more protectionist policies and favored a greater role for the state in support of industry. Those interests had no success in the decades before 1914.[57] They warned that in the long term the maintenance of an "open economy in the face of rapidly rising foreign competition would lead to deindustrialization of Britain, the fragmentation of its empire, and the loss of great-power status."[58] These are some of the concerns of the United States in the early 2000s. Supporters of free trade, both those who saw it as a continuation of colonialism and those who thought it was something completely different, claimed that it would be beneficial to England.[59] Such a debate has only sporadically erupted in the United States over recent decades. It has been forced during election times when presidential candidates, usually defined as marginal by major media, bring it up. Ross Perot, Ralph Nader, Dennis Kucinich, and Patrick J. Buchanan are examples of such candidates.

By the time of World War I, the period in which Anglo-American elite ties were being strengthened, England's position had weakened to the point that England relied on American capital to fight the war. This was partly a result of England's huge military expenditures and indebtedness, both related to expanding and defending the empire.[60] It also was a result of England's free trade policies in the late 1800s and to the flight of capital out of England in the same period.[61] In the years between the two world wars England's overseas investment position was also weakened and it was forced to temporarily suspend its promotion of free trade. There did develop in this period a closer alliance between a reorganized English industry, based on larger businesses, and the financial institutions.[62] The economic bailout of England during and after World War I was in some respects repeated after World War II when the leaders of the United States acted to give support to England's global financial role by making sterling a "junior partner of the dollar." As Cain and Hopkins put it, "Gentlemanly capitalists who had once provided the framework for the Pax Britannica now survived to fight another day under the protection of the Pax Americana."[63] Britain's aristo-finance elite was, in effect, incorporated into the financial empire of the United States after 1941. Cain and Hopkins attributed this U.S. backing of England to the need to preserve England as an asset in the face-off with the Soviet Union. This may be true, but it may also have resulted from the death of Franklin Delano Roosevelt (FDR) and the resulting appearance of a more friendly attitude in the U.S. government toward the British Empire, including British colonialism. At any rate, we have gotten beyond where we need to be and we will return to the issue of post-World War II developments later.

We can now answer our question, or answer it sufficiently in order to understand what it meant around the time of World War I for the U.S. Establishment to declare that it was succeeding England in world affairs. This is related directly to the nature of the interests that appeared on the American side in Paris in 1919. We now have some idea of what it was that came from England. It was the spokesmen for gentlemanly capitalism, England's aristo-finance elite. The group from the United States represented the English aristo-finance elite's counterpart in the United States, Veblen's investor class in a new stage of development. That group was already committed to an imperialist agenda and committed to increasing and holding its power and influence within the United States. This business aristocracy set about the task of shaping the government's role in the domestic economy and in influencing or controlling the nation's foreign policy.

The U.S. Aristo-finance Elite

The founders and leaders of the CFR were not just businessmen. In fact, they were not businessmen in the usual meaning of that term, and they certainly were not industrialists in any meaningful sense. Rather, they were representatives of a relatively new national upper class based on great wealth, hereditary position, high social status, separate and elitist education, social and residential isolation, and a certain distance from the grimy world of technology and industrial production. This new class, or class faction, emerged from existing and recently developed elites. It was not in opposition to existing or previous elites, but it was a further development of those elites, and that development yielded something that the United States did not have prior to the twentieth century. It yielded a nationally organized, somewhat centralized upper class based on great wealth and self-conscious organization. The creation, makeup, and purposes of the CFR were both a cause of and an effect of the development of this new class and of the activist faction within this class.

The rapid development of the nation allowed for the accumulation of great wealth. One estimate is that in 1861 there were only three millionaires, but by 1897 there were at least 3,800.[64] The concentration of that wealth was also impressive; the following appeared in an 1893 article in the *Political Science Quarterly*:

> We are ...prepared to characterize the concentration of wealth in the United States by stating that twenty per cent of it is owned by three-hundredths of one per cent of the families; fifty-one per cent by nine per cent of the families (not including millionaires); seventy-one per cent by nine per cent of the families (including the millionaires); and twenty-nine per cent by ninety-one per cent of the families.[65]

The existing elites in the late 1800s, mostly based on earlier merchant and manufacturing activity, merged with the newer wealth created after the Civil War. As noted earlier, in 1887 the Social Register was created in New York City and then in other cities over the next two decades. Inclusion was an indicator of membership in America's socioeconomic elite. By 1905 the following new wealth was listed in the Social Register: J. P. Morgan, George F. Baker, James Stillman, Edward H. Harriman, John D. Rockefeller, William Rockefeller, Henry Rogers, and William K. Vanderbilt.[66]

Leading prep schools (e.g., Groton, St. Paul's) and elite universities (Harvard, Yale, Princeton) would provide the common education and socialization that helped to bind together the descendants of old money with the children of new money. The common education and the increasingly organized social life of the upper class provided the glue for an upper class that was in control of enterprises that were increasingly involved at the national and international levels.[67] E. Digby Baltzell, one of a few generally recognized experts on the social history of the U.S. Establishment, observed that

> in an age which marked the centralization of economic power under the control of finance capitalism, the gentleman bankers and lawyers on Wall Street, Walnut Street, and LaSalle Street sent their sons to Groton,

> St, Paul's, or St. Mark's and afterwards to Harvard, Yale, or Princeton where they joined exclusive clubs such as Porcellian, Fence, or Ivy. These young men from many cities, educated together, got to know one another's sisters at debutante parties and fashionable weddings in Old Wexbury, Tuxedo, or Far Hills, on the Main Line, or in Chestnut Hill, in Dedham, Milton, or Brookline, and in Lake Forest. After marriage, almost invariably within this select circle, they lived in these same suburbs and commuted to the city where they lunched with their peers and their fathers at the Union, Philadelphia, Somerset, or Chicago clubs. Several generations repeat the cycle, and a centralized business nobility thus becomes a reality in America.[68]

The United States never had a titled aristocracy, something explicitly condemned in the Constitution, but over time hereditary wealth can become something very much like an aristocracy. In the United States such an upper class would naturally feel an affinity to the English upper class.[69]

America's new aristocracy, its aristo-finance elite, included both new money (e.g., Morgan, Rockefeller) and old money (e.g., Cabot, Higginson, Lowell) among its leaders. As the Pujo Committee documented, the New York financial establishment led by Morgan was closely aligned with the Boston institutions Lee, Higginson & Co. and Kidder, Peabody & Co.[70] The older elite of Boston was no less interested in property and wealth than their recently arrived partners in New York. Much of Boston's wealth was derived from both old and new commercial and manufacturing activity.

This American aristo-finance elite made up for what it lacked in tradition, bloodlines, and empire with rapidly growing fortunes based on the world's fastest-growing national wealth. In the 1880s the United States had 29 percent of the world's industrial production; that rose to 36 percent in 1913 and 42 percent in 1929.[71] In the period from the 1890s to the 1920s this elite was, as we have seen, attempting to shape the nation's economy. They also became involved in the country's foreign affairs looking for ways to expand their influence overseas. They probably did this because they could—their personal wealth and the nation's wealth having developed to the point where the necessary financial and institutional resources were in place. They probably also did it because of their own values, beliefs, ambitions, and prejudices, many of which were descended from or modeled after those of the English upper class. U.S. Establishment leaders shared with the British a sense of superiority and elitism.[72] I think that the evidence indicates that in the end, the reasons for and purposes of their policies are quite banal, something like being king of the hill. As we will see, there is no reason to believe that the U.S. upper class developed as an imperialist class because of either the imperatives of the economic system or because of some desire to actually spread civilization or democracy to lesser peoples.

The Platt Amendment: Getting to the Root of the Problem

One of the central public figures in the development of an imperialist foreign policy for the United States was Elihu Root. In important ways the Bush family's outlook on the world comes from Elihu Root and the private foreign policy network that descends from him. That network clearly included Henry Stimson and later leaders of the foreign policy establishment. Root was born in 1845, the son of a mathematics professor. He spent most of the Civil War years as a student and went on to teach at private schools and to attend the New York University Law School. He started his own law firm in the late 1860s. His success representing banking and corporate interests, his marriage into a wealthy New York family, his connections to wealthy conservatives through the Republican Party, and his membership in the Union League Club made him a significant figure in Wall Street circles and in New York politics. Root became a friend and advisor to Teddy Roosevelt, and in 1899 President McKinley asked Root to serve as secretary of war. Root, who had no military experience, was told that his job would be the administration of the islands taken from Spain, or taken from Spain and the local people. Root took the job, which not only led to his authorship of the famous Platt Amendment, but also to extensive involvement as the leading representative of the Establishment in foreign affairs. He was to the early 1900s what John J. McCloy would be in the post–World War II period. Among other things, Root would serve as secretary of state (1905–9) and was a senator from New York for six years. He was president of the Council on Foreign Relations before it merged with the Institute of International Affairs and was the CFR's honorary president from 1921 to 1937. He was also a leader of the National Civic Federation and served as president of the Carnegie Corporation. He became known as a close associate of and lawyer for the Morgan and Ryan interests. According to Carroll Quigley,[73] Root was one of those figures who would link Wall Street to the country's foreign policy. Others would later include Russell Leffingwell, Allen and John Foster Dulles, and John J. McCloy. Root was also a leading figure in controversies related to U.S. foreign policy and a champion of the imperialist position. Two such important cases involved the interpretation of the Monroe Doctrine and the previously mentioned conflict over President Wilson's intent to commit the United States to a policy of nonintervention.[74]

Root, as was also true of his protégé Henry Stimson, has been characterized as being as hard as nails.[75] In authoring the Platt Amendment, Root demonstrated that hardness. The United States invaded Cuba in 1898 ostensibly to end Spanish oppression of Cuba. In reality, Spain was no longer fully able or willing to maintain colonial rule and the Cubans did not need an American invasion to end Spanish rule. Although there were enthusiastic advocates of military-backed foreign expansion, such as the famous advocate of sea power Alfred Thayer Mahan and the future president Teddy Roosevelt, President McKinley was a somewhat more reluctant warrior.[76] U.S. public support was weak and the troops thought they were there to save the people from Spain.[77] The invasion produced an occupation of four years and Elihu Root produced the Platt Amendment to provide "indirect rule" after the occupation. In Hodgson's view this indirect rule was the sort of arrangement created by the British to "control princely states in India."[78] The military occupation itself had been quite benevolent and produced many positive changes in areas such as control of disease and education.[79] The measures proposed by the hard Elihu Root were not so positive.

Much of what became the Platt Amendment was contained in a letter from Secretary of War Root to General Leonard Wood, who was in charge of the occupation. This letter, dated February 9, 1901, was sent on to the newly formed Cuban Constitutional Assembly and its Committee on Relations. In part the letter read as follows:

> The preservation of that independence by a country so small as Cuba, so incapable as she must always be, to contend by force against the great powers of the world, must depend upon her strict performance of international obligations, upon her giving due protection to the lives and property of the citizens of all other countries within her borders, and upon her never contracting any public debt which in the hands of the citizens of foreign powers shall constitute an obligation she is unable to meet.[80]

Although the Cuban Committee on Relations officially stated its objections on February 27, the policy indicated in Root's letter was already gaining official status as an amendment to the Army Appropriation Bill introduced by Senator Orville Platt of Connecticut. The Senate passed this bill by a vote of 43 to 20 and the House passed it by a vote of 161 to 137.[81] The emphasis given in Root's letter to international obligations and the protection of foreign-owned property was reproduced in the Platt Amendment, which was then further reproduced in the treaty between the United States and Cuba signed on May 22, 1903, and subsequently ratified by the Senate. Article III of the Platt Amendment stated that

> the Government of Cuba consents that the United States may exercise the right to intervene for the preservation of Cuban independence, the maintenance of a government adequate for the protection of life, property, and individual liberty, and for discharging the obligations with respect to Cuba imposed by the Treaty of Paris on the United States, now to be assumed and undertaken by the Government of Cuba.

This gave the United States, and in effect the *U.S. Establishment*, the right to intervene in or invade Cuba any time that Cuban actions were interpreted as posing a threat to U.S. economic interests in Cuba. This negated the commitment made in the Monroe Doctrine to respect and support the independence of countries in this hemisphere.[82]

Cuba was opened up to foreign investment by the Platt Amendment and by new trade agreements. Between 1898 and 1912 U.S. investment in Cuba more than quadrupled, rising from 50 million dollars to 220 million.[83] By the 1930s Cuban banks, utilities, railroads, ships, telegraph, mines, and most of the sugar industry were owned by investors from the United States, England, and Canada.[84]

This whole arrangement is, of course, of more than passing interest in light of the economic plan laid out for Iraq by the George W. Bush administration, and we will have more on this at a later point. It is also worth noting here that Article III of the Platt (actually Root) Amendment provided immense latitude to U.S. officials in deciding what was a threat. This was articulated in 1912 by Secretary of State Philander C. Knox when he introduced the idea of "preventive intervention," which meant that the United States could intervene in Cuba based on the idea that things in Cuba were leading to either bankruptcy or revolution. That doctrine would make it possible to justify any and every intervention.[85] A century later the George W. Bush administration would claim a similar freedom to use military force. Knox, like Root, was a corporate lawyer with close connections to leading economic interests (i.e., Morgan and Mellon).[86]

As a result of all of this Cuba became locked into a relationship with the U.S. Establishment, which was something of a hybrid—partly based on the idea of open trade but resting on a specific and formalized right to use military force any time the arrangement was threatened. Cuba's assets were foreign owned, and its economy was locked into a classic colonial or imperial relationship as an exporter of agricultural products and raw materials and an importer of goods consumed by the minority that could afford them. Teddy

Roosevelt, as president, even achieved a reduction in U.S. tariffs to facilitate this relationship.[87] The United States was still at this time a high tariff and protectionist nation.

There is no reason to interpret, as many have done, the Establishment's activities in Cuba as having anything significant to do with seeking markets for American exports. Arrangements in Cuba were intended to open up Cuba's assets to foreign investors and to make the operation of Cuba's economy compatible with the interests of those investors. The arrangements gave U.S. financiers and investors control over Cuba's assets and government. The control over wealth and over Cuba's political processes was totally intertwined. The success in Cuba of the recently developed U.S. aristo-finance elite must have raised some troubling questions for that elite, well before they met their counterparts from England in Paris in 1919. The troubling question would have been whether each and every country to be brought into the newly emerging economic empire of the U.S. elite would have to be invaded and occupied. If the answer was yes, then the task ahead would have been almost as daunting as creating in the twentieth century an empire based on formal colonies. This should have raised fundamental questions about the feasibility of free trade imperialism, questions that should have been front and center. For reasons we will expose, the newly arrived imperialist U.S. Establishment actually had very few options and almost no real long-term alternatives to the kind of thing that they did with Cuba. Formal colonies were untenable, impractical, or impossible and only some people in other nations would be willing to cooperate indefinitely with imperialist economic relationships. That meant the necessity of some kinds of force.

The Platt Amendment represented the purposes and aspirations of the rising U.S. Establishment. In the case of Nicaragua things proved to be even more difficult and messy. At the dawn of U.S. imperialism things were already problematic. Part of the problem was this: How do you make a society do what you want them to do when they are nations, not colonies?

Nicaragua

Six years after the passage of the Platt Amendment the United States became involved in the overthrow of a legitimate Nicaraguan government claiming that U.S.-backed "revolutionaries" would protect the property of foreigners and reduce Nicaragua's tariffs.[88] The revolution was against the nationalist and modernizing president Jose Santos Zelaya who was falsely accused of carrying out a "reign of terror" and of being a "menace" in the propaganda campaign initiated by President Taft's Secretary of State Philander Knox.[89] The propaganda campaign was backed up by sending marines to Panama, and subsequently into Nicaragua, and U.S. ships to the Nicaraguan coastline. President Zelaya resigned, and after his immediate successor was also forced to resign, the Wall Street–friendly General Estrada came to power in what was the first U.S.-backed coup.[90] In October 1910, an agreement was signed between the United States and Nicaragua that gave U.S. interests control over key elements of Nicaragua's economy. In 1911 New York banks made loans to Nicaragua and were given the power to control servicing of the loans and repayment, and the New York banks took control of Nicaragua's national bank and its railroad.[91] A leader, if not the leader, of the New York financial interests, which also took over much of the country's coffee production, was Brown Brothers Harriman. This was the bank at which Prescott Bush, father of one president and grandfather of another, made his career, rising to partner. Other banks and companies involved included J.W. Seligman & Co., Guaranty Trust, and Cuyamel Fruit Company.[92]

Adolfo Diaz, a one-time employee of Secretary of State Knox was installed as president, an action backed up by the presence of U.S. marines.[93] Like Cuba, this small Central American country became, as Ireland had been for the British, a place to test political and management tactics. It was in a sense a testing ground or laboratory for Wall Street imperialism. It only had a population of 650,000 as of the 1920s, over half of whom were illiterate. It was an opportunity for investors in banking, railroads, and coffee production[94] even if it wouldn't be much of a market for American automobiles or radios. A leading critic of this intervention and occupation by U.S. marines remarked later that this sort of thing actually undermined the development of Latin American markets for U.S. goods.[95] The same critic, Venezuelan General Rafael de Nogales noted in his 1928 book entitled the *Looting of Nicaragua* that

> it is an incontestable fact that American intervention in Nicaragua, since 1909, has set that country back both morally and materially. During this period…Dollar Diplomacy has resorted to its favorite expedients of bribery, threat and misrepresentation, in order to keep the honest American citizen from knowing the truth about what is really going on in Nicaragua. In Nicaragua, in short, sinister Big Business and sinister politics are achieving the ends which they have also tried in vain to be achieved in Mexico for a long time.[96]

The 1909 intervention and invasion in Nicaragua began a period of open and direct United States involvement that lasted until 1933. After that there was United States support for the long-standing Somoza regime. The involvement included the deployment of U.S. marines in 1912, under the direction of later foreign policy and Wall Street critic Smedley D. Butler, to defeat a revolt against the United States-backed government. A token force would remain through 1925.[97] A bank was created in 1912, incorporated in Connecticut, to manage Nicaragua's fiscal and credit processes, a situation that continued until 1929.[98]

In 1920 New York bankers and a compliant Nicaraguan government created a financial plan making Nicaragua totally dependent on those banks. Repayment of loans to Nicaragua was guaranteed by giving the banks legal claims to the import-export tax revenue of the country and claims to money made by the Nicaraguan railroad and bank. Throughout the region, loans were pushed onto countries, which placed those countries in dependent and vulnerable positions. According to DeNogales, forced loans were made in Cuba, Haiti, Santo Domingo, Panama, Nicaragua, and elsewhere.[99]

After withdrawal of U.S. troops from Nicaragua in 1925, new conflicts erupted between nationalist forces, which included part of the military and forces behind the new president, Juan Bautista Sacasa, and forces aligned with the foreign investors and interests. U.S. troops returned in 1926, and in November the right wing, Wall Street ally Adolfo Diaz was recognized by the United States as president.[100] Around this time Under Secretary of State Robert Olds noted in a memo that Nicaragua was a test case for U.S. dominance in Central America.[101] There were also claims that the opposition to Wall Street's control of the Nicaraguan economy was Bolshevist in nature, a claim also being made about nationalists in Mexico.[102] This was an early example of what would become a frequent practice, that is, portraying nationalist opposition to Wall Street as "communist." According to Bryce Wood, in a two-week period at the beginning of 1927, the Coolidge administration "offered to an increasingly skeptical and hostile public no less than nine distinct chronologically separate justifications for its policy in Nicaragua."[103] By comparison, President G. W. Bush's list for Iraq looks almost skimpy.

To resolve the situation in Nicaragua, President Coolidge in 1927 appointed a special representative, Henry L. Stimson. According to Schmitz, Stimson was for forty-five years a leading policymaker, exceeded in importance by only three men, all presidents, Theodore Roosevelt, Woodrow Wilson, and Franklin Roosevelt.[104] According to Boeker, Stimson was in every sense a scion of the Eastern Establishment.[105] Stimson was descended from seventeenth-century Massachusetts settlers. His grandfather bought a seat on the New York Stock Exchange and formed a Wall Street company, for which Stimson's father worked.[106] Stimson was first cousin to two partners in the Morgan-controlled Bonbright and Company.[107] Stimson had gone to Phillips Academy at Andover and then to Yale and to Harvard for both an MA and a law degree. While at Yale he was inducted into the elitist Skull and Bones society. Almost sixty years later he would be in the room when

George H. W. Bush (who also went to Phillips Academy) would be initiated into Skull and Bones. Stimson was also a member of the Metropolitan Club, the Century Association or Club, and the Boone and Crockett Club. Stimson would be chosen three times for high-level cabinet positions—secretary of war in 1911 and again in 1940 and secretary of state in 1929. While serving as secretary of state, Stimson brought in fellow Bonesman Harvey Bundy as assistant secretary. Harvey's son McGeorge would later be one of the chief architects of the Vietnam War. McGeorge lived with Stimson for eighteen months while working on Stimson's biography. Among other things Stimson also served as governor general of the Philippines from 1927 to 1929. He was at odds with the leaders of the Philippines who wanted to pursue a protectionist economic strategy; Stimson was a strong advocate of "free trade." He reportedly thought that his most important achievement in the Philippines was to open it up to foreign investment. From early on "free trade" meant things beyond trade relations. Perhaps the most important thing was openness to foreign investment. Stimson also served in the army during World War I, making it to the front for a few uneventful weeks. As noted before, he started his legal career as junior partner to Elihu Root and he would later be a full partner in the Root firm. It was Root who recommended Stimson to President Taft. In foreign policy, Stimson's mentor and idol was Root.[108]

Many of the most important figures in foreign policy for more than half a century were directly influenced by Stimson, and therefore, indirectly by Root. This included Prescott Bush, Robert Lovett (who was Prescott Bush's partner at Brown Brothers Harriman), Dean Acheson, John J. McCloy, and Harvey Bundy and his son McGeorge.[109] To some degree, Stimson was a hero and model for George Herbert Walker Bush, Dean Acheson, John J. McCloy, and John Foster Dulles.[110] McCloy, Bundy, and Lovett were given Distinguished Service medals at the end of World War II by Stimson while standing under a portrait of Elihu Root. McCloy wrote in his diary that he "felt a direct current running from Root through Stimson to me."[111] As Schmitz points out, Stimson provided the link between "the foreign policy of late-nineteenth century imperialism and the internationalism of the Cold War era."[112] According to Hodgson, Stimson was the "founding father and patron saint" of the American foreign policy Establishment.[113]

Stimson entered the fray in Nicaragua with all of the arrogance that his background was likely to produce.[114] He believed in the superiority of whites and was a racial Social Darwinist. Stimson viewed the Caribbean as a natural area for United States expansion. Although Stimson supported the taking of territories following the war with Spain, he did not believe that the United States could build a colonial empire. He did see the Platt Amendment as the direction to go and he agreed with Teddy Roosevelt's reinterpretation of the Monroe Doctrine giving the United States a right to intervene in other nations in the hemisphere. United States soldiers were sent twelve times into seven different countries in the Caribbean between 1900 and 1920. Three of those countries were placed under U.S. financial supervision—Dominican Republic, Haiti, and Nicaragua.[115] Lesser military incursions occurred on many other occasions, and U.S. banks and corporations acquired some influence over all of the countries of Central America and the Caribbean.[116] Stimson did believe in "free trade" and the protection of United States investment, but by the 1920s he also felt that the United States had to rely more on "local elites, indigenous forces, and, if necessary, dictatorships in the region."[117] Stimson tried out that strategy, which had been in various forms a basic English strategy, in Nicaragua and the Philippines, which he would make safe for investors.[118] In fact, this became a general strategy for Latin America, and as of 1933 fifteen of the twenty Latin American countries were ruled by dictators backed by the United States.[119]

Stimson apparently underestimated the problems in Nicaragua. He went there and quickly hammered out an arrangement, so he thought, that would accommodate the forces that were hostile to Wall Street's dominance of Nicaragua. The U.S. marines would only stay until Nicaragua's national guard was prepared to take over peacekeeping chores, that is, in words later used by George W. Bush about Iraq, we would stand down as they stood up. Not everyone, however, wished to accept Stimson's Wall Street-friendly compromises. One leader of the nationalist forces, General Sandino, decided to fight on. According to Hodgson, Stimson underestimated Sandino because of the latter's humble background.[120] Four years later, while Stimson was secretary of state, General Sandino was still fighting a mostly guerrilla war.[121]

Anastasio Somoza took over the national guard in January of 1933, with the endorsement of Stimson, who apparently had little understanding of the man he was backing,[122] and U.S. marines were removed. Somoza had Sandino assassinated in 1933 after which he rigged the next election and finally installed himself as dictator in 1937, creating a dynasty that lasted forty-two years, until 1979.[123] The overthrow of that dictatorship would lead directly to events in which George H.W. Bush was heavily involved. Andres Perez noted many decades after the U.S. intervention that U.S. policy in Nicaragua was based on the idea that truth is related to the power to impose a reality, an idea that is also part of postmodern and neocon thinking.[124] At the time many inside the United States and elsewhere did challenge what was being passed off as truth and they tried to change the reality. For example, a Nicaraguan government official, Torribio Tijerino, wrote in 1927 that

> salvation imposed upon us by the Marine Corps. and the New York bankers is costing us Nicaraguans loss of life, loss of property, loss of

> sovereignty, loss of independence, and is costing the United States loss of moral prestige and good will throughout the Latin-American world.[125]

A United States senator, Burton Wheeler of Montana, charged that the people put in power in Nicaragua by New York bankers were traitors to their own country.

Even parts of the U.S. press challenged the image of reality being created by the likes of Henry Stimson. In 1927 the *St. Louis Post-Dispatch* editorialized that the Coolidge administration

> has gone on pouring our armed forces in Nicaragua just as if this policy of naked and unabashed imperialism had never provoked one outcry from outraged public opinion at home. It has now occupied all of the principal cities. It holds the only railroad in the country. It occupies with its artillery a height commanding the Nicaraguan capital. It has made the country a political crazy quilt with neutral zones, controls the air with planes and infests the coasts of the country with cruisers, gunboats and destroyers.[126]

The editorial continued saying that the United States as a country "demanded that we get out of Nicaragua, but we never did; on the contrary, the Administration has continued to tighten its grip upon the country" and that "It is in utter contempt of public opinion in the United States that the Administration continues this dreadful policy in Nicaragua." Unfortunately, the press in the U.S. generally misled the public and even told stories of atrocities against American women in Nicaragua that turned out not to be true.[127]

As for Nicaragua, General De Nogales asserted the following:

> Am I not right when I say that Dollar Diplomacy must have had its special reasons for holding back Nicaragua from all logical progress during those years, since 1909, when ex-Secretary of State, Mr. Philander Knox, turned it loose—like a rabid dog—on the unhappy people of Nicaragua?
>
> Am I not right when I claim that American financial and armed intervention has brought on Nicaragua only ruin, desolation and death—setting it back at least fifty years?[128]

This intervention had also overturned the Monroe Doctrine, which had been crafted by John Quincy Adams to protect the Americas from European colonial and imperial ventures and to assure protection for every nation from intervention by another. United States Senator Shipstead stated that the original intent of the Monroe Doctrine had been destroyed and that interventionism was making the United States the most disliked country in the hemisphere and the world.[129] The term "Dollar Diplomacy" did not originate with General Nogales. The term was used a decade earlier by Frederick C. Howe, Commissioner of Immigration for the Port of New York, in an article written for an academic journal. In that article Howe argued that the U.S. government should refuse to be used as an enforcer and collection agency for lenders and investors.[130]

The policies toward Cuba and Nicaragua indicate that the primary purpose of the developing U.S. absentee-owner upper class was to gain ownership or control over valuable assets and gain influence or control over foreign governments' economic policies. Although information is incomplete, it appears that by the 1920s U.S. interests had control of resources in many countries. This included oil in Mexico, Venezuela, and Ecuador and copper in Peru and Chile.[131] As Krenn has noted, American investments in Latin America during and after World War I were "primarily in mining and agricultural activities," not manufacturing. As of 1929 total U.S. manufacturing investment in all of South America was 170 million dollars, while in just three countries, Peru, Columbia, and Venezuela, U.S. companies had 444 million dollars invested in oil.[132] As with England in the Middle East, there may also have been a Wall Street interest in controlling the region as part of important transportation routes. Outlets for U.S. production do not seem to have been of any importance. With the U.S. population growing from 39 million in 1870 to 63 million in 1890 and to 106 million in 1920 and 123 million by 1930,[133] there could hardly be any importance given to Nicaragua's largely poor population of 600,000 as a market for U.S. goods. The same is also true for Cuba. Also, there is no evidence that the markets of these countries were ever a focus except under the two presidents who broke in some way from the upper-class foreign policy establishment, Franklin Roosevelt and John F. Kennedy. They were interested in selling American goods to Latin America, but not interested in gaining control over Latin America's resources or finances.

This pattern was also clear in the conflicts between Wall Street and Mexico. As of 1910, foreign investors, led by those based in the United States, owned most of the assets in important sectors of Mexico's economy, including over 90 percent of oil, mining, and rubber and 20 percent of Mexico's privately owned land. In 1910 two-thirds of Mexico's export earnings went to foreigners in the form of "profit remittances, service on the foreign debt, freight costs, insurance fees, and other charges."[134] This situation produced a nationalist movement at the beginning of the 1900s that was committed to the goal of getting control over its economy and of modernizing that economy.

This brought Mexico's revolutionary nationalism into direct conflict with the Establishment's purposes.[135]

The nationalist movement that appeared in Mexico also developed in other Latin American countries, notably Argentina, Chile, and Uruguay.[136] Across Latin America in the 1900 to 1930 period economic nationalism emerged as a challenge to Wall Street. Broadly, what this involved was economic nationalism, or the "desire of a nation, within the framework of the world economy, to control its own economic destiny, to exercise its sovereign right over who may exploit natural resources and participate within various sectors of the economy" and "the idea that private property should be subordinated to the general welfare."[137] In this period much of Latin America was rejecting free trade and laissez faire as policies that retarded national industry, led to vulnerable monoresource economies, and exposed natural resources to foreign control, and reinforced the internal class structure.[138] According to Krenn, economic nationalists in the 1900–30 period had four goals:

> first, to protect and to regulate the exploitation of their nations' natural resources; second, to regulate the activities of foreign business and investors; third, to substitute domestically produced goods for foreign imports by economic diversification and protective legislation, such as tariffs, and fourth, to have government play a more active, positive role in directing the economy for the common good.[139]

After a nationalist government led by Venustiano Carranza took power in Mexico in 1914 President Wilson advised that government to preserve foreign property rights and to honor financial obligations. Shortly after this, Secretary of State Lansing instructed the new Mexican government that it had to protect foreign economic rights in the area of "loans, property, and trade."[140] From 1915 to 1926 the core issue of dispute was increasingly one of Mexico's control over its natural resources and the related question of the property rights of foreigners.[141]

After an incursion into the United States by Pancho Villa, the United States retaliated with a much larger invasion of Mexico led by General Pershing. Wilson's racist Secretary of Interior Franklin K. Lane said that Mexico brought these problems on themselves by refusing U.S. instruction and by their conduct of affairs and by their lack of receptivity to foreign investment. In September of 1916 President Wilson offered to remove Pershing's troops if Mexico would guarantee the "protection of the life and property of foreigners" and recognize all property rights.[142] This was a busy year in the development of imperialist activities. According to Zevin, U.S. military forces occupied Cuba, Haiti, Panama, Nicaragua, and the Dominican

Republic during 1916.[143] Each of these occupations lasted at least six years and all involved prolonged wars against "native Guerrilla elements." With difficulties developing in Europe, Wilson decided to withdraw the Pershing force. Although Teddy Roosevelt was looking for a solution similar to that of Cuba, there was not much support in the United States for a war against Mexico, either in 1916 or later.[144] In 1926 Assistant Secretary of State Robert Olds remarked that it would be nice to use force against Mexico but most Americans would not support that to protect property and "that some sensational and emotional appeal must first be presented like the sinking of the Maine in '98."[145]

Mexico's 1917 constitution emphasized Mexico's right to exert national control over its economy, and especially its resources, and to exercise regulation of land use and subsoil rights. Article 27 of the constitution asserted Mexico's right to "expropriate private property for the public welfare." Thomas Lamont and other Wall Streeters viewed the Mexican constitution as a threat to private property and to the idea of limited government. Terms like "Socialistic," "Bolshevistic," and "Communistic" were used to describe Mexico's nationalistic policies.[146] In the case of oil, Carranza's nationalists felt that not only were foreign oil companies taking large profits out of the country but also that the oil development strategies of the oil companies were inconsistent with Mexico's development needs. In 1919 an oil company attorney estimated that U.S. companies had purchased or leased 80 percent of the most promising oil lands. Many smaller U.S. oil companies also objected to the deals being made by the likes of Standard Oil of New Jersey and Sinclair Oil.[147] Most businesses, even most capitalists, had nothing to do with imperialist policies, which reflected the interests of relatively small numbers of big corporations, like Standard Oil, and great family fortunes like Rockefeller and Mellon.[148]

Isaiah Bowman, one of the original directors of the CFR, wrote in his 1921 book, *The New World: Problems in Political Geography*, that the control of something like oil is a kind of power. Bowman noted how aggressively England was pursuing the control of oil in Persia and Mesopotamia. Also, in a brief discussion of China's potential as a world power Bowman noted the importance of Mesopotamia and that this area was both "a critical region" and a "true problem area."[149] It is still today a critical region and a true problem area.

Within the Higher Circles, or Establishment, there was a widespread view that in dealings with Latin American countries a certain amount of flexibility and pragmatism was necessary and that military action should be a last resort. This question was analyzed by the Inquiry group, whose role at the 1919 Paris meetings was discussed briefly earlier. The Inquiry produced hundreds of reports on Latin America, many of which dealt with what the Establishment needed to do to achieve economic power and political stability in the region. The Inquiry group thought that representatives of American wealth and banking should educate the Latin Americans on the desirability of economies being based on private enterprise and openness to foreign investment. This, of course, would allow U.S. investors to gain control of banking, natural resources, media, and educational processes.[150] Mexico was heading in a different direction. By the 1925 to 1927 period Wall Street became resigned to the idea that they were not going to get everything they wanted and that the U.S. military could not be used to collect debt from Mexico or to impose policy. This didn't mean that core attitudes had changed. For example, Elihu Root in 1927 said that Mexicans were not ready to honor obligations and that Mexico would benefit from a dictator like Mussolini.[151] In spite of the Establishment's efforts, by 1938 Mexico was exercising its national prerogatives—nationalizing its oil industry and instituting labor legislation and land reforms.[152]

Things had not gone as well in Mexico as in Cuba, Nicaragua, and some other places like the Dominican Republic, if one describes how things went in those countries as "well." One lesson that might have been learned by the U.S. Establishment is that a major effort has to be made to convince at least some people in foreign countries that cooperation with U.S. investors and with financial and corporate interests would be to their advantage. Openness to foreign investment would be critical. Isaiah Bowman remarked that after the fall of Napoleon, England saw the opportunity to take up global free trade as a means to further English power.[153] Bowman had something like that in mind for the United States, with an emphasis on investment.

Free trade did mean or came to mean more than just openness to other nations' products. In both English and American imperialism it also came to mean openness to foreign investors and the surrender of national control over economic processes. Creating a policy along these lines that could be imposed on large numbers of countries was not going to be possible for quite some time. Too much of the world was then outside the reach of a global free trade imperialist policy. Much of the world was colonized (Africa, India, etc.), under the control of communists (Russia), strong enough to compete for power (Germany, Japan), protectionist and nationalist (Mexico, Turkey, etc.), or just too difficult to thoroughly control (China). During the Depression there was a general upsurge in nationalism, including in Great Britain.[154] As we will see, it took the defeat of Japan and Germany, the collapse of colonialism, the collapse of Soviet communism, and an aggressive promotion of free trade and laissez faire to make even an effort at creating a global economy that could be dominated by Anglo-American interests. For reasons we will get to, that effort has probably never had much chance of success. But that is again getting ahead of our story.

Even making the attempt to create this kind of open global economy was frustrated by the arrival of the Great Depression in the United States and, along with that depression, the anti-laissez faire policies of Franklin Roosevelt. The possibility of a global economy open to takeover by Anglo-American interests receded for the next thirty or even fifty years. That is not to say that the Establishment had no victories in that period of time; they had some.

CHAPTER FIVE

FDR and JFK Revive the American System

The New Deal broke the trend and pattern of the period of roughly the 1870s to the 1920s. The trend was the growing dominance of Wall Street and of the social and political organization that had developed from what Veblen called the investor class. We have referred to the sociopolitical organization as the Establishment, the aristo-finance elite, or the Higher Circles. By the end of the 1920s, private forces, with greater wealth, organization, and unity than ever before, were shaping the government to serve their purposes. This is certainly not the outcome that Hamilton or Lincoln desired. It is not the outcome favored by such American System writers as Rae and Veblen. Government still played an important role in the regulation of trade, and it played an important role at various levels (federal, state, local) in a variety of areas, from infrastructure to basic education to agricultural research. But the trend of the late 1800s to 1920s period was clear. Government was increasingly handmaiden to private wealth, not the force shaping the country's future, as it often was under the influence of American System ideas. The role of the American System ideas has been and is routinely ignored by most historians, contemporary commentators, and economists. It may well be the case that no students in the country's graduate schools are trained today in American System ideas. To some degree or another they are all taught economics based on the English school.

Without some knowledge of American System ideas and of the conflicts surrounding them in American history, that history really makes no sense. Also, comments such as those by Allan Nevins in his introduction to John Kennedy's *The Strategy of Peace* where he said that "since Franklin D. Roosevelt the Democrats have cherished Jeffersonian ideals but acted on Hamiltonian ideas" make no sense. Similarly, without some knowledge of the conflicts surrounding American System ideas, it would be difficult to make sense of James M. Burns's[1] remark that in the view of many people who respected Franklin Delano Roosevelt (FDR) "he had a grasp on Jefferson's deeply humane ends and on Hamilton's creative means." After a half-century of growing private power, what FDR did was to create a new version of the American System whereby government would once again have a major role in shaping American society so that all of the country's hopes and its future would not be entrusted to imperfect and inadequate market forces and to the interests of private wealth.

The most comprehensive summary of Franklin Roosevelt's achievements is provided by William Leuchtenburg. Leuchtenburg clearly acknowledges the ways in which the New Deal was too little or too late or occasionally had results at odds with the administration's stated intentions. For example, the unemployment problem was never solved prior to World War II. It should be kept in mind, however, that in the view of at least one expert, there was something like a chronic unemployment problem before the Great Depression, with the rate averaging above 10 percent every year from 1924 to 1929.[2] At any rate, the unemployment problem was not solved completely until World War II. Nevertheless, as Leuchtenburg points out, the view of the New Deal that became popular in academic circles and radical political circles in the 1950s and 1960s that the New Deal accomplished little beyond saving the capitalist system just doesn't fit the facts.[3] So, what did FDR and the New Deal do? Leuchtenburg[4] offers this summary of the New Deal's achievements:

> What then did the New Deal do? It gave far greater amplitude to the national state, expanded the authority of the presidency, recruited university-trained administrators, won control of the money supply, established central banking, imposed regulation on Wall Street, monitored the airwaves, rescued debt-ridden farmers and homeowners, built model communities, transformed home-building, made federal housing a permanent feature, fostered unionization of the factories, drastically reduced child labor, ended the tyranny of company towns, wiped out sweatshops, established minimal working standards, enabled thousands of tenants to buy their own farms, built camps for migrants, introduced the Welfare State with old-age pensions, unemployment insurance, and aid for dependent children and the handicapped, provided jobs for millions of unemployed, set up a special program for the jobless young and for students, covered the American landscape with new edifices, subsidized painters and novelists, composers and ballet dancers, introduced America's first state theater, created documentary films, gave birth to the impressive Tennessee Valley Authority, generated electric power, sent CCC boys into the forests, initiated the Soil Conservation Service, transformed the economy of agriculture, lighted

up rural America, gave women greater recognition, made a start toward breaking the pattern of racial discrimination, put together a liberal party coalition, and changed the agenda of American politics.

Although Roosevelt was at first hesitant and had started his presidency with efforts to control government spending, he quickly turned in March of 1933 to a program of government jobs, relief, and public works.[5] The period between March and June became known as FDR's "Hundred Days" during which the New Deal was launched. According to Leuchtenburg[6]:

> When congress adjourned on June 16, precisely one hundred days after the special session opened, it had written into the laws of the land the most extraordinary series of reforms in the nation's history. It had committed the country to an unprecedented program of government-industry co-operation; promised to distribute stupendous sums to millions of staple farmers; accepted responsibility for the welfare of millions of unemployed; agreed to engage in far reaching experimentation in regional planning; pledged billions of dollars to save homes and farms from foreclosure; undertaken huge public works spending; guaranteed the small bank deposits of the country; and had, for the first time, established federal regulation of Wall Street. The next day, as the President sat at his desk in the White House signing several of the bills Congress had adopted, including the largest peacetime appropriation bill ever passed, he remarked: "More history is being made today than in [any] one day of our national life." Oklahoma's Senator Thomas Gore amended: "During all time."
>
> Roosevelt had directed the entire operation like a seasoned field general. He had sent fifteen messages up to the Hill, seen fifteen historic laws through to final passage. Supremely confident, every inch the leader, he dumfounded his critics of a few months before.

Roosevelt had also adopted a nationally oriented trade policy, including continuing support for tariffs.[7]

Henry Stimson had said just before FDR assumed office that Roosevelt displayed an ignorance of the situation he confronted that would be "laughable" were it not so "lamentable."[8] In reality FDR was already working on his legislative program, "wearing out whole teams of experts with his amazing energy, and impressing skeptics with his ability to grasp the crux of an argument or to retain the most minute details of economic data."[9]

After his very brief tilt to the right, Roosevelt did hit the ground running, which means he had started out with at least some defined approach to government. Burns[10] observed that even though FDR had taken positions all over the political spectrum, he nevertheless had "something of a political creed." According to Burns,[11] that included the general idea that "government could be used as a means to human betterment," that it should side with the underdog, and that "special interests must be subordinated to the general interests." Roosevelt's core principle, which got stronger as his time in office grew, was "the idea that government had a positive responsibility for the general welfare" and that government must act when other things don't work.[12] One thing Roosevelt clearly was not was laissez faire.[13] As Leuchtenburg[14] put it:

> The New Deal, it should be noted at the outset, radically altered the character of the State in America. As late as Hoover's presidency, policy makers believed that government activity should be minimal; economic decisions should be determined in the market place, and the government should confine its function to that of neutral referee.

We need only add that "laissez faire" during the period from the American Revolution to the Civil War was only one idea in play, the other being active government under Hamiltonian or American System ideas. In the post–Civil War period, laissez faire, often with an unhealthy dose of Social Darwinism, had gained the upper hand, until the New Deal. In contrast, throughout the pre–Civil War period, government at the federal, local, and, particularly, state level had played a critical role in the construction of roads, canals, and railroads.[15] Much of this was undertaken to shape the development of the economy, not merely to fill in the gaps left by market forces.[16] Vast programs of infrastructure development had been proposed even by President Jefferson's Secretary of Treasury Albert Gallatin. Roosevelt was open to that kind of approach.

The Roosevelt administration benefited from the input of a wide variety of intellectuals and experts, including the writings of Thorstein Veblen, and there was more than enough diversity in outlook within the administration to guarantee that ideas and policies would be subject to evaluation and criticism.[17] Out of the conflict of ideas and the need to respond to the economic crisis came what one English scholar called "a new creative American nationalism."[18] In some respects FDR's new nationalism would be unchallenged for some forty years.[19] Republicans, including Eisenhower and Nixon, would live with it, and some Democrats, particularly JFK, would reinforce and develop it. At the time that the New Deal developed, it transcended and realigned the existing political party configuration. A large number of progressive Republicans left their party to support Roosevelt, and Roosevelt campaigned in 1936 with little mention of party identification. Labor, which did not support FDR over the Republicans in 1933, came over to FDR in overwhelming numbers in 1936.[20] Although Roosevelt was slow in putting his administration's support behind unionization, he eventually did, and membership rose from 4 million in 1935 to 8 million in 1940 and then to 14 million in 1945.[21] Roosevelt, in effect, created a new political identity—the New Dealer or New Deal Democrat. From 1932 into the 1960s and 1970s this evolving New Deal political coalition had great success. The opposition to it also evolved and eventually assaulted the New Deal by bringing back a version of laissez faire. This version came to be talked about as the "Reagan Revolution," ending government as we know it, the New World Order, globalization, etc. Before we get there, and beyond, we need to finish this part of the story. As Leuchtenburg has pointed out, the achievements of the New Deal came to be widely underestimated or even dismissed after the 1950s or 1960s. Since an anti–New Deal agenda gained acceptance between the 1970s and 2000s but is now in serious trouble, we should spend a little more time on FDR's program and at least mention the forces that opposed him. We also need to briefly discuss the last president to clearly represent some version of the New Deal and of the American System—John F. Kennedy (JFK).

The New Deal

As the previous summary indicated, the New Deal produced a large number of new agencies, programs, and policies. We will look a little more closely at some of these. One of the most important was the Tennessee Valley Authority (TVA). The TVA's primary purpose was the construction of "multipurpose dams which would serve as reservoirs to control floods and at the same time generate cheap, abundant hydroelectric power."[22] TVA also accomplished other things (creating lakes, reducing malaria) and became a model of development known around the world. These projects had been proposed before FDR's presidency, but had been vetoed by Republican presidents. With the leadership of Republican Senator George Norris and of FDR, the program was enacted. Complementing this, the Rural Electrification Administration was created in 1935 to help farmers get electricity for their farms and homes. In 1933 only 10 percent of farms had electricity; shortly after FDR's death only 10 percent were without it.[23]

The New Deal brought a new era of financial regulation. Wall Street had a level of freedom that proved to be destructive. FDR signed into law in June of 1934 the Securities Exchange Act creating the Security and Exchange Commission and providing government the ability to regulate the creation and trading of securities. In the next year the Banking Act of 1935 was passed giving the president the power to appoint the members of the Federal

Reserve System's Board of Governors and giving more power to the federal government to regulate the creation of credit and currency. The Glass-Steagall Act of 1933 had separated investment from commercial banking. Also, the creation of the Federal Deposit Insurance Corporation provided federal guarantee for bank deposits.[24]

The Home Owners Loan Corporation, which was created in 1933, saved tens of thousands of homes from foreclosure through refinancing. Also in this area, the Federal Housing Administration helped 11 million families to own homes over a ten-year period.[25] The Agricultural Adjustment Act of 1933 provided subsidies and loans to farmers.[26] The Farm Security Administration was created in 1937 providing health services and financial assistance to small farmers, tenant farmers, and migrant workers. Also, at this time a large program was established to educate farmers on methods of cultivation and conservation and to help local government with land-use planning.[27]

Roosevelt took an existing organization, the Reconstruction Finance Corporation (RFC), and gave it a different and bigger purpose. According to Leuchtenburg:[28]

> Under Hoover, the RFC had been an instrument of the established businessmen, particularly of the eastern *rentiers*. Roosevelt put the agency under a Texas banker, Jesse Jones, who represented the Southwestern boomers' desire for expansion, and who spoke for businessmen less interested in protecting existing holdings than in fresh ventures. Jones converted the RFC into a vastly different organization from what it had been under Hoover. Instead of lending money to banks, and thereby increasing their debt, as had been done in the Hoover regime, Jones sought to enlarge their capital. By buying bank preferred stock, he bolstered the capital structure of banks, created a base for credit expansion, and made it possible for the deposit insurance system to function. Under Jones, the Corporation became not only the nation's largest bank but its biggest single investor. Eventually, Jones ruled an empire of RFC subsidiaries; federal mortgage agencies; the Commodity Credit Corporation; the Electric Home and Farm Authority…

Also according to Leuchtenburg,[29] the changes in financial processes implemented by FDR altered the basic relationship between Wall Street and Washington, elevating the latter. This did not mean that reformers and critics of Wall Street got everything they wanted. Vincent Carosso[30] observed that

> by the end of Roosevelt's second term, nearly all of the New Deal's securities laws had been enacted. These statutes, while fulfilling many of the objectives progressives and other reformers had been fighting

> for since the beginning of the century, when the investment banker stood at the apex of his influence, fell far short of the goals of some Administration leaders. Berle, for instance, was disappointed that the Securities Act had failed to strike at the investment bankers' alleged domination over corporate finance, and Joseph P. Kennedy, after retiring from this chairmanship of the SEC, urged further legislation to eliminate investment banking control of American business. These and other contemporary observers, both supporters and critics of the securities laws, claimed that the New Deal's reforms, while useful in outlawing malpractices, had failed to loosen Wall Street's supposed grip on the economy.

After his time as SEC chairman, Joseph Kennedy[31] wrote an article for the *Saturday Evening Post* in which he quoted one of his friends who said that "There cannot simultaneously and successfully exist in the same nation a political democracy and an economic oligarchy." Kennedy went on to argue, among other things, that "Private bankers should be eliminated from control and management of corporations." Kennedy also criticized the financier and "captain of industry" for their extreme opposition to FDR.

Much of what FDR did was about creating employment and at the same time adding to the nation's productive and useful assets. Some of it, however, was simply feeding people.

> Roosevelt had hardly taken office when he approved legislation making outright grants to the states for the first time ever to provide money for the jobless. In the ensuing years a series of agencies—Federal Emergency Relief Administration, the Civil Works Administration, the Works Progress Administration—gave jobs to the unemployed; provided shelter for more than 50,000 young transients ("the wild boys of the road"); and took care of nearly a quarter million homeless, while, though motivated more by a desire to aid farmers than the needy, the Federal Surplus Relief Corporation distributed sweet potatoes, apples, beans, canned mutton, peaches, flour, pork, cabbages, and other commodities, a program given different form later in the decade by the creation of a federal food stamp project. In 1932 under Hoover the federal government spent $208 million on relief; in 1935 under FDR more than $3 billion, and that sum was rising. Eventually the total would reach more than $11 billion. The director of the American Public Welfare Association concluded, "The decade of the 1930s might well have been known as the decade of destitution but for the humane leadership provided by the Roosevelt administration."[32]

At one point the Civil Works Administration (CWA) employed more than 4 million people. It built or improved some 500,000 miles of roads, 40,000 schools, more than 3,500 playgrounds and athletic fields, and 1,000 airports. The CWA "employed fifty thousand teachers to keep rural schools open and to teach adult education classes in the cities."[33] The Federal Emergency Relief Administration "taught over one and a half million adults to read and write, ran nursery schools for children from low income families, and helped one hundred thousand students to attend college."[34] It also built thousands of bridges and provided relief to people. The Works Progress Administration also carried out large numbers of construction and improvement projects as did the Public Works Administration (PWA) between 1933 and 1939. Leuchtenburg[35] points out that the

> PWA helped construct some 70 per cent of the country's new school buildings; 65 per cent of its courthouses, city halls, and sewage plants; 35 per cent of its hospitals and public health facilities. PWA made possible the electrification of the Pennsylvania Railroad from New York to Washington and the completion of Philadelphia's 30th Street Station. In New York, it helped build the Triborough Bridge, the Lincoln Tunnel, and a new psychiatric ward at Bellevue Hospital. It gave Texas the port of Brownsville, linked Key West to the Florida mainland, erected the superbly designed library of the University of New Mexico, and spanned rivers for Oregon's Coastal Highway. Under PWA allocation, the Navy built the aircraft carriers *Yorktown* and *Enterprise*, the heavy cruiser *Vincennes*, and numerous other light cruisers, destroyers, submarines, gunboats, and combat planes; the Army Air Corps received grants for more than a hundred planes and over fifty military airports.

Also, the Civilian Conservation Corps put millions of young men to work stringing telephone lines, building roads and trails, and doing a variety of other things.[36] New Deal policies played a major role in the overall industrialization of the western part of the country, creating energy sources, water resources, canals, and tunnels.[37] The work and income created by the New Deal through its thousands of projects and the direct financial relief given through public aid or social insurance touched directly much of America's population.[38]

At the end of 1944 there was discussion by Roosevelt and in Congress of plans to use government powers to ensure economic growth and full employment. At the end of October, Roosevelt gave a speech in which he endorsed a growth solution to unemployment and promised to use the presidency to promote an expansion of productive capacity that would include "new facilities, new plants, new equipment."[39] Also in 1944, officials of the

National Farmers Union were promoting the establishment of a national investment goal and provisions for government to supplement through loans to private business and state and local governments any deficiency in total national investment.[40] During World War II, which provided something of a model for these proposals, the federal government directly financed about two-thirds of plant expansion related to the war.[41] Roosevelt's leadership was, of course, lost in 1945 and the efforts in Congress were frustrated; the employment bill eventually passed but was severely watered down and amounted to an expression of hope.[42]

In the view of some, the physical improvements made in the economy under Roosevelt laid the groundwork for the post–World War II prosperity. Alexander Field, describing the 1930s as the "Most Technologically Progressive Decade of the Century," summarized this in the following:

> At the time of the Japanese attack on Pearl Harbor, a very substantial fraction of 1948 productivity levels had already been achieved. Moreover, almost all of the foundations for what W.W. Rostow ... would later call the age of high mass consumption were already in place. These included a growing public infrastructure geared to automobiles and trucks, the technical foundations and physical capital investments necessary for producing and distributing cheap petrochemicals, gasoline and electric power, and a range of new and improved materials and appliances that could take advantage of these inputs. The high rates of investment in street, highway, water, and sewer capital literally helped pave the way for the postwar suburbanization boom. In commercial aviation, technical advances (the DC-3) as well as government investment in municipal airports during the 1930s had fostered a nascent industry with much room for profitable expansion. The defining new product of the third quarter of the century—television—was on the verge of explosive commercial exploitation.[43]

The mobilization and growth that did take place during World War II, and it was huge, was on top of these improvements of the 1930s.

During the summer of 1935, in the midst of more economic difficulties, Roosevelt succeeded in getting legislation passed in four major areas—labor protection, social security, banking (discussed earlier), and public utility regulation. This is sometimes known as Roosevelt's Second Hundred Days. Prior to the New Deal, "Employers hired and fired and imposed punishments at will, used thugs as strikebreakers and private police, stockpiled industrial munitions, and ran company towns as feudal fifes."[44] The Roosevelt administration changed this with the National Industrial Recovery Act of 1933 and then more so with the National Labor Relations Act (Wagner Act) of 1935. The protections provided for workers and organizers allowed the rapid growth in labor organization noted earlier. Legislation was also passed that removed children from factories and created standards for working conditions.[45]

Passage of the Wagner Act led to conflicts, which were resolved in the courts. The Wagner Act decisions would at least partially reverse trends established after the Civil War. Those trends included an increased emphasis on property rights as those were conceptualized in classical economic theory, that is, the British school. That, of course, meant that the idea of natural economic laws and laissez faire were preeminent, and the courts came to support the idea that the economy works best if left alone. By 1937 the courts introduced and reintroduced ideas of national interest and national powers that overrode property rights and laissez faire.[46]

The Social Security Act of 1935 established America's first national old-age pension program. It had many faults and was viewed by FDR as only a first step. Four years later the act was amended to provide benefits for survivors. For decades, Social Security would be a program widely viewed as untouchable (unless to save or improve it) and basic changes in it were unthinkable until the Reagan-Bush revolution.

Roosevelt's achievements secured for him four terms as president and the respect and appreciation of hundreds of millions of people around the world. Leuchtenburg[47] quotes Isaiah Berlin saying about Roosevelt that he "was the greatest leader of democracy, the greatest champion of social progress in the twentieth century." That was not the view of FDR that was held by many, probably most, of the nation's wealthy people. To them Roosevelt was at the least an unwelcome intruder into their affairs, at the most a dangerous threat to their privilege, power, and influence.

Roosevelt's Opponents

After a year of the New Deal, many businessmen were disturbed by most of what FDR was doing and there were defections from the administration.[48] The wealthy came quickly to a conclusion that FDR was their enemy, and their rage at him was such that many of them wouldn't even use his name.[49] With rare exceptions, big businessmen and financiers rejected the New Deal and its programs and policies, thinking of Roosevelt as a traitor to his class.[50] According to Childs[51] a "fanatical hatred" of FDR permeated "in greater or less degree, the whole upper stratum of American society." Childs observed that the extent of the hatred was positively associated with the size of the homes and number of servants. Many of these wealthy reactionaries had disdain for democracy and would have liked to see FDR's reforms destroyed.[52]

Roosevelt himself thought that he was contending with a conspiracy of bankers.[53] As we will see later, he actually told the entire country that those financiers had too much power.

Even before FDR asked Congress for higher taxes on the rich in 1935, the upper class was mobilizing to confront what they thought was a challenge to them. In 1934 the intense dislike for FDR took the form of the creation of the American Liberty League.[54] From the beginning, the Liberty League was able to "concentrate unlimited money, powerful organization, and superb propaganda behind the fight to preserve the Constitution."[55] The leaders of the league claimed that they were organizing to combat radicalism, protect property, and uphold the Constitution.[56] It was, of course, their post–Civil War, laissez faire version of the Constitution they were protecting. The historian Frederick Rudolph[57] later observed that the league's leaders were delusional, having little appreciation for what was happening in the country and believing that large numbers of people shared their preoccupation with defending property. On August 24, 1934, a couple of days after the league was announced, Roosevelt told the press that someone had told him that the league equated property with God.[58]

Among the people involved in this were numerous du Ponts plus Alfred P. Sloan, Jr., of General Motors, Grayson M-P Murphy, Winthrop Aldrich, Frank Rand, E. F. Hutton, Dean Acheson, and well-known Wall Street–backed politicians such as John W. Davis and Al Smith.[59] Efforts to attract a mass base for this enterprise failed. Liberty League membership peaked in 1936 at 124, 856, and after 1936 the organization concentrated on lobbying, producing and disseminating propaganda, and fighting the New Deal in the courts.[60]

In many respects what the Liberty League was accusing Roosevelt of was returning the United States to the era in which Hamilton's idea of government, John Marshall's idea of the Constitution, and Henry Clay's concept of the American System had dominated. FDR had declared at the Democratic Party Jackson Day dinner, with some irony given Jackson's real record, that Hamilton was a hero to him. Historian Clinton Rossiter observed in 1949 that "If the national government performs a host of new services which the forty-eight states could not supply for the people, it is because he [FDR] read Hamilton and Marshall in the original, not the gloss placed upon their texts by the corporation lawyers."[61] Wolfskill[62] observed that

> According to one Liberty League leaflet, the Administration was bent on substituting a planned economy "for the economy of nature and the plan of Nature's God." In another place it insisted that stretching the commerce, general welfare, and "necessary and proper" clauses of the Constitution, unreasonable delegation of legislative powers to

> the executive, pyramiding of the bureaucracy, unrestrained use of executive orders for lawmaking, and all the other attempts to extend federal power were intended "to facilitate economic planning and to accomplish social ends."

God's plan, of course, was the league's rendition of Jefferson's maxim that the best government is that which governs least.[63] Jefferson, to his credit, did not adhere blindly to this view of government.

Wolfskill[64] summarized the league's specific objections to the New Deal in the following:

> Imbued with a Social Darwinist philosophy, the League was critical of nearly everything the Administration undertook to do. Its criticisms included these principal points: (1) New Deal measures endangered the Constitution; (2) centralization of power tended toward tyranny and dictatorship; (3) the New Deal was predicated upon coercion rather than voluntary cooperation; (4) all the various manifestations of New Deal economic planning were dangerous and deceitful; (5) government regulation of business was based on false economic theories; (6) New Deal measures in the name of reform had retarded a natural recovery; (7) regimentation of agriculture was cure worse than the disease; (8) most New Deal measures were socialistic or fascistic, or both; (9) New Deal tax policies were damaging to private enterprise; (10) New Deal spending and unbalanced budgets were threatening a disastrous inflation; (11) banking policies were designed to subject the banking community to political control; (12) monetary policy impaired the credit of the Untied States and endangered the national currency.

The league's own program was not surprisingly just a list of things to do to get rid of the New Deal and its policies.[65] Consistent with the rhetoric, some of the league's members were considering measures beyond the campaign of lobbying, lawsuits, and propaganda.

In 1934 the House of Representatives created the Special Committee to Investigate Nazi Activities in the United States, which became known as the McCormack-Dickstein Committee. Retired Major General Smedley Butler brought evidence to this committee showing that a group of wealthy and influential people had approached him to see if he would help them to use disaffected veterans to create a crisis for and pressure on FDR with the idea of getting influence over him or even of replacing him.[66] The committee investigated Butler's story and substantiated much of it. In their final report, however, they suppressed information on some of those involved (e.g., John W. Davis and Thomas Lamont of J. P. Morgan and Company and

W. R. Perkins of National City Bank) and suppressed information linking the plotters to the American Liberty League.[67]

Some of the Liberty League people were also involved with a group called the Sentinels of the Republic that was formed after World War I to oppose communism and increases in federal power,[68] that is, to oppose much of what the United States was based on during most of the 1790 to 1860s period. The Sentinels not only opposed the New Deal and violently opposed labor organizing; they also proposed the elimination of "the general welfare" clause from Article I, section 8 of the Constitution.[69]

Roosevelt's conflicts with the financiers and the investor class were no secret during his administration. Roosevelt himself openly talked about this in speeches he gave over the entire course of his presidency. The man he chose to lead efforts to regulate Wall Street investments, Joseph Kennedy, wrote about FDR's conflict with Wall Street and the Higher Circles in his 1936 book *I'm for Roosevelt*. Others made public comments on this conflict. This open discussion of FDR's conflict with those interests probably peaked around his second campaign for the presidency in 1936, but it was also out in the open in 1933.

On June 27, 1936, at the Democratic Convention in Philadelphia, FDR accepted the nomination to run for a second term. In his acceptance speech he observed that the industrial age had produced a new group of wealthy and powerful people who had constituted themselves as "economic royalists." These royalists had created vast economic dynasties, often based on monopolies, and had sought to control government itself. Roosevelt[70] went on to say the following:

> For too many of us the political equality we once had won was meaningless in the face of economic inequality. A small group had concentrated into their own hands an almost complete control over other people's property, other people's money, other people's labor—other people's lives. For too many of us life was no longer free; liberty no longer real; men could no longer follow the pursuit of happiness.
>
> Against economic tyranny such as this the citizen could only appeal to the organized power of government. The collapse of 1929 showed up the despotism for what it was. The election of 1932 was the people's mandate to end it. Under that mandate it is being ended…
>
> The royalists of the economic order have conceded that political freedom was the business of government, but they have maintained that economic slavery was nobody's business. They granted that the government could protect the citizen in his right to vote but they denied that the government could do anything to protect the citizen in his right to work and live.

> Today we stand committed to the proposition that freedom is no half-and-half affair. If the average citizen is guaranteed equal opportunity in the polling place, he must have equal opportunity in the market place.
>
> The economic royalists complain that we seek to overthrow the institutions of America. What they really complain of is that we seek to take away their power. Our allegiance to American institutions requires the overthrow of this kind of power. In vain they seek to hide behind the flag and the Constitution. In their blindness they forget what the flag and the Constitution stand for. Now, as always, the flag and the constitution stand for democracy, not tyranny; for freedom not subjection, and against a dictatorship by mob rule and the over privileged alike.

Several months later, on October 14, 1936, speaking in Chicago, FDR warned again about the danger of a small group dominating the economy and the government.

> When I speak of high finance as a harmful factor in recent years, I am speaking about a minority which includes the type of individual who speculates with other people's money—and you in Chicago know the kind I refer to—and also the type of individual who says that popular government cannot be trusted and, therefore, that the control of business of all kinds and indeed of Government itself should be vested in the hands of one hundred or two hundred all-wise individuals, controlling the purse-strings of the Nation.

Further on in his speech Roosevelt added to this, saying that when his administration took office in 1933,

> our job was to preserve the American ideal of economic as well as political democracy against the abuse of concentration of economic power that had been insidiously growing among us in the past fifty years, particularly during the twelve years of preceding administrations. Free economic enterprise was being weeded out at an alarming pace.
>
> During those years of false prosperity and during the more recent years of exhausting depression, one business after another, one small corporation after another, their resources depleted, had failed or had fallen into the lap of a bigger competitor.
>
> A dangerous thing was happening. Half of the industrial corporate wealth of the country had come under the control of less than two hundred huge corporations. That is not all. These huge corporations in

> some cases did not even try to compete with each other. They themselves were tied together by interlocking directors, interlocking bankers, interlocking lawyers.
>
> The concentration of wealth and power has been built upon other people's money, other people's business, other people's labor. Under this concentration independent business was allowed to exist only by sufferance. It has been a menace to the social system and to the economic system which we call American democracy…
>
> I believe, I have always believed, and I will always believe in private enterprise as the backbone of economic well-being in the United States.
>
> But I know, and you know, and every independent business man who has had to struggle against the competition of monopolies knows, that this concentration of economic power in all-embracing corporations does not represent private enterprise as we Americans cherish it and propose to foster it. On the contrary, it represents private enterprise which has become a kind of private government, a power unto itself—a regimentation of other people's money and other people's lives.[71]

Any president acting like this one and talking like this one would be hated by those of wealth and privilege who thought they were entitled to run the country. If any of this needed to be stated publicly in a clear fashion, two of FDR's better-known supporters gave that a good effort. Speaking in support of Roosevelt at the beginning of Roosevelt's first term, in May of 1933, Major General Smedley Butler[72] said the following:

> Our nation can be saved, and it will be, but only by the complete unhorsing of the greedy, dishonest and selfish influences which have exploited us for personal gain. So-called leaders, self-termed patriots, have shouted from the housetops that their conduct of affairs has been for the best interest of the country at large, and while our stomachs were full we were content to let their statements go unquestioned.
>
> Now we realize that national welfare in the eyes of such leaders is but the welfare of their particular class, and we will never emerge from this gloom until we have completely and forever rid ourselves of such people. By this means the morale of the average citizen who does the dying in war and the suffering in peace can best and most quickly be raised, and his confidence restored.
>
> There has always been a Tory class in our country, a class of people that believes the nation, its resources and its man-power, was provided by the Almighty only for its own special use and profit. This Tory class

> through the shameless use of its wealth has obtained a strangle-hold on all our institutions, with the present distress an indication of the result.
>
> It will take the greatest courage on the part of true leaders to break this devastating grip, but it must be done if our great democracy is to survive.

General Butler called for "massed and threatening public opinion" to support the "true leaders" of the country. The *New York Times* actually lived up to its motto about all the news fit to print by publishing the text of this speech. That a retired major general and one of the most decorated soldiers in American history would talk this way is in part a reflection of the tenor of the times and also of the realities of the times.

Writing in 1936, partly as a response to the attacks on Roosevelt, Joseph Kennedy criticized those wealthy attackers suggesting that their hatred of Roosevelt made them blind even to their own long-term self-interest. Kennedy wrote:[73]

> Progress and reformation, in every land, has been regarded by those who were favored by the ancient regime as an infringement on freedom. The emancipation of the people politically, as well as economically, was always resisted by the "warders of freedom."

Further on:

> Certain of the President's critics have no sincere interest in a better "state," no honest desire to clean up the "unholy mess," beyond salvaging the interests which they control. The "state" which they apparently wanted to strengthen was the "state" of a comparative handful of privileged aristocrats. In their blind adherence to outmoded principles, they lose sight of their own longer-term interests. For it is fundamental that in the prosperity of all classes lies the security of their possessions.

Roosevelt, Kennedy, and Butler did everything but name the names (Butler did mention Morgan). What they laid out were important aspects of what is the essential conflict in the history of the United States and of many or most other countries. A conflict involving entrenched interests preoccupied with maintaining and expanding their control of private wealth and private institutions and committed to influencing government so that government is only expansive and active when they want it to be and in ways they want it to be. This conflict is also conditioned by the specific outlook and traditions of particular elite groups and by circumstance.

So, FDR and his supporters were involved in a serious contest with the upper levels of America's economic royalty, also known as the Establishment or the Higher Circles, over the role of government in the nation's economic affairs. What about foreign policy? There were differences between Roosevelt and the Council on Foreign Relations (CFR) network. The differences were deep, but the circumstances prevented what might have been a much clearer public disagreement from occurring. During World War II the central purposes of FDR and of the CFR converged in the shared determination to defeat Germany and Japan. Some differences did emerge, but against the background of the war very few people probably noticed them. Also, as we see later, resolution of those differences was put off to the end of the war. In the pre-war period the depressed condition of the world economy slowed up the foreign economic activities of Wall Street. In addition, it may be that the long and trying intervention in Nicaragua had left the CFR people temporarily less aggressive and therefore willing to tolerate FDR's noninterventionist policies. All of this said, it remains that FDR was tending in a direction that was different from that chosen by the CFR before FDR became president and different from what they wanted after FDR's death. We can examine the conflict between FDR and the CFR around two sets of issues, one being FDR's Good Neighbor policy and the other being the conflict during World War II over the future of colonialism. To the second we will add a brief discussion of the alignment of political forces in the United States prior to entry into the war.

Roosevelt as a Good Neighbor

Roosevelt had at times been an enthusiastic supporter of the growing U.S. dominance in this hemisphere, but that had changed by the time he became president, perhaps changed by the mid-1920s.[74] In 1928, while campaigning for the governorship of New York, FDR gave a speech in which he supported his and his party's position that the United States should commit itself to a policy of noninterference "in the internal affairs of our neighboring republics." FDR observed that United States interference such as in Nicaragua brought charges of "imperialism" against the United States and was creating widespread hatred of the United States. Roosevelt made similar remarks in an article he wrote for *Foreign Affairs*.[75] Leuchtenburg[76] has described the emergence of Roosevelt's Good Neighbor policy as follows:

> At Montevideo in December, 1933, Cordell Hull voted to support the proposition that no state had the right to intervene in the affairs of another. A few days later, Roosevelt even more unequivocally

> renounced the policy of armed intervention. Delighted by the President's statement which they hailed as "*Un Sensaciosnal Discurso*," Latin Americans were even more pleased by his deeds. In May, 1934, the United States and Cuba signed a treaty which abrogated the Platt Amendment; in August of that year, the last Marines left Haiti, although the United States continued to supervise Haitian finances; in 1936, America relinquished its right to intervene in Panama. Reciprocal trade agreements brought modest benefits both to the United States and to Latin America. When Roosevelt traveled to South America in 1936, he found himself idolized as "*el gran democrata*" whose New Deal served as a model of the kind of reform Latin America needed.

As we have seen, all too often in the 1890s to 1933 period the U.S. government had played the role of enforcer and debt collector in Latin America. After FDR was elected the State Department was no longer a place to go for such actions, at least while FDR was president. In fact, the department began dishing out advice on how investors, bankers, and corporations might change their own behavior.[77]

As was discussed earlier, the Platt Amendment to the Army Appropriations Act of 1901, which was incorporated into the Cuban constitution and into the U.S.-Cuban treaty of 1903, gave the United States wide-ranging rights to intervene in or even to invade Cuba. A new direction was set when FDR went against the advice of Sumner Welles, ambassador to Cuba, and others and refused to interfere even though it meant that a government would come to power that was hostile to U.S. property and business interests[78] In May of the following year, the United States signed the new treaty abrogating the Platt Amendment and renouncing all rights to intervene in Cuba (the United States did get to keep its base at Guantanamo).[79] It may be that the Platt Amendment was becoming an embarrassment and an unwanted obligation,[80] but the overall renunciation of any rights of intervention plus the general shift in policy cannot have been welcomed by most Wall Street investors and other big business interests.

President Wilson's earlier declaration against interventionism may have been one of the things that had prevented U.S. participation in the League of Nations. In his 1951 book, *Across World Frontiers*, Thomas W. Lamont wrote that the primary reason that the United States did not sign the League Covenant and did not participate in the League of Nations was Article X of the covenant, which had been introduced by President Wilson. Article X stated that the

> Members of the League undertake to respect and to preserve as against external aggression the territorial integrity and existing political

> independence of all Members of the League. In case of any such aggression the Council shall advise upon the means by which this obligation shall be fulfilled.[81]

Lamont said that the problem could have been avoided if Wilson had accepted Elihu Root as an advisor on the covenant. Apparently, President Wilson introduced this idea into the covenant without consulting with the representatives of the Establishment and his action was opposed by them. Such an emphatic commitment against the use of force where it involved league members would have been used to criticize and oppose the U.S. foreign policy Establishment if the United States invaded countries outside of the league. In doing this Wilson had gone against the views of Root, Stimson, House, and Lansing, meaning the views of the emerging Morgan-led foreign policy Establishment.[82] Writing in 1917 Frederic Howe[83] observed about Wilson that he had "declined to lend his sanction to the doctrine that the flag follows the investor." This rendition of the controversy is more likely to be valid than Stimson's and McGeorge Bundy's claim that the problem with Article X was that it created unpredictable obligations to take action.[84] That interpretation appears to be a cover story or a misdirection.

The Roosevelt administration strengthened its commitment to the principle of nonintervention over time. In 1936 the Roosevelt administration signed an agreement that declared that no form of intervention or interference by one nation in the affairs of another was to be tolerated. FDR went beyond this, adopting a policy of avoiding even statements of preference relating to the internal policies of other countries. When conflicts developed over the control of oil in Bolivia and particularly in Mexico, the Roosevelt administration sought compromise and it did not press the interests of Standard Oil in Mexico. In general, FDR conducted affairs as if there was a United States national interest separate from any sector of business and from private business as a whole. As we will see, FDR's approach was fundamentally different from the foreign policy pushed on to the United States after the war by the Establishment. After 1958, or perhaps 1945, it appears that only Kennedy resisted Establishment policy with any consistency and success. From the mid-1960s onward, FDR's flexible program of nation-to-nation negotiations to produce reciprocal trade agreements would be increasingly replaced by dogmatic and extreme laissez faire, or "free trade," policies.[85]

The shift that did take place after Roosevelt took office was recognized and appreciated in Latin America. For example, a Uruguayan newspaper editorialized in 1936 that the "defeat of plutocratic dominance in domestic politics in the United States has been accompanied by its defeat in foreign policy. The United States is becoming less and less each day that detestable oligarchy of the trusts and the bankers."[86] Along similar lines, President Alfonso Lopez of Columbia wrote to FDR in 1936 that

> The same interests that strive to maintain their economic privileges in the United States in opposition to your own government, and which you have pointed to as being prejudicial to the well being of the United States, formerly exercised a perturbatory influence on our relationships with the homeland of George Washington.[87]

In Latin America, FDR's domestic policies were also admired and thought of as consistent with his Good Neighbor initiatives. FDR was viewed as somebody who was separate from the forces involved in the occupation of Nicaragua and from U.S. business interests in Latin America and the policies of the bankers and investment houses. Latin Americans worried that FDR's successors would not have such an approach.[88]

Along with the noninterventionist Good Neighbor policy, there was a developing tendency within the Roosevelt administration to undertake efforts to help Latin American countries develop and industrialize their economies. This effort probably got under way in the late 1930s, was stated as a goal in FDR's Point Four, and became the basis for Kennedy's Alliance for Progress. Such a program was in direct conflict with imperialist policy and with Adam Smith's idea of the international division of labor.[89] FDR's anticolonialism and anti-imperialism also showed up in his dealings with Great Britain.

FDR and British Colonialism

For a period of time in the 1930s the British Establishment and significant parts of the American Establishment were at the least tolerant of Hitler.[90] By 1940 that had all changed. In the United States there continued to be opposition to war with Germany in various segments of the population,[91] but the Establishment swung into action to get the U.S. government to commit to the defense of England. In the summer of 1940 the Century Group was formed by CFR leaders Whitney Shepardson and Francis Miller to promote an alliance with England. The Century Group apparently played a role in achieving an agreement with England in the fall of 1940 to exchange U.S. naval ships for access to British naval bases. The Century Group took its name from the private club known as either the Century Association or Century Club. This group was not so much anti-German or even anti-Nazi as it was pro-British. Much of its leadership was also the Wall Street–CFR leadership, and many of these people would be primary figures in the policy discussions and events of the post–World War II period. These were, of course, not natural allies for Roosevelt. The Century Group and the club for which it was named included many people who were FDR's opponents, if not enemies. Two of the leaders, the aforementioned Lewis W. Douglas and Dean Acheson, had been part of FDR's administration at the outset but left early. Both were Anglophiles. Douglas resigned in August of 1934 because Roosevelt refused to adhere to conservative policies on government spending, and Acheson was forced out by FDR even earlier.[92]

Not long after Douglas left the Roosevelt administration he published a book attacking Roosevelt and the New Deal. Douglas particularly criticized FDR for spending and credit policies, for creating fiat money, for high tariffs, and for pushing banks to accept government paper. He likened FDR's monetary, banking, and fiscal policies to the Soviet Union in the period after the communist revolution.[93] He accused the FDR administration of having, consciously or unconsciously, a goal of creating a "Collective system" that would "destroy the very foundation of the American system."[94] He warned that attempts to plan the economy were one step from socialism and communism and were a direct threat to all of the country's freedoms.[95] Douglas[96] made a pitch for a slightly modified Lockean conception of government. Mixed in with all of this were a few legitimate concerns, but also some strange and extreme stuff. For example, Douglas suggested that labor should have accepted a reduction of wages as a measure to prevent the deepening of the Depression, and he argued that the problem in the 1920s and the cause of the Depression was not laissez faire, but too much government, cheap money, and, perhaps surprisingly, monopolies.[97] A few years later the Temporary National Economic Committee would offer a substantially different explanation for the Great Depression, one that put much more emphasis on industrial concentration, increasing inequality, inadequate wages, and the failure of the upper-income strata to put money into employment-generating investments. The committee found that in the late 1920s about 200 corporations, out of a total of roughly 300,000, controlled almost half of all corporate assets and that one-tenth of 1 percent of the nation's families received as much income as the bottom 42 percent of families.[98]

The Century Group's Dean Acheson would be involved with the Liberty League after he left the Roosevelt administration, and he went on to be a major figure in foreign affairs after the war. Others involved in the Century Group's efforts who would play an important part in the Establishment foreign policy work after the war included Henry Luce of Time-Life-Fortune; future CIA director Allen Dulles; and Joseph Alsop, one of the Establishment's most important voices in the media.[99] Allen Dulles was a descendant of two previous secretaries of state, John Watson Foster and Robert Lansing. Allen's brother, John Foster Dulles, served as secretary of state under Eisenhower. The Dulles brothers and Acheson and others in the Century Group were in the same camp as the Wall Street opponents of Roosevelt described earlier. What brought them together with FDR was the same thing that made allies of the Roosevelt administration and the British Establishment—the necessity of defeating Nazi Germany and Japan. The alliance of FDR and the Anglo-American Establishment did not mean that the differences simply disappeared. They did not disappear. Those differences were often in the open, surfacing around the future of colonialism and of the British Empire.

One of the strongest and clearest accounts of the conflict between FDR and the British is given to us by FDR's assistant, traveling companion, and son, Elliott Roosevelt. Elliott published his account in 1946 as a book entitled *As He Saw It*. Elliott argued that his father was deeply and consistently opposed to the perpetuation of the British Empire and to the continuation of French colonialism. Based on this account, it is not possible to unambiguously identify Roosevelt's view of what was later called free trade imperialism. It does appear that FDR was not only opposed to colonialism but that he also did not view free trade as a desired substitute for colonialism or something that should or could be imposed on other countries. It seems more than just unlikely that he would have supported the type of free trade later promoted through the International Monetary Fund (IMF). Some in the Roosevelt administration, perhaps Cordell Hull, may have been thinking of some version of free trade that would have been an imperialist policy,[100] but there appears to be no evidence that FDR entertained such a strategy. The type of free trade later promoted through the IMF, as we will see later, has been aimed at opening up nations to foreign takeover, at blocking development, and at undermining national sovereignty. It is hard to imagine FDR embracing much of that.

In FDR's mind "free trade" probably meant the end of British and French abilities to dictate trade relationships, to limit or restrict the ability of weaker countries to pick their trading partners, and to structure trade so that it left backward countries in the position of being permanent suppliers of raw materials. FDR left no doubt that whatever form economic relations took after World War II, they should not be such as to continue the exploitation and backwardness of weaker or smaller nations. The goal for FDR would be industrialization and a rising standard of living.[101] FDR's general attitude, then, was that countries should be independent and free to pursue their own development and that the United States' trade policy could be and should be compatible with that. That said, obviously, FDR was opposed to colonialism.

According to Elliott Roosevelt, this opposition was clearly stated in FDR's communications with him. In those communications FDR observed that the British had been able to sustain the "same reactionary grip on the peoples of the world and markets of the world, through every war they've ever been in."[102] This time, FDR went on, the United States, even though it is rightly Britain's ally in the war, must not allow Britain to "get the idea that we're in it just to help them hang on to the archaic, medieval Empire ideas."[103] According to Elliot, FDR concluded by saying "we're not going to sit by, after we've won, and watch their system stultify the growth of every country in Asia and half the countries in Europe to boot."[104]

The comment about Europe was apparently not elaborated upon. The view on England's tendencies was one FDR stated often. FDR thought that England intended to preserve their own power and to protect France's foreign interests, including those in the Far East.[105] In FDR's view, England thought that if a French-controlled area like Indochina got independence, other areas, such as English-controlled Burma and India or Dutch-dominated Indonesia, would soon follow.[106] This was a more honest and to-the-point rendition of what was later called the domino theory, warning ostensibly about the spread of communism. Roosevelt expressed a clear preference on Indochina (Vietnam), saying that after World War II France should have only a temporary, United Nations–supervised trusteeship over Indochina and then full independence should be given. That was still FDR's position at the time of his death, but the issue was unresolved.[107] Roosevelt repeatedly warned Churchill that the United States would not support England or France anywhere in the world if that meant backing their efforts to control other nations or their resources. For example, FDR openly sympathized with the shah of Iran, Mohammed Reza Pahlevi, when the shah complained that Britain dominated his country through their control of Iran's oil and other resources. FDR indicated that Iran had to get real independence and self-determination after the war.[108] As we will see further on, FDR's position on this would be totally reversed, especially in the U.S.-British operation against Iran in the early 1950s.

Roosevelt's foreign policy problems, of course, were not just with England, but also with the American East Coast Establishment, that is, the Wall Street–CFR network. That Establishment was heavily represented within the State Department, which FDR viewed as pro-British.[109] In Elliott Roosevelt's view, the pro-British forces quickly asserted themselves upon FDR's death and various agreements were abrogated and policies changed. Roosevelt's anticolonial position was immediately abandoned by Truman. The British reneged on their promise not to occupy Chinese ports when Japan surrendered and they acted to restore French power in Indochina, and they intervened in Greece.[110] Elliott Roosevelt[111] described the American supporters of Britain as reactionary internationalists, a fair description. Elliott Roosevelt also in this context warned of the growing role of the military in foreign policy, to some degree beating Eisenhower to the punch by almost fifteen years.

Elliott Roosevelt's description of FDR's conflicts with the Anglo-American Establishment is forceful and, for the most part, very clear. Others have noted these conflicts, even if not always with the same level of clarity. Wm. Roger Louis's later account of those conflicts reinforces Elliott Roosevelt's story and provides some additional information on Britain's allies in the United States. As noted earlier, Roosevelt's successor, Harry Truman, quickly abandoned FDR's position on British and French colonialism. Truman and his eventual secretary of state, Dean Acheson, supported continued French control of Indochina.[112] Acheson, who would later be a leading supporter of the decision to go to war in Vietnam, was involved during World War II in planning for the post-war period, including some system of "open trading" backed by U.S. military power.[113]

One of the most active opponents of FDR's plan to put Indochina under trusteeship after the war was Henry Stimson.[114] FDR had made Stimson secretary of war, apparently as a way to unite all groups in the war effort. It certainly was not because they shared a foreign policy outlook. According to Hodgson,[115] Stimson was appointed as an administrator, not a policy-maker, and FDR acted as his own secretary of war. Stimson opposed FDR's anticolonialist position and was involved in the rapid change of those policies after Roosevelt's death in April of 1945.[116] Stimson had also opposed the TVA, the 1935 Wagner Act, the overall expansion of government, and FDR's spending policies.[117] Among Stimson's allies or supporters in the successful effort to shift America's foreign policy after April were John J. McCloy, John Foster Dulles, and Harvey Bundy.[118] These people were part of the self-perpetuating Establishment, which links the foreign policy of the 1903 Platt Amendment to Vietnam and to the 2003 invasion of Iraq. That Root-Stimson-Acheson-McCloy-etc. network is also at the heart of the CFR-related Anglo-American Establishment. One of the leaders of that Establishment, Whitney Shepardson, wrote in his 1942 book, entitled *The Interests of the United States as a World Power*, that the United States should unite in a formal way with the British Commonwealth of Nations, something that would require amending the U.S. Constitution. Shepardson[119] referred to this union as a "British-American pooling of power to dominate the seas and the air for the purpose of establishing order throughout the world" for "a hundred years."

Acknowledging that this was a pretty dramatic proposal, Shepardson went on to say that there was widespread agreement in "responsible quarters" that there had to be at least "greater cooperation between the United States and Great Britain." He then suggested that this cooperation would have to be built around some policy of free trade. Shepardson added that politicians could not be counted on to carry out such a plan, indicating that the Establishment would have to do it.[120] As we will see in the next chapter, a clear idea of a global "free trade" policy would appear during the 1950s in the form of IMF conditionalities. That program would go beyond any obvious meaning of "free trade."

Although foreign policy was changed with the death of Franklin Roosevelt, that does not mean that the New Deal was swept away. Foreign policy is the major area of government policy most susceptible to upper-class influence. Most Americans have no direct knowledge of the issues, and there are few significant interest groups to compete over it. For these and other reasons it can be more quickly altered than something like a Social Security program or the high level of unionization. Much of the domestic New Deal survived for decades after Roosevelt's death, and it was given support and a somewhat new expression by John Kennedy.

JFK, The Last New Deal President

Kennedy's goals as president were different in important ways from those of Roosevelt. FDR faced challenges related to mass unemployment, a large decline in production and in use of production capacity, and, in much of the country, lack of infrastructure and general backwardness. Those problems largely shaped the nature of FDR's program prior to the war. During the war, low-interest government loans, massive government purchases, and economic mobilization finally ended unemployment and further expanded the country's industrial capacity. After the war, as noted earlier and to be discussed further on, U.S. foreign policy came again to be under the influence of CFR forces. While there were for about twenty years no significant uses of American military power, except for Korea, which probably was in some ways more about communism than imperialism, the 1950s saw two significant developments, which we will describe in the next chapter. Those developments were the overthrow of foreign governments and the emergence of a global "free trade" initiative, primarily through the IMF.

In domestic affairs FDR's death meant that there would be no more talk of a "national bank" or of extending the government's World War II role as lender into peacetime. There would be no more possibility of obligating the federal government to ensure full employment. However, there was no wholesale repudiation of the New Deal after World War II, and most of FDR's major domestic achievements were for the time being accepted, apparently even by the upper class, at least temporarily. So, Social Security survived, Medicare and Medicaid were added, and labor unions played a significant role in post–World War II politics, and the economy operated with considerable government regulation and oversight. The federal government continued to act as regulator and the power to promote competition was there to be used, and it was used. The first Republican administration after FDR undertook one of the largest infrastructure projects in history with the construction of a national highway system. The next Republican president, Richard Nixon, believed in a strong role for government in domestic affairs. But only one president really embraced the New Deal and took it in new directions in the decades after World War II and that was John F. Kennedy.

Kennedy took over a country in 1961 that was in many respects in excellent condition, although there were obvious problems. Over 20 percent of the population still fell below the official poverty level, racial discrimination was still blatant and systematic, and there were signs of economic stagnation in the second half of the 1950s. But Kennedy had a great deal to work with and he campaigned for office promising to get the country moving again. The heart of Kennedy's program was a series of policies designed to increase the quantity and quality of the nation's productive technology and increase the skills and knowledge of the country's people. Kennedy proposed a number of tax reforms, which encouraged increased investment in new plants and equipment. Kennedy offered ideas on resource development and proposed to create a plan for national energy development, including a program for developing and testing nuclear power technologies. The space program was vastly expanded by Kennedy. It stimulated interest in and support for science and for education in the physical sciences and engineering. Kennedy also proposed action to help educate the labor force that would be needed in a faster-growing, technologically advanced, production-oriented economy. These proposals included a major increase in National Science Foundation grants and fellowships and in student loans, scholarships, financial assistance, and work-study programs. He also sent to Congress a program to create a national system of public community colleges and to expand and build a variety of educational facilities. In many areas Kennedy was creating an institutionalized commitment to technological and economic progress.[121] That was his purpose and goal, and, as Frederic W. Collins[122] pointed out at the time, Kennedy had the abilities and the "unflagging" commitment needed to succeed.

Kennedy looked at budgets, deficits, and taxes as various means to the end of expanding and improving what Hamilton referred to as the "labor power" of the country. He was more aggressive, focused, and adventurous in these areas than John Keynes or Keynes's followers. Kennedy was shaping a program for continuous government action to increase the country's technical abilities to produce. That went way beyond Keynes and his ideas of using aggregate government spending to influence economic cycles. Kennedy asked Congress to give the president more power to alter trends in the economy, in effect transferring decision-making power away from the market and private interests and away from the Federal Reserve to the president. These and other actions, like Kennedy's constant pressure on the financial community to keep interest rates down, were all intended to increase the country's overall productivity and prosperity.[123]

In foreign policy Kennedy also tried to move things forward. As noted before, FDR's Good Neighbor policy came to include some effort to create economic relations between the United States and underdeveloped countries that would be mutually beneficial and would facilitate economic development. Kennedy moved that effort forward, formalizing it in his Alliance for Progress program. Kennedy also made economic development the centerpiece of his global policy. He was consequently interested in working with any and all leaders who were committed to modernization, development, and democracy and he was willing to withhold such cooperation from leaders and groups bent on preserving the wealth and power of the top few percent of the people. Kennedy favored an open-minded and flexible process of nation-to-nation negotiations to arrive at mutually beneficial aid and trade policies. He was severely criticized by spokesmen for Wall Street for not demanding that other nations pursue conservative economic polices and keep their economies open to foreign investors. The Establishment's view was that aid and trade should be left, as much as possible, to private enterprise under the guidance of international finance.[124] As we will see later, the American Establishment had at the time Kennedy became president just recently committed to a global effort along "free trade" imperialist lines. Just a few years into that commitment Kennedy came along and treated that global effort as if it was irrelevant. Because of the importance of this time period and of these events, we will return to Kennedy in the context of an analysis of the purposes of the IMF, at least its purposes after the early 1950s. Kennedy's Alliance for Progress policies would be changed shortly after his death, something that future CFR chairman David Rockefeller openly bragged about in an article he wrote for *Foreign Affairs*.[125]

Throughout Kennedy's presidency the Establishment-related media waged an aggressive propaganda war against Kennedy. Among the most aggressive were the Time-Life-Fortune publications and the *Wall Street Journal*. Both organizations had extensive connections to the CFR and to leading financial and corporate interests, particularly the Morgan, Brown Brothers Harriman, and Rockefeller interests. *Fortune* magazine attacked Kennedy in a series of articles for his efforts to use the powers of government to affect the economy. They accused him of undermining the economy and of threatening basic liberties. In October of 1962 Kennedy was labeled a cultist and a reactionary. In 1963 JFK was advised to follow the antigovernment economic views of Adam Smith, Milton Friedman, and Friedrich Hayek.

Fortune criticized Kennedy for promoting government activism on the part of other nations, charging that he was supporting *dirigistic* economic policies, which included what *Fortune* thought was an excessive role for government in economic affairs.[126]

In foreign policy Kennedy was charged with putting too much emphasis on industrialization and economic development. These policies, *Fortune's* editor Charles J.V. Murphy asserted, were mistakenly aimed at changing the international division of labor. In Murphy's view, the countries of Africa, Latin America, and Asia were supposed to remain backward exporters of raw materials, agricultural products, and payment on debts, forever. Murphy also vehemently criticized Kennedy for dealing directly with other countries on matters of aid, loans, and trade. These matters should be arranged, asserted Murphy, by and through the international financial community, not by national governments. At issue here was that Kennedy was putting the authority of the U.S. government behind the wrong set of policies. What Murphy and the Establishment wanted was for Kennedy to get behind the policies of the IMF, and he showed no interest in doing this. During JFK's brief presidency he was also criticized in *Fortune* and *Life* for taking the side of backward countries against interests based in Belgium and the Netherlands, and on the day Kennedy was assassinated a *Life* editorial admonished Kennedy to drop his plans to withdraw troops from Vietnam.[127]

Much of this criticism appeared elsewhere, particularly in the *Wall Street Journal*. Like Henry Luce's *Fortune*, the *Journal* claimed that Kennedy was a threat to economic freedom. They charged that Kennedy's programs were substituting state-led economic change for Adam Smith's free market economy. The *Journal* referred to Kennedy's federal budgets as "economic nonsense"[128] and accused him of using foreign aid to promote "statist and socialistic institutions."[129] The *Journal* asserted that under Kennedy the government had become the "self-appointed enforcer of progress."[130] The *Journal* admonished Kennedy to accept an idea of minimal government, a government restricted to national defense, the maintenance of order, and preservation of personal liberty. If the *Journal*'s editors were thinking largely of property when they mentioned individual liberty, then this was a clear statement of the Lockean view. In 1963 the financial community definitely thought that Kennedy's idea of government went way beyond anything acceptable to a Lockean.

As noted earlier, the anti-Kennedy media was extensively connected to the Morgan-Brown Brothers Harriman-Rockefeller interests. There were numerous connections to the Council on Foreign Relations, the Central Intelligence Agency, and to the institutions associated with the upper-class career paths that run through the prep schools, elite universities, and such secret societies as the Skull and Bones, career paths followed by both

Bushes.[131] It is hard to say whether these interests were angrier with Kennedy than they had been with Roosevelt. We can say that most of the leaders of the Establishment disliked both FDR and JFK and had fundamentally different ideas about how the affairs of the nation should be conducted, even about the nation's primary goals and purposes. We will get an even better sense of this by further examining the ways in which the Establishment altered or opposed the version of the American System created by Roosevelt and Kennedy. The Establishment's challenge to this new version of the American System began as soon as it appeared in the 1930s New Deal, and it continues into the current period. We will focus on foreign policy and international affairs first and then on the nation's internal affairs. There are, of course, many ways in which these two areas cannot be separated.

As with Roosevelt, the changes in policies following Kennedy's death were most obvious and dramatic in foreign policy, including Vietnam. The abandonment of Kennedy's domestic economic policies was somewhat more subtle and protracted. An argument might be made that the abandonment of both the New Deal and Kennedy's general program for progress started under Johnson and Nixon, picked up steam in the Ford and Carter period, and really got rolling with the Reagan-Bush years. No national leader has been a more aggressive opponent of the FDR-JFK legacy than the second Bush.

CHAPTER SIX

Oligarchs Take Over Foreign Policy

FDR's Good Neighbor policy, his noninterventionism, and his inclination to support flexible and active policies to promote greater economic prosperity and opportunity all went to the grave with FDR, although briefly resurrected, supplemented, and advanced by Kennedy. Parts of the New Deal or the FDR-JFK agenda have been accepted or supported by other presidents, but probably not to any significant extent since Kennedy or conceivably since Johnson or Nixon. We will concern ourselves first with the developments in the post-FDR period in two areas—the aggressive promotion of antigovernment, laissez faire policies and the renewed inclination to use military force or the threat of such force and other aggressive actions to expand the power of the Establishment globally. As we will see later, these were combined in dramatic fashion in the 2003 invasion of Iraq. In the decades immediately following World War II, communism would be both a real challenge to the Anglo-American Establishment, as well as to forces honestly looking for more flexible approaches to the world's problems, and it would provide a cover for or a rationale for actions that had more to do with imperialism than with the fight against communism.

The ideological descendants of and students of Elihu Root and Henry Stimson acquired at least partial control over foreign policy after FDR died, and they would be involved in the efforts to use U.S. power to change or overthrow the governments of other nations and the very aggressive promotion of a policy of "free trade" that went well beyond what many might mean by that term. These policies were linked to a domestic agenda that involved parallel efforts to dismantle the results of the New Deal and to block new initiatives along the lines of the New Deal. The antigovernment effort, or more accurately, the effort against state-led development or progress, became a clear and open thing in international affairs by the late 1950s, only to be countered and frustrated by Kennedy for several years. The domestic effort was ongoing and gained momentum in the 1970s and really accelerated in the Reagan and post-Reagan periods. We will focus on the domestic efforts in the next chapter.

The Post–World War II Foreign Policy Establishment

As we saw before, the Council on Foreign Relations and the networks of people who came to be represented by Elihu Root and Henry Stimson emerged out of the economic system that developed in the late 1800s and which came to be dominated by financial interests and absentee owners, America's gentleman capitalists. This was described by Georgetown University professor Carroll Quigley in the following:

> For almost fifty years, from 1880 to 1930, financial capitalism approximated a feudal structure in which two great powers, centered in New York, dominated a number of lesser powers, both in New York and in provincial cities. No description of this structure as it existed in the 1920s can be given in a brief compass, since it infiltrated all aspects of American life and especially all branches of economic life.
>
> At the center were a group of less than a dozen investment banks, which were, at the height of their powers, still unincorporated private partnerships. These included J. P. Morgan; the Rockefeller family; Kuhn, Loeb and Company; Dillon Read and Company; Brown Brothers and Harriman; and others.[1]

The Council on Foreign Relations was from its beginnings a front for and an expression of the interests of these financial houses and for the investor class in general. As we have seen, the Morgan interests were dominant in the council in its early decades and were important thereafter.[2] In the years following World War II the leading figures in American foreign policy continued to be associated with the Morgan-Rockefeller interests and with Brown Brothers and Harriman and Dillon Read. With Roosevelt gone they once again dominated U.S. foreign policy.[3] The men who all too often shaped America's role in the world were direct political descendants of Root and Stimson. As noted in chapter four, Stimson directly influenced Dean Acheson, John J. McCloy, Harvey Bundy, William and McGeorge Bundy, and Robert Lovett, and was a model and hero to George Herbert Walker Bush. William Bundy was Acheson's son-in-law, and McGeorge Bundy, who was Stimson's biographer, wrote a book on Dean Acheson's foreign policy. The Bundys played an important role in the U.S. decision to go to war in Vietnam. Others who were clearly important policymakers and also part of the CFR-Establishment foreign policy elite included Allen Dulles, John

Foster Dulles, Paul Nitze, Averill Harriman, C. Douglas Dillon, and Dean Rusk.[4] Because there is no other organized national group involved directly in foreign policy, this upper-class network is able to influence or control policy to a degree not possible in some other areas.[5]

If we looked for single individuals who led the Establishment's foreign policy efforts between Roosevelt and Kennedy, a good case could be made that two figures stand out: Dean Acheson in the Truman years and Allen Dulles during the Eisenhower administration. Others played important roles—probably John J. McCloy and C. Douglas Dillon would be among them. Also, individuals who were not totally part of that network, like Eisenhower, played some role. Acheson and Dulles and other members of their network frequently exercised decisive influence on the decision-making process.

Acheson was assistant secretary of state during World War II, served as undersecretary of state from 1945 to 1947, when Secretary of State Marshall reportedly let him run things, and then as secretary of state from 1949 to 1953. A good bit of his life was spent at the law firm of Covington and Burling. Acheson was the son of the Episcopal bishop of Connecticut and was educated at Groton, Yale, and Harvard Law. This background was more or less typical of leading figures in the foreign policy Establishment. For example, Robert Lovett, who was an assistant to Stimson during the war, was deputy secretary of state (1947–50) and secretary of defense (1950–53). Lovett was a product of Yale and Harvard and spent much of his career at Brown Brothers Harriman, where he was an associate of Prescott Bush. Paul Nitze, who held various State and Defense Department positions from World War II through the Johnson administration, went from Harvard to the Dillon Read investment bank. Nitze was involved in two policy studies in the 1950s that recommended a military buildup, the Gaither Report and a review sponsored by the Rockefeller Brothers Fund.[6] The Establishment-led committee that produced the Gaither Report recommended a major increase in both nuclear and limited war-fighting capabilities. Unfortunately for them, they found no support for this from Eisenhower.[7] Also emerging at this time and someone who became a leading figure in the 1950s and 1960s was John J. McCloy. McCloy graduated from Amherst College and Harvard Law and then went to work for the law firm of Cravath, Swaine, and Moore. He was an assistant to Stimson during the war and went on to head the World Bank (1947–49) and be high commissioner for Germany (1949–53). He became chairman of the Chase Bank in the 1950s and would also become chairman of the Council on Foreign Relations and of the Ford Foundation. Eventually he would return to Milbank, Tweed, Hadley, and McCloy, where he had worked briefly after World War II.[8] If Root, Stimson, and Acheson had a successor in the 1960s and 1970s, it was probably McCloy.

Acheson thought that the United States could work with England to create a Pax Anglo-America for the twentieth century, replacing or repeating the Pax Britannica of the nineteenth century. Acheson, according to Arthur Schlesinger, single-mindedly presided over the "growing militarization and globalization of American foreign policy."[9] Acheson exaggerated the Soviet threat, ignoring his own experts, and presented international issues to the general public in an extremely simplistic way. In 1947 Acheson was the leading promoter of the idea that the Soviets posed a serious threat to the Eastern Mediterranean and the Middle East. Acheson and Nitze pushed for a big military buildup, arguing that the gap between the United States and the Soviet Union was becoming "unbridgeable." Acheson had a dim view of most Americans, even those who were interested in world affairs and had some education, and he was uninterested in any effort to inform people about those matters.[10]

Under Acheson's leadership, a policy developed that would lead to the disastrous involvement in Vietnam. FDR's position on Indochina, as we saw before, had been abandoned right after his death. Truman apparently never challenged the French policy on Indochina. By May of 1950, Truman, at the behest of Acheson, committed the United States to a policy of supporting France in Vietnam and to the premise that Indochina was strategically important to the United States. Truman did this even though his own State Department viewed the conflict in Vietnam as local in nature and not connected to any Soviet activity. This appears to have been part of the effort by Acheson and Nitze to exaggerate the communist threat in order to promote a more aggressive global policy.[11] This would be consistent with the history of the Establishment's imperial policy. That is, it began before there was any communist threat and continued after that threat receded. We will return to the importance of Vietnam. It represented a return to the pre-FDR practice of using national military power to further the agenda of upper-class interests. Before 1965, the year the United States committed militarily to Vietnam and also invaded the Dominican Republic, other important developments unfolded. One involved the arrogant intervention in other nations to unseat governments that were nationalist and broadly supported. The other involved the decision to make the International Monetary Fund an agent of Establishment financial and political interests.

The IMF, an Extension of Wall Street

During the 1950s and 1960s the International Monetary Fund (IMF) became the main instrument in the pursuit of a free trade imperialist strategy. Although it would be the oil crises of the 1970s and early 1980s that vastly expanded the influence of the IMF, it does appear that the policies themselves were mostly or completely set by the late 1950s. Those policies have been analyzed and criticized by many, but Cheryl Payer's early work on this still remains the most incisive and extensive critique of IMF policy. The IMF, as will be discussed next, was not created as a means to facilitate free trade imperialism but was transformed into such a means during the 1950s.

An aggressive and wide promotion of free trade and laissez faire started to become a feasible policy in the 1950s. Although there were important efforts along these lines in the Western Hemisphere prior to the Great Depression, the existence of colonialism, nationalism, communism, and protectionism, as well as the problems created by depression and war, had made such a global project extremely difficult in the pre–World War II period. Immediately after the war, the attention of the U.S. upper class and of the newly created IMF was focused on rebuilding Europe. In the 1950s a new direction was created for the IMF, a change of direction apparently completed under the supervision of the financier C. Douglas Dillon. The new IMF program established conditions for loans and aid, which were to be met by the borrowing or recipient country. The idea was to promote laissez faire in domestic policy and free trade in international relations and to open up countries to foreign investment.[12] This approach was made a global strategy by U.S. elites in the 1970s and 1980s working through the Council on Foreign Relations and the Trilateral Commission.[13]

The IMF policies would be most easily imposed on the weaker nations of Africa, Latin America, and Asia, but other nations would be eventually pressured to adopt the IMF program or conditionalities. The IMF encouraged countries to engage in heavy borrowing.[14] The borrowing countries would get some short-term help via loans and aid, but would in return restructure their economies and abandon nationalist policies. Countries were, in effect, asked to give up "national sovereignty over the design of economic policy."[15] Negotiations over these agreements were and are typically "hard-fought and bitter."[16] The basic program, imposed with varying degrees of success on scores of countries up to today, includes the following:

(1) Abolition or liberalization of foreign exchange and import controls;
(2) Devaluation of the exchange rate;
(3) Domestic anti-inflationary programs, including:
  (a) Control of bank credit; higher interest rates and perhaps higher reserve requirements;
  (b) Control of the government deficit; curbs on spending; increase in taxes and in prices charged by public enterprises; abolition of consumer subsidies;

(c) Control of wage rises, so far as within the government's power;
(d) Dismantling of price controls;
(4) Greater hospitality to foreign investments.[17]

The first provision is part of the IMF's attempt to transfer control over the way export earnings are spent from government to private interests and the market and to implement "free trade" by eliminating the use of tariffs and import controls. Government control over the foreign currencies acquired from exporting and control over imports allow governments to protect domestic industries and to use export earnings to buy things that are useful for development. Taken together, the IMF provisions go a long way toward preventing any state-led or government-shaped development efforts; private interests and market forces, however imperfect, take over.[18] This is consistent with what Carey and also Gallagher and Robinson thought of as the imperialism of free trade.

The second provision is supposed to make exports cheaper so that more can be sold to earn money to meet debt obligations. It means, of course, that more goods have to leave the country to make the same amount of foreign earnings and that imports will become more expensive, both processes end up fueling inflation and undermining development. The policies under number three are, ironically, supposedly aimed at curing the inflation, which is itself at least partly a result of the IMF's program or of other external factors, like rising energy prices. It is also an attempt to reduce the role of government in the domestic economy and to bring lending, spending, and incomes in line with an austere economic climate. The fourth condition to be met is extremely important. Number four is aimed at opening economies to foreign (i.e., mostly U.S. and British) takeover.

The IMF program appears to be a direct descendant of British free trade imperialism and of what has been called the "Open Door" policy and at the same time also a more comprehensive program than those earlier policies. A detailed historical study is needed comparing the IMF program to the earlier policies. One of the earliest promoters in the United States of the so-called Open Door policy was McKinley's secretary of state John Hay. The Open Door policy as it was applied to China around 1900 did include measures that were intended to reduce China's abilities to direct its economic affairs and to prevent industrial development, policies quite in line with the post-1952 IMF program.[19] Whether or not the policies have changed in significant ways since Britain's free trade imperialism of the mid-1800s is not readily apparent. There is, as the earlier discussion indicated, a substantial continuity between England's practices in the mid-nineteenth century and those of the post-1952 IMF.

The IMF program as a whole undermines the ability of nations to manage their domestic and international economic affairs, makes state-supported or state-led development impossible, and makes national resources and wealth vulnerable to foreign takeover. In effect the debtor's economy comes under foreign control. Not surprising is that many countries sign agreements that they then do not live up to.[20] Most or all of this is explained and documented in Cheryl Payer's *The Debt Trap* and in her subsequent book *Lent and Lost*. Teresa Hayter made an important contribution to this with her study entitled *Aid as Imperialism*. Hayter describes from an insider's point of view how IMF policies changed from the immediate post–World War II period and how World Bank and Agency for International Development policies converged with those of the IMF. Along the way, some of the original and more benign intentions were altered, and later attempts at positive reform, as in the case of Kennedy's Alliance for Progress, were frustrated.[21]

A plan for the creation of the IMF, apparently representing a compromise of the views of American Harry Dexter White and of Lord Keynes, was approved by forty-four nations at the Bretton Woods Conference in July of 1944. White, who held a number of important positions before becoming the U.S. executive director at the IMF, was accused by U.S. Attorney General Herbert Brownell, Jr., after World War II of being a communist and a Soviet spy.[22] This may or may not have been connected in some way to the changes that occurred in IMF purposes (i.e., perhaps White had to be discredited in order to make it easier to implement changes). At any rate, whatever changes might be made would always depend on U.S. votes. Voting power in the IMF was to be based on financial contributions to the IMF, and this gave the United States a type of veto power from the outset.[23] Important IMF decisions have always required an 85 percent vote, and as recently as 2008 the United States still had 17 percent of the vote.[24] Until about 1952 the IMF had limited impact,[25] dealing primarily with balance of payments problems, and its ideology had not yet solidified. In 1952 the IMF inaugurated its "standby arrangements," predecessor to or the initial version of what was described by Payer. During the 1950s the IMF embraced the laissez faire and free trade program.[26] This development meant changes from earlier positions. For example, moderate levels of inflation were accepted in the 1940s as a minor evil justified by its role in maintaining full employment.[27] The original IMF articles implicitly accepted some amount of government intervention in economic affairs and even forbade the IMF from interfering with the internal social and economic policies of its member countries.[28] As IMF conditionalities developed during the 1950s, apparently first tried out in Latin America, the IMF was more and more committed to free markets and to monetarist policies that placed great emphasis on limiting money supplies and government spending, economic policies often associated with Milton Friedman.[29] The shift in focus and purpose in IMF policies came to be defended within the IMF by individuals known as the "teleological school." This group claimed that the original intentions of the

IMF's founders were to be discovered in current practices, that is, whatever the IMF does in the present tells us what the original intentions were.[30] A strange doctrine indeed, but a very useful one to anyone wanting to abandon the original purposes.

The standby arrangement or conditionalities program described by Payer was applied on a limited basis in the 1950s. It was not applied with consistency on a global basis until the end of the 1960s, and a great number of countries would only accept these policies after the economic crises of the 1970s and early 1980s. By the late 1950s or the 1960s the IMF was dealing primarily with underdeveloped countries instead of post-war rebuilding in Europe.[31] This shift to a focus on third world countries was probably completed under C. Douglas Dillon, Wall Street's "Economic Captain." In 1957 President Eisenhower used an executive order to put Dillon in charge of all foreign economic affairs. The *New York Times* referred to Dillon as "a kind of chief of staff for foreign economic affairs." All types of aid and lending were put under the direction of Dillon.[32] *Business Week* magazine reported that Dillon, World Bank president Eugene Black, and other unnamed bankers were leading the effort to consolidate and coordinate the policies of the IMF, World Bank, U.S. Export-Import Bank, and the Development Loan Fund. Black would later be a leading critic of President Kennedy's policies. The report went on to say that the IMF and World Bank would play the role that London's private financial institutions played from around 1850 to 1914 and that Dillon viewed the IMF as the centerpiece of the whole program.[33] In a separate account Dillon was described as a tough investment banker who as the "Captain of Our Economic Campaign" is responsible for coordinating all international economic programs. Dillon thought that one of the advantages of using the IMF was that it could make a claim to impartiality. Dillon, it was said, thought that the billion people in less developed countries had a choice between communism and the "Western system of freedom."[34] That simplistic and arbitrary choice probably excluded most of the actual economic practices in world history; it certainly excluded anything like the New Deal or American System policies.

Dillon was certainly a good choice to lead America's new offensive on behalf of property, profits, and some kind of markets. Clarence Douglas Dillon was born in Geneva, Switzerland, in 1909. He graduated from the Groton School, one of America's most elite prep schools, and in 1931 from Harvard. He held high positions in Dillon, Read & Company, his father's firm, for decades. He was also chairman of the board of U.S. International Securities Corporation and was a director of Amerada Petroleum and of the Chase Bank. His government positions included the following: ambassador to France, 1953–57; under-secretary of state for economic affairs, 1958–59; under-secretary of state, 1959–61; and secretary of the Treasury, 1961–65. He served as chairman of the Rockefeller Foundation and of the Brookings Institute and was president of the Metropolitan Museum of Art. He belonged to upper-class clubs, including Century, Knickerbocker, Links, and Metropolitan.[35] The Episcopalian Dillon was active in the Republican Party and was a member and director of the Council on Foreign Relations.[36] As Joseph Kraft pointed out in 1963, Dillon had the right background. His close friends included John Foster Dulles, Paul Nitze, James Forrestal, August Belmont IV, and John D. Rockefeller III.[37]

Dillon's father, whose name was originally Lapowski before he took his mother's maiden name, joined the banking firm of William Read & Company just before World War I and after Read died he changed the name in 1921 to Dillon, Read & Company. The Read company had developed out of an earlier firm known as Vermilye & Company. These companies were never top Wall Street firms, but they associated with and were important junior partners to the top firms and to major financial interests. By the end of the 1800s the Vermilye company worked closely with such leading financial interests as Morgan, Belmont, Harriman, and Kuhn, Loeb. Dillon later added to these a close association with Brown Brothers and the English Rothschilds plus a close working relationship with the Morgan-Rockefeller-Stillman–led National City Bank (today Citigroup/Citicorp).

C. Douglas Dillon was not the only Dillon, Read bank official to hold an important public office or be a leader in public affairs. For example, Nicholas F. Brady went from his position as co-chairman of Dillon, Read to being secretary of the Treasury for both Ronald Reagan and George H. W. Bush. William Draper, who was a Dillon, Read partner in the 1940s, became a leading figure in the population control movement and in foreign affairs.[38]

C. Douglas Dillon, as Joseph Kraft noted, did then have the right background to steer U.S. economic policy. Around the time that Eisenhower put Dillon in charge of coordination of all of the United States international economic policies, Dillon was also nominated to be alternate governor of the IMF and of the World Bank.[39] Dillon was then Wall Street's man in the U.S. government and at the IMF. Although Wall Street and the CFR had little to do with the creation of the IMF, the CFR was promoting in the 1950s the policies that became enshrined in IMF conditionalities.[40]

Kennedy v. Dillon et al.

When Kennedy came into office, Wall Street and the Council on Foreign Relations leaders were ready to launch a free trade-laissez faire offensive. What they got with Kennedy is not what they wanted. Not only was he wedded to the New Deal legacy in both domestic and international policy, but he also was looking for ways to extend or develop that legacy. The effort that began in the 1950s to bring U.S. international policy in line with free trade imperialism was going to be frustrated by Kennedy's focus on developing government initiatives to accelerate economic progress at home and economic development abroad. The IMF program as it developed in the 1950s required that governments, particularly governments of less developed countries, give up their ability to control, shape, or influence the economic affairs of their nations. They were to open up their economies not only to the forces of international markets, but also open up their economies to foreign takeover.

The tolerance of and even support for government interventionism that Kennedy would express as president was bound to come into conflict with the laissez faire, free trade policies backed by the CFR, Wall Street, and the IMF. Part of the framework for that conflict was created by Dillon's foreign policy statements at the end of the 1950s. Kennedy and Dillon would not be completely at odds with each other in their public statements, but they would be at odds. They both believed in fewer barriers to trade, but for Kennedy that was a long-term goal and not something to be forced on other nations, while for Dillon it was one of the primary goals. Dillon backed IMF polices; Kennedy did not. Kennedy accepted that private interests would play a major role in international economic affairs. Dillon believed they should play the dominant role. Kennedy thought that government also had an important role to play. Dillon thought that government's role should be limited and should be as small as possible. Kennedy emphasized development; Dillon emphasized investment and markets.

In oral or written statements published by the Department of State, Dillon clearly laid out a policy position in line with what Payer later described as the standard IMF standby arrangement or conditionalities program. Although Dillon acknowledged that no country in the post–World War II period had consistently practiced free trade and that a completely free trade policy was close to impossible under some circumstances, he nevertheless proposed it as a central goal. And although he mentioned a number of IMF-type policies, such as reducing protectionism and eliminating exchange controls, the emphasis was clearly on opening up countries to foreign investment. In one of his statements he emphasized that more than half a dozen times. He even argued that U.S. import policy should be shaped so that it would help make foreign investments profitable.[41] Making other countries open to investment was emphasized more than any other single policy.

To Dillon, liberalized trade was essentially the same as it was for the IMF. It meant reducing the role of government, improving the atmosphere for private enterprise, and making conditions easier and more secure for foreign investors.[42] In one statement Dillon blithely remarked that private enterprise created in the United States the "highest living standard in all history."[43] The then-recent and massive involvement of government in the U.S. economy from 1933 to 1945 and government's continuing activities after the war, as in building the interstate highway system, did not merit any mention at all by Dillon. Dillon was either engaging in a huge intentional misrepresentation or his biases against government ran so deep he was incapable of formulating an objective image even of the most recent past. This raises an issue that we must return to next. That is, can the upper class view the world objectively?

Although Kennedy occasionally used language that was similar to Dillon's, the emphasis in Kennedy's statements was different. Kennedy rarely, if ever, said anything about countries opening up to foreign investment, and he never argued for a minimal role for government. His talk from the beginning of his presidency revolved around social, economic, and political reform; national planning; and development aid along the lines of a Marshall Plan.[44] Before and after he became president, Kennedy supported nationalism, activist government, and industrialization. In a 1957 article Senator Kennedy[45] argued that the United States needed to not only recognize the importance of nationalism but also to accept and respect it. Kennedy went on to say that the United States should accept the fact that nations will reject "old liberal bromides" and will utilize government in their efforts to industrialize. The United States, Kennedy said, should not pursue policies that deny real independence to other countries. As president, Kennedy explicitly supported an important role for national governments in the development process and he explicitly identified industrialization as a central goal for nations.[46] Given the divergence of JFK's views from Dillon's, it is not surprising that in the Kennedy administration it was the Agency for International Development and the Alliance for Progress that were given leading roles, not the Development Loan Fund initiated by Dillon during the Eisenhower administration.[47]

As I indicated in the previous chapter and in more detail elsewhere,[48] Kennedy was involved in a conflict with leading private interests based in oil, banking, and media, the same interests that provided much of the leadership of the CFR. The preferences of those private interests were clearly stated in various media outlets and were connected to the long-standing, Anglo-American, upper-class goal of a world economy open to their dominance. The roots of that, as we saw in previous chapters, are in English colonial and free trade imperialist policy. The Establishment's criticisms of and conflicts with Kennedy were a result of the fact that Kennedy did not agree with that goal.

As noted in the previous chapter, the Establishment criticism of Kennedy's foreign policy often focused on his attitude toward international economic relationships and his views of the economic goals and purposes of the United States. Wall Street, speaking through the major media but sometimes through other channels, attacked Kennedy for his failure to press a conservative economic agenda and failure to press other nations to open up to foreign investment.

Kennedy was aggressively criticized for what conservatives viewed as his promotion of activist government. At times they actually referred directly to Adam Smith as the model Kennedy should follow. They claimed, correctly, that Kennedy was promoting dirigistic economic policies and that he was giving great importance to industrialization and development. His Establishment critics wanted him to follow a free trade imperialism agenda. Let's look at some examples of these criticisms. These criticisms indicated where the Establishment wanted to take U.S. domestic and foreign policy; they implied things that would later be referred to as globalism and the Reagan Revolution.

Before Kennedy took office the *Saturday Evening Post* warned that the country should be less concerned about Kennedy's relationship to his church and more about his ties to "the left-wing Americans for Democratic Action" and "the C. I. O's Committee on Political Education." The *Post* warned that Kennedy and his party would take the country in the direction of a "collective economy" with "expensive socialistic adventures in the 'public sector'."[49] Along similar lines, and also before Kennedy took office, the *Wall Street Journal* editorialized that Kennedy showed signs of being influenced by a depression mentality and of being tempted to institute a planned economy based on intentional inflation and government controls.[50]

In 1961 *Fortune* warned that Kennedy neither understood nor appreciated the free enterprise system.

> What is troubling is that the President has shown so little understanding of the American political economic system. Under that system the government lays down the rules of the road but the essential engine of progress is the free competitive market, wherein production and distribution go forward not in accordance with a master government plan but by means of millions of individual decisions in response to the free play of prices, wages, and profits. In no major address thus far has the President paid adequate tribute to this market economy or indicated an awareness that the dispersal of power and decision is essential to the maintenance of higher freedoms.[51]

Fortune, like the upper class in general, showed no awareness of the American System tradition and did not acknowledge any recent government policy that worked. The *Wall Street Journal* spoke as if the American System and the

New Deal either never existed or had no successes at all.[52] The unexplained use of the term "higher freedoms" is probably significant; it most likely refers to the freedoms of the investor class.

Fortune went on to accuse Kennedy of unwisely attempting to manipulate economic processes at home and abroad through his various proposals. *Fortune* charged that the Kennedy policies bit by bit would "erode away American liberties." *Fortune* also charged that Kennedy had not accomplished much in foreign affairs and that Kennedy's activism in domestic affairs was "unnecessary and could undermine a strong and free economy."[53]

These kinds of attacks continued in 1962. *Fortune*'s John Davenport went so far as to clearly imply that the president was acting on the basis of cultish beliefs.

> The trouble with the New Frontiersman is not that he is too radical but that he has missed the bus. In a literal sense he is reactionary; he belongs to a cult that is as old as Diocletian.[54]

The reference to Diocletian was apparently related to that ruler's attempt to manage the prices of goods. The same historical reference would also be used by the *Wall Street Journal* in its criticisms of Kennedy.[55] Davenport[56] went on to suggest that Kennedy's politics "seems to flow from his economics and his economics in turn forces government into a positive and expansive role." In general, this is accurate. What Davenport failed to mention is that the idea of an active government was a central aspect of the American economic tradition and that what Davenport was promoting was rooted in the British school's trust in the self-interest of those with wealth, a self-interest allegedly parallel to society's interest or transformed into the public good by the market.

Criticism of Kennedy continued and perhaps intensified in 1963. The *Wall Street Journal* went on hammering Kennedy for his economic policies. In August of 1963 the *Journal*[57] criticized the "new economics" embraced by Kennedy for bringing with it "perpetual planned deficits, constantly rising government spending, ever growing public debt, all accompanied by easy money and a confusing and often internally contradictory assortment of economic regulations and controls." In mid-August, the *Journal*[58] said that

> All too plainly, also, foreign aid has become an engine of socialism in the backward world. Not only have our officials done little to encourage private enterprise; they have actively encouraged state planning and government owned projects. One of the conditions of Alliance [for Progress] aid is that the Latin governments draw up national

> economic plans, which is hardly the way the U.S. found its economic well-being.

In early October the *Journal* printed an editorial by Philip Geyelin[59] that both reported on and took sides in a conflict that had erupted within the Kennedy administration. The conflict was between two groups. On one side was Treasury Secretary Douglas Dillon, Under Secretary Robert Roosa, private bankers in the United States and abroad, and top officials at the Federal Reserve and other central banks. On the other side was Kennedy, "Council of Economic Advisors Chairman Walter Heller, former White House assistant Carl Kaysen, State Department Under Secretary George Ball, and such Commerce Department luminaries as Under Secretary Franklin D. Roosevelt, Jr."[60] The Dillon group was pushing a Lockean-Smithian position on both domestic and international economic issues. The Kennedy group was arguing against IMF-type policies and defending a more activist idea of government. At the end of his piece Geyelin observed that "Mr. Kennedy has come increasingly to believe that large and global banking problems are too important to be left entirely to bankers."

Around this time the *Journal*[61] called for changes in Kennedy's Alliance for Progress program.

> Some may think the Alliance, to take that example, should be scrapped because it is a failure. But the real point is that it is ill-conceived and needs drastic change.
>
> The bulk of Alliance aid goes to Latin political regimes, with all the implicit corruption, rather than to help the poverty-mired masses. It stresses socialist planning and state enterprise instead of the incentive economy that might make going concerns of some of those countries. The real answer to the real criticism is a reshaped policy and program.

After Kennedy was dead, David Rockefeller, chairman of the Chase Manhattan Bank and later chairman of the Council on Foreign Relations, indicated that those policies were reshaped after Kennedy was gone.[62]

> In my view, a primary reason for this relatively good performance [of U.S. investment in Latin America], which is of recent date, is a change in the policy which prevailed in the early years of the Alliance for Progress of placing too much emphasis on rapid and revolutionary social change and on strictly government-to-government assistance. This approach, while it took account of the fact that there is a genuine and urgent need to do away with social inequities, did not encourage the conditions which are essential to stimulating private investment and

> economic growth. Revolutionary change which shakes confidence in the fair treatment of private property is incompatible with rapid economic expansion. Now that the vital role of private enterprise is being recognized more fully in a number of Latin American nations, we see the development of a more favorable business climate.

About this Cheryl Payer[63] observed that the land reforms and social reforms that were part of Kennedy's Alliance for Progress program were quickly abandoned after Kennedy's death as the program was turned into a "prop for governments which were willing to defend the interests of private foreign investors."

Creating the right climate was something Rockefeller probably knew a lot about. In this *Foreign Affairs* article Rockefeller[64] also observed that excessive nationalism, even in the Latin American business community, constituted a fundamental impediment to foreign investment and that protectionist tariffs needed to be reduced.

In his concluding remarks Rockefeller[65] said,

> There is a growing realization that economic development and social reform must go hand in hand. While this new approach cannot produce economic and political stability overnight, it seems to me to offer greater hope for success than the overly ambitious concepts of revolutionary social change which typified the thinking of many who played an important part in the Alliance in its early days.

The idea of changing Kennedy's Alliance for Progress program had been brought up earlier in an article that not only elaborated the attack on Kennedy but also gave readers an idea of who Kennedy's primary critics were.

In March of 1963 Charles J. V. Murphy analyzed favorably the opposition to Kennedy, specifically citing the views of three leading figures in the financial community: Eugene Black, recent president of the World Bank; Chase Manhattan Chairman George Champion; and Herbert V. Prochnow, president of the First National Bank of Chicago and former deputy under-secretary of state for economic affairs. These spokesmen for finance were critical of the Kennedy administration's use of bilateral negotiations (nation-to-nation), which typically involved tying purchases of goods from the United States to foreign aid, a practice also engaged in by Kennedy's predecessor. Focusing on Kennedy's budget requests for 1964 in the areas of aid and long-term soft loans for economic development, Murphy criticized Kennedy's overall program because it was based on "a wearied assumption that the U.S. must somehow satisfy the universal lust for industrialization and growth." In Murphy's view things had "clearly got out of hand."[66]

Murphy recommended that Kennedy's Alliance for Progress program require that recipients adopt fiscal discipline and that, even better, the supervision of Latin American economies should be given to "an international apparatus that included the major European nations, long bankers to that region and its first market." This approach, according to Murphy, should be based on the idea that underdeveloped countries should commit themselves to exporting primary commodities as a path to development. That is, they should commit themselves to the role assigned them in the imperialism relationship. Murphy concluded by arguing that lending and aid should be put in the hands of an international organization.

> An international body would be much less vulnerable to political pressures. Being independent in a sense, it could, with grace, impose on the claiming nations higher standards of performance and a more rational order of true development priorities than one country is ordinarily disposed to set for another country in a straight bilateral deal.[67]

Murphy did not specifically say that the IMF should fill this role. He was probably aware that it would.

Murphy and Rockefeller and other critics of Kennedy appear to have been singing from the same hymnal, and they were. The choir was made up of various representatives of the Wall Street-Council on Foreign Relations-Establishment church. Once Kennedy was dead the global laissez faire, free trade offensive could resume. The IMF would acquire increasing importance and the debt crisis of the early 1980s would place it "at the center of the global financial system" acting as "enforcer for the private international banks."[68] It took the economic crisis of the early 1980s, brought on to a great degree by rising oil prices, to force many countries to do what they didn't want to do—surrender their economic sovereignty.[69]

The effects of IMF conditionalities have been the object of scathing criticsm. For example, Gabriel Kolko[70] observed that

> the majority of those nations that have followed the IMF's advice have experienced profound economic crises, low or even declining growth, much larger foreign debts, and the stagnation that perpetuates systemic poverty. Carefully analyzed, the IMF's own studies provided a devastating assessment of the social and economic consequences of its guidance of dozens of poor countries.

In most of the academic literature the political and economic interests behind the IMF are never considered and the issue of free trade imperialism is rarely, if ever, even alluded to. Even when political factors are considered in relation to IMF conditionalities[71] there is no consideration of how the conditionalities might relate to imperialist purposes and no analysis of who those imperialist interests are. When conditionalities are examined in relation to interests that might influence them, the focus is on the influence of countries rather than specific economic or class groups.[72] That means that the discussion always remains somewhat vague. In nearly all writing on the IMF, components of the IMF's program are not even identified. There is no attempt to identify which components of the program are most important or which are given priority. Based on what we have noted here, it seems very likely that, for example, opening up to foreign investment is, with some countries, given more importance than some of the other elements of the conditionalities program. This would seem to be critical if the IMF is to further the basic goals of free trade imperialism. Investment is the means by which Anglo-American Establishment influence is to be spread around the world. Investment is a virtual substitute for colonization. Also, if IMF conditionalities are to serve these ends, then importance would be given to minimizing the role of government in economies, especially the management of trade, and maximizing freedom of private wealth. One would expect that these kinds of things are more important than, say, balancing budgets.

During the 1950s and early 1960s one of the critical elements of free trade imperialism was developed. An economic program to implement such a strategy, the IMF's newly reformed policies, was developed. Also in the 1950s the East Coast Establishment showed that it was ready, as in the pre-FDR period, to act aggressively to protect or further its foreign interests. In little more than a decade the Establishment demonstrated that they could and would act to establish global power. Two of the events that showed a return to the more aggressive policies of Root and Stimson involved the overthrow of governments in Iran and Guatemala. Those more or less set the stage for the even more ambitious actions in Brazil, Vietnam, and the Dominican Republic. The violence involved in these actions came to be connected to the free trade initiative, eventually leading to the dramatic linkage between military force and free trade imperialism that unfolded in 2003 in Iraq.

Iran

England, through the Anglo-Iranian Oil Company, had controlled Iran's oil since 1901. The deal that England had made with a corrupt Iranian government gave England a monopoly over Iran's oil and gave Iran only 16 percent of the oil revenues. In 1951 the newly elected prime minister, Mohammed

Mosadegh, and the Iranian parliament moved to nationalize (with compensation) Iran's oil. The British had already begun plotting against Mosadegh before he took office, and his actions once in office led them to try to mobilize their various allies and paid agents in Iran to stage a coup. This plot was exposed in October of 1952, and the Iranian government closed the British embassy and ordered those connected to the plot to leave the country.[73]

The British reacted by seeking U.S. assistance. In the United States the British got the help of two of the leading figures in the foreign policy Establishment, who were also leading figures in the incoming Eisenhower administration. Those two were Secretary of State John Foster Dulles and CIA Director Allen Dulles. The brothers convinced Eisenhower to go along with a plan to replace Mosadegh with someone friendlier to English and U.S. interests. Secretary of State Dulles promoted the overthrow of Mosadegh on the grounds that his leadership was making Iran vulnerable to communist takeover. There was apparently no basis for this view. In spite of internal opposition (e.g., Roger Goiran, CIA station chief in Tehran, quit in protest) and evidence that Mosadegh had the support of the vast majority of Iranians, the Dulles brothers pushed forward.[74]

Allen Dulles chose Teddy Roosevelt's grandson, Kermit Roosevelt, to oversee the operation in Iran. Roosevelt traveled to Iran in March of 1953 and found enough conflict and violence in the country to provide some sort of background or cover for a coup. Roosevelt and General Norman Schwarzkopf, whose son would lead Operation Desert Storm to liberate Kuwait from Saddam Hussein forty years later, got a reluctant shah to agree to the coup. The shah, son of former ruler Reza Pahlavi, was, like his father, far from ideal for the British and the Americans, but he was what was available. Both Pahlavis had streaks of nationalism and independence. While not desirable to Anglo-American policymakers in an absolute sense, the second shah was preferable to Mosadegh, who was more nationalistic and independent and, unlike the shah, was committed to democratic rule.[75]

In August of 1953 Kermit Roosevelt was able through bribes and threats to enhance and exploit the chaos and violence and force Mosadegh to relinquish power. His place was taken by General Fazlollah Zahadi who arrested Mosadegh and suppressed his supporters. The shah gave his support to the general. The outcome for the British was far from everything they wanted, but it was much better than what they had been previously faced with. The British had to agree to a new arrangement. The previous British monopoly (through the Anglo-Iranian Oil Company) over Iran's oil was reduced to a 40 percent share in a new consortium. Royal-Dutch Shell, partly British, got 14 percent; U.S. companies got 40 percent; and the French CFP (Compagnie francaise des petroles) got the remaining 6 percent.[76]

Throughout this operation and the period in which he was CIA director, Allen Dulles was on the board of directors of the Council on Foreign

Relations. At the time of the overthrow of Mosadegh he was one of the three longest-sitting CFR board members, since 1927. Dulles was also on a personal and professional level closely tied to parts of the upper class that had much to gain from the overthrow of Mosadegh.

Guatemala

Guatemala had what came to be known as its "democratic spring" between 1944 and 1954. In this period two popular presidents attempted to adapt the ideas and policies of FDR's New Deal to the circumstances and problems of Guatemala. The second of those two, Jacobo Arbenz Guzman, was elected in 1951. Arbenz became involved in a confrontation with the United Fruit Company and that meant a confrontation with the CFR Establishment and the Eisenhower administration. The conflict began during the Truman administration, but the really dramatic events unfolded with the arrival of Eisenhower and his new CIA director, Allen Dulles. As noted earlier, Dulles was a long-standing director of the CFR, altogether forty-two years. He was vice-president and president of the CFR during the 1940s. Dulles had been a counselor for and stockowner in United Fruit.

Allen's brother and secretary of state, John Foster Dulles, had been for many years the primary counselor for United Fruit. Allen and John did this work as leading members of the law firm Sullivan and Cromwell.[77] The assistant secretary of state for inter-American affairs was John Moors Cabot. Cabot, of the Boston Brahmin Cabots, was a CFR member with large stock holdings in United Fruit. The Cabot family had been involved with United Fruit for decades.[78] Thomas Dudley Cabot, also a CFR member, was director of international security affairs at the State Department and was a former president of United Fruit. Robert Cutler, head of the National Security Council, was a former chairman of the United Fruit board of directors. Finally, the chairman of the board of directors of the CFR from 1953 to 1970, John J. McCloy, was a former director of United Fruit.[79] The intervention in Guatemala had been recommended in 1953 by one of John J. McCloy's CFR study groups.[80]

During the fifty years prior to the 1944 to 1954 "democratic spring," United Fruit had been free to do whatever it wanted, as the country was dominated by United Fruit and its domestic allies, which included dictators, wealthy landowners, the army elite, and other foreign corporate interests. When the Swiss-educated Arbenz took office in 1951 he clearly stated his intentions. He said that his purpose was

> to convert our country from a dependent nation with a semi-colonial economy into an economically independent country; to convert

> Guatemala from a country bound by a predominantly feudal economy into a modern capitalistic state; and to make this transformation in a way that will raise the standard of living of the great mass of our people to the highest level.[81]

In June of 1952 the Guatemalan government passed a law allowing the government to seize and redistribute "all uncultivated land on estates larger than 672 acres." United Fruit owned 550,000 acres, 20 percent of Guatemala's farmland. Early in 1953 the Arbenz government took 234,000 unused acres away from United Fruit, paying them what United Fruit had claimed the land was worth when they had to pay taxes on it. United Fruit now claimed that the land was worth ten times what they had claimed it was worth for tax purposes. After this move by Arbenz, United Fruit's public relations and propaganda expert, Edward Bernays, began a campaign to convince the American public that Arbenz was a communist. United Fruit and Bernays got help from the *New York Times* and other media in this smear campaign and Henry Cabot Lodge pushed this line in the U.S. Senate.[82]

Late in 1953 CIA Director Allen Dulles began applying in Guatemala some of the methods used to destabilize Iran's government. This included propaganda, instigation of violence, a staged insurrection, and deals with anti-Arbenz people, particularly in the Guatemalan military. The CIA's Howard Hunt (of Watergate fame) was even able to get Catholic Church leaders in Guatemala to back the overthrow of Arbenz. During this time Secretary of State John Foster Dulles got most Latin American nations to formally agree that if a country came under the control of the "international communist movement," then other nations had the right to intervene. This provided some of that freedom of action that had been created earlier by Teddy Roosevelt's reinterpretation of the Monroe Doctrine and in Cuba by Elihu Root's Platt Amendment.

The operation to remove Arbenz began in opposition to the views of some in the State Department who warned that we were attacking a democratically elected, nationalist reformer and would be hated for it. Once the operation got under way, Arbenz went on the radio saying that

> our crime is having enacted an agrarian reform which affected the interests of the United Fruit Company. Our crime is wanting to have our own route to the Atlantic, our own electric power and our own docks and ports. Our crime is our patriotic wish to advance, to progress, to win an economic independence that would match our political independence.[83]

After weeks of violence and bombing and pressure from the U.S. government, the Guatemalan military turned on Arbenz and he had to resign. The man selected to replace Arbenz, Colonel Carlos Enrique Diaz, shocked the U.S. and Guatemalan coupsters by embracing the Arbenz policies, and a second coup had to be organized to overthrow Diaz.[84]

Along with the overthrow of Mosadegh, this action clearly indicated what it meant to reject Franklin Roosevelt's anticolonialist and Good Neighbor policies. This rejection had begun, in part, with the decision to align American foreign policy with England's and France's colonialist policies. Among the immediate changes to follow Roosevelt's death had been the decision to drop support for Vietnamese independence. Iran and Guatemala would soon look like mere warm-up exercises when compared to the massive military operation in Vietnam. The Roosevelt policies had, to some extent, at least returned the United States to the anticolonialist and anti-imperialist position that the country had held from the American Revolution up to the 1890s. In effect then, the post–World War II events signified a return to the Wall Street–dominated foreign policy of the 1898 to 1933 period.

Vietnam

After leading Vietnam's resistance to Japanese occupation and working as an ally of the United States, Ho Chi Minh declared his country's independence on September 2, 1945, apparently ending sixty years of French colonial rule. Ho was a lifelong admirer of the United States and he borrowed the language of the American Revolution in his declaration of independence. Although he had socialist or communist views on many issues, he was a more complicated person than he was frequently portrayed to be. Many Soviet and Chinese communists viewed him as an independent nationalist. Communist China would later go to war briefly with Vietnam. To the British and French, Ho was a major impediment, as they were committed at the end of World War II to returning Vietnam to colonial status, a position at odds with what FDR had hoped for. The renowned American journalist David Halberstam[85] observed that "any hope for a genuine declared policy of anti-colonialism for Vietnam" died with FDR. The French rejected Ho's declaration of independence and commenced an eight-year war, which would cost France 44,967 dead and 79,560 wounded.[86]

When France finally gave up in 1954 following the military setback at Dien Bien Phu, their Tet, an arrangement was arrived at whereby Vietnam would be temporarily divided, with reunification expected after national elections that were scheduled for 1956. The problem was that such elections were not going to produce an outcome acceptable to the more imperial-minded members of the Eisenhower administration. This was because Ho was the country's most popular political leader, a symbol of nationalism and independence. President Eisenhower estimated that Ho would get as much as 80 percent of the vote.[87]

John Foster Dulles, Henry Cabot Lodge, and others were determined that this not happen. They chose one of the military's most skillful political manipulators, Colonel Edward Lansdale, to plan an operation to prevent Ho Chi Minh from gaining power.

They needed a leader who could be installed in the newly created South Vietnam and they chose the once pro-French but somewhat nationalist figure Ngo Dinh Diem. The Catholic Diem, from a privileged background, lived for two years in the United States after World War II and was living in France in 1954. With U.S. support, Diem replaced the French puppet Bao Dai in 1955 and cancelled the 1956 elections. An assortment of leftist and nationalist groups in the South quickly allied with North Vietnam, setting the stage for what was coming in the 1960s.[88] Although there were conflicts and doubts within the U.S. government, the Council on Foreign Relations and its leadership had been firmly committed to this general course of action since the early 1940s. This was, as noted earlier, contrary to FDR's goals for the region.

Almost no one writing about the Vietnam War identifies the overwhelming role played by the CFR and its leaders. One of the exceptions to this is Laurence Shoup and William Minter's *Imperial Brain Trust: The Council on Foreign Relations & United States Foreign Policy*. They demonstrate that the American policy in Vietnam and the decision makers who set that policy came out of the CFR.

The CFR and Vietnam

The Council on Foreign Relations concluded by 1941 that Southeast Asia was critically important for what they viewed as the desired global strategy and was worth going to war over. The region was a major food source for India, it was rich in raw materials, and it was strategically located in relation to sea and air routes. Later, apparently, it was also seen as vulnerable to communist domination and as a possible "domino" in the expansion of communism. In the 1940s and 1950s groups within the CFR repeatedly examined the issue and consistently emphasized these factors.[89] There was, according to Godfrey Hodgson,[90] a virtual consensus from 1956 to 1965 within the Establishment on the necessity of controlling Vietnam.

Shoup and Minter identify twenty-five "Key Government Decision-Makers on American Policy in Southeast Asia" for the period 1940 to 1973.[91] Eighteen of the twenty-five were CFR members. Of the seven who were not, four were presidents (Kennedy, Johnson, Roosevelt, and Truman). Their list of CFR members included Dean Acheson, McGeorge Bundy, Allen Dulles, Henry Kissinger, John J. McCloy, and Henry Stimson. In other words, much of the inner circle of the U.S. part of the Anglo-American Establishment were key leaders on Vietnam. Several of these people, at the least, were personally linked to the network of people going back to Elihu Root and the founders of the CFR. This small group of Acheson, Bundy, and the others would provide continuous CFR leadership in the U.S. government from World War II to the end of the Vietnam War. McGeorge Bundy, national security advisor to JFK and Lyndon Baines Johnson (LBJ), and a central figure in the Vietnam catastrophe, was, as noted earlier, Henry Stimson's biographer, and he wrote a book on Dean Acheson's foreign policy ideas. McGeorge's brother, William, also a key Vietnam decision maker, was Acheson's son-in-law.[92] According to Halberstam,[93] McGeorge Bundy felt a deep loyalty to the Teddy Roosevelt-Root-Stimson-Acheson tradition. Bundy was an American aristocrat. He was a descendant of the Lowells, an important family since the 1600s. His father was close to Stimson. McGeorge went to Groton and Yale and on to the Lowell-funded Society of Fellows at Harvard—a status that allowed Bundy to bypass the Ph.D. and become a tenured professor at Harvard. Many in the Establishment expected Bundy to take the place of John J. McCloy.[94] According to Shoup and Minter it was Bundy and other high-level CFR types who formulated Vietnam policy. Another assessment, similar to the one carried out by Shoup and Minter, of the forty public figures most associated with promoting the war found that thirty-eight of the forty were current or previous CFR members.[95]

The decisions to support France's colonial claims, to block the 1956 elections (leading directly to the creation of two separate countries), and to install Diem in South Vietnam produced the situation facing JFK when he took office in 1961. Kennedy was deeply opposed to the spread of communism, but he did not think that it was possible for South Vietnam to survive unless it had a government committed to reform and progress and a population that supported their government and opposed communism. These things were, in Kennedy's view, South Vietnam's responsibility and Kennedy was convinced that they had to fight for themselves. Kennedy consistently maintained this position. In 1954 then Senator Kennedy said that

> I am frankly of the belief that no amount of American military assistance in Indochina can conquer an enemy which is everywhere, and at the same time, nowhere, "an enemy of the people" which has the sympathy of the people.[96]

It is apparently true that the commitment of and level of involvement of U.S. troops in Vietnam both increased under Kennedy. The number of soldiers in Vietnam officially acknowledged rose from 865 to 16,500 (although this may have included things like intratheater transfers) and 108 Americans died in Vietnam while Kennedy

> was president.[97] However, Kennedy consistently resisted efforts to Americanize the war.[98] Kennedy thought that if it became a U.S. war, it would be unwinable.[99] According to Roger Hilsman,[100] writing long before the outcome could be known, the "only politically viable future [Kennedy] could see for any of the countries of Southeast Asia was true independence, achieved principally through their own efforts."

Kennedy was virtually the only high-level person in his administration to consistently oppose the commitment of U.S. combat forces to Vietnam. Beginning in the spring of 1962 Kennedy was looking for ways to scale back U.S. involvement to the advisory role that existed before he took office.[101] According to Howard Jones, who has done the most meticulous examination of Kennedy's decisions regarding Vietnam,

> de-Americanization of the war was about to commence in early May of 1963. The long process initiated at the July 1962 meeting in Honolulu had culminated in a plan aimed at reducing U.S. military personnel to about 1500 MAAG [Military Assistance and Advisory Group] advisors by the close of 1965.[102]

The Buddhist uprising in May of 1963 temporarily put all plans on hold as the viability of the Diem government came into question in a new way. However, on October 2, 1963, "President Kennedy made the decision to withdraw the first contingent of U.S. military forces from Vietnam, the initial step toward a major disengagement."[103] This decision, reaffirmed twice over the next ten days, was unconditional, that is, not dependent on the situation in Vietnam.[104]

Diem had become an impediment to JFK and to the pro-war CFR crowd, but for different reasons. The isolated, aloof, elitist, and traditionalist Diem, surrounded by corruption, could not or would not pursue the reformist agenda Kennedy thought was right and necessary in order to attract the mass support of the population. The pro-war CFR was frustrated by Diem's lack of aggressiveness in pursuing the military effort against the communists and some of them were ready for a change. Diem, then, would not produce the democracy and reform that Kennedy wanted or the war the CFR wanted.[105]

Dissatisfaction with Diem had been growing in Vietnam and in U.S. intelligence circles. Although there was some opposition to overthrowing Diem, including from the president's brother and from the head of the CIA, Kennedy allowed the anti-Diem forces to move forward, apparently hoping that a more effective government would replace Diem, allowing him to withdraw more easily.[106] The unexpected assassination of Diem at the beginning of November 1963, did not change JFK's determination to de-escalate U.S. involvement. To the contrary, according to Jones[107] it "hardened the president's interest in a massive military disengagement." Kennedy's opposition to an American war in Vietnam has been understated or missed, even by critics of the foreign policy Establishment.[108]

Once Kennedy was gone, the way was cleared for the huge buildup of U.S. forces in and around Vietnam. CFR leaders inside and outside of government promoted this escalation. Many of these people were involved in 1965 in forming the Committee for an Effective and Durable Peace in Asia.[109] In September of 1965 the committee published an announcement (appearing in the *New York Times* on September 9) of its formation and of its principles, and they called for support for the war in Vietnam. Of the forty-seven prominent Americans whose names appeared on this announcement, at least twenty-two were CFR members. That included the following: the committee's chairman Arthur H. Dean, a CFR director from 1955 to 1972; Dean Acheson; C. Douglas Dillon; John J. McCloy, chairman of the board of the CFR from 1953 to 1970; David Rockefeller, chairman of the board of the CFR from 1970 to 1985. This was a war that Kennedy was unwilling to give them; Lyndon Johnson was less resistant. LBJ was a reluctant warrior, but ultimately a compliant president.[110]

The war in Vietnam would be the disaster many feared that it would be. The decision to go to war had been made against or without expert opinion; those most knowledgeable about Vietnam and its people were excluded from the decision-making process.[111] The commitment in Vietnam would rise to 170,000 by the end of 1965 and then to 540,000 by the end of 1968, and the military wanted to go above 700,000.[112] LBJ acquired the freedom to commit the military with the Gulf of Tonkin Resolution in which Congress basically gave LBJ the power to do anything he thought was necessary. The passage of this resolution in August of 1964 followed alleged attacks on U.S. ships in the Gulf of Tonkin by North Vietnamese boats. Donovan claimed that McGeorge Bundy prepared a draft of this resolution two months before the attack occurred.[113] This and questions about the attacks make this resolution comparable to President Bush's claims regarding Iraq and the war resolution based on those claims. United States losses in Vietnam would surpass what the French experienced, and the Vietnamese people would be subjected to much greater human losses and to general devastation. For the United States, massive drug abuse problems developed among those serving in the war and those opposed to the war. The results of this are still very much with us today.

Although many in the military were still thinking in 1968 of what it would take to win, the Establishment and CFR leaders who so enthusiastically promoted the war became convinced between November 1967 and

March 1968 that the war could not be won in any way that was politically feasible. The communist-led Tet Offensive, begun at the end of January 1968, showed that the communist forces could mount major military operations and were nowhere close to capitulation. By March the group of so-called Wise Men, twelve of fourteen of whom were CFR members, changed their views and in March recommended a new direction. Key CFR figures, including McGeorge Bundy, concluded that the war was unwinable, that the opposition to it within the United States would continue to grow, that it was economically damaging, and that it was hurting the country's reputation around the world.[114] Establishment expert Godfrey Hodgson[115] later speculated that Vietnam had destroyed the U.S. Establishment by undermining its confidence, cohesion, and credibility. As we will see, the Vietnam disaster may have affected tactics and it may have caused members of the upper class to rely more on underlings to do things. It did not in any significant way change the global free trade imperialism strategy. In fact, pursuit of that strategy was going to intensify as the Vietnam War was ending. The military and security situation in Vietnam had not allowed for any standard IMF approach to Vietnam's economy. The situation was more favorable in Brazil, where the IMF program was partially implemented following the overthrow of Brazil's government.[116]

Brazil and Overthrow

Brazil was probably one of the first nations pressed to adopt an IMF stabilization program of the type developed in the 1950s after the IMF's focus had shifted away from Europe. The IMF pressure on Brazil began in 1953 and 1954. The then-president of Brazil, Getulio Vargas, vascillated in the face of IMF demands and then refused to implement the program. Getting a close-up view of all of the problems confronting Vargas was Brazil's future president Joao Goulart. Goulart served under Vargas as minister of labor where he developed close ties to Brazilian labor unions.[117] Amidst charges against Vargas of criminal behavior the military demanded his resignation. He reportedly committed suicide.[118]

Succeeding presidents attempted to placate the IMF while still serving various national economic interests. Goulart was the separately elected vice-president when in August of 1961 President Janio Quadros resigned after only eight months in office. Quadros apparently expected the military and others to rally around him and bring him back with greater presidential powers. This did not happen and Goulart became president.[119] Goulart inherited a very difficult economic situation and things got worse.[120] He managed nevertheless to achieve a high level of popular support. In January of 1963 more than 12 million people voted in a plebiscite and by a five to one margin voted to expand Goulart's powers based on Brazil's 1946 constitution.[121]

In 1963 Goulart moved decidedly to the left. He had already infuriated foreign investors "by providing that profit remittances could be calculated only on the amount of capital originally brought into the country"[122] and not on total profits reinvested in Brazil. This limited the amount of money that investors could take out of Brazil. Also, the Goulart government eventually refused to follow the IMF stabilization program, in part, at least, because Goulart refused to suppress the wages of civil servants and military personnel as demanded by the IMF.[123] In 1963 and early 1964 Goulart initiated tax reforms, increased government control over exports, enacted land expropriation, enfranchised illiterates, allowed enlisted men in the military to unionize, and nationalized all private oil refineries.[124] Goulart's program was described in the *New York Times* as "an extreme form of leftist nationalism" that was producing "economic chaos."[125]

John J. McCloy became involved in this when he was asked to act for the M. A. Hanna Mining Company after Goulart began the process of nationalizing Hanna's Brazilian operations. There were strong ties between the Rockefeller and Morgan interests, with which McCloy was long associated, and the Hanna family.[126] McCloy did strike a deal with Goulart but that would quickly collapse when Goulart announced the "expropriation of all private oil refineries and some landholdings."[127]

Various efforts at undermining Goulart failed. This included ending aid and loans and attempts at influencing Brazil's congressional elections. In mid-March of 1964 Thomas Mann, then assistant secretary of state for inter-American affairs, stated that the United States government "would not oppose the establishment of military governments in Latin America, a clear signal to the Brazillian military leaders that they could expect prompt approval from Washington if they toppled Goulart's government."[128] Approval would come, in fact, from President Johnson in four hours.

The coup was organized in Brazil, but it was not a 100 percent Brazillian affair as was claimed by one expert.[129] A U.S. contingency plan, named Operation Brother Sam, was developed at the end of 1963 for a Brazillian coup. Consistent with that plan, when Goulart was overthrown on April 1, 1964, U.S. ships were deployed to the Brazillian coast in support of the coup and arms and oil were made available to the new government.[130] The new government, led by General Humberto Castello Branco, almost immediately recognized by LBJ, quickly came to an agreement with the IMF. Also, the attempt to nationalize the Hanna operations was ended and the profit remittance law was quickly revoked.[131]

This was one of the earliest occasions, perhaps the earliest occasion, when a coup was tied directly to the IMF program.[132] The results of this coup and the related effort to impose IMF policies on Brazil were mixed. The standard

IMF program was not completely adopted. Whether this was agreed upon is not known since neither the negotiations nor the agreement was public. As was indicated earlier, that has always been the case with IMF negotiations and agreements; they are secret. The Brazillian government continued to play an important role in the Brazillian economy, engaging in extensive planning and management of the economy. In the years immediately following the coup and the IMF agreement, the government continued to own nine of Brazil's ten largest industrial firms.[133] This was hardly a model of laissez faire. Still, according to Cheryl Payer,[134] Brazil did follow somewhat faithfully the IMF's instructions in the 1964 to 1967 period and this was a period of depression, increased takeovers by foreign interests, worsening income inequality, and continued balance of payments problems. According to Burns,[135] one of the clearest results of the coup was to open up Brazil to foreign investment. This may partly account for the dominance that foreign corporations had in Brazil as of 1971 when multinational corporations "accounted for 70 percent of total net profits in five important sectors of the economy: rubber, automobiles, machinery, household appliances, and mining."

There was a period of substantial economic growth in Brazil from 1969 to 1974 but even that came with a huge downside in the

> forms of increasing monopolistic tendencies, denationalization of the economy, mounting foreign debt, and a deepening dependency on: foreign investments and loans, the International Monetary Fund, expansion of foreign markets, and increasing exports.[136]

Beyond that, Payer[137] observed that the growth that did occur was a result of pre-1964 investments and "due more to a defiance of Fund policies than to obedience." That defiance included an internal credit policy that was contrary to IMF policies and that led to the suspension of U.S. aid in 1967. What is clear in all of this is that a military coup had been linked directly to the promotion of IMF policies and that is obviously an example of free trade imperialism.

Dominican Republic and Chile

Bracketing the Vietnam War were two other interventions, which provide not only evidence of the development of free trade imperialism but also of the open dominance over foreign policy on the part of Wall Street and the CFR. The two were the invasion of the Dominican Republic and the active support given to the overthrow of the elected government of Chile.

In April of 1965, as the Vietnam War was gearing up, President Johnson ordered the invasion of the Dominican Republic, deploying about 23,000 soldiers. Such CFR and Establishment luminaries as McGeorge Bundy, Dean Rusk, and Thomas C. Mann were involved in making the decision to invade. A newly elected government, cooperating with and backed by President Kennedy, had been overthrown in 1963 by right-wing forces led by General Elias Wessin y Wessin. Kennedy immediately responded to that coup by suspending diplomatic relations and economic aid. He then ordered that all military and economic assistance personnel leave the country. The right-wing government quickly came to an agreement to follow policies demanded by the IMF.[138]

Early in 1965 forces aligned with the overthrown elected president Juan Bosch staged a countercoup with the proclaimed goal of restoring constitutional government. Relying in part on information supplied by the British vice-consul in the Dominican Republic, the Johnson administration decided to portray the Bosch supporters as dupes of a nebulous gang of extremists with communist connections. From Puerto Rico, the exiled Bosch vehemently denied this, pointing out that there were few communists in the Dominican Republic and that they were fragmented and without capable leadership. "These communists," said Bosch, "could not even manage a hotel, let alone take over a country."[139] Nevertheless, Johnson ordered an invasion, which restored the right-wing forces to power. In the end Johnson used American military power against the elected government that had cooperated with President Kennedy. This was consistent with the other changes that occurred after Kennedy's assassination.

In 1973, as the Vietnam War was gearing down, LBJ's successor, Richard Nixon, intervened in another country in support of right-wing forces seeking to overthrow another elected president, Salvador Allende of Chile. Allende was a self-proclaimed socialist and Marxist. The IMF and its policies were at issue from the beginning of Allende's presidency. Payer[140] observed that

> Dr. Salvador Allende won the elections of 1970 with promises to nationalize the copper mines, raise the standard of living of the poorer Chileans, and diversify the nation's economy. To this end Allende made another specific promise; to "terminate agreements with the International Monetary Fund and put an end to the scandalous devaluations of the escudo."

After Allende won the three-way 1970 election with 36.3 percent of the vote, and before he was confirmed by the Chilean congress as required when a candidate got less than half of the vote, the effort began to remove him.

With encouragement from David Rockefeller and President Nixon, Henry Kissinger began a three-year effort to prevent and then remove Allende from being president. The CIA had already been actively intervening in Chile since 1964 in an attempt to influence Chilean politics. This was made easier by the fact that much of the Chilean military leadership had been trained by the United States. After Allende won the election, David Atlee Phillips became codirector of the "stop Allende" project. Phillips had been involved in the 1954 Guatemala coup against Arbenz.[141] In spite of the growing efforts against Allende, he was certified by the Chilean congress by a vote of 153 to 24. After this the next phase began, a program to destabilize Allende's government. There were sudden cancellations of international loans and of aid by the U.S. government and the World Bank, and existing orders for important economic imports to Chile were not filled. A propaganda campaign against Allende was started. Meanwhile Allende hit U.S. corporations with big "excess profits" taxes and he was under intense pressure from his supporters to do more. In 1972, after Chile had nationalized American-owned copper fields, the Nixon administration adopted a tough policy demanding compensation for the copper and demanding that Chile "submit to the discipline of an IMF stand-by arrangement."[142] A deal was struck on compensation but Chile stood its ground on the IMF program.

In June of 1973 a CIA-backed military coup failed. Allende made the mistake of reacting to this by bringing more officers into the government. If this was meant to co-opt the military, it didn't work and it probably made military interference more likely.[143] The next coup took place in September of 1973 and this one was successful. Allende resisted to the end and was apparently killed in the presidential palace by the Chilean military. Although a self-proclaimed Marxist, Allende was, like Mosadegh and Arbenz, a nationalist. Much of the conflict surrounding Allende's presidency had to do with foreign ownership of Chile's resources and with the demands being made by foreign creditors and the IMF.[144] Surveying coups related to IMF policies (including Brazil in 1964, Indonesia in 1965, and Argentina in 1966), Payer[145] observed that

> the military coup against Allende in September followed the inexorable pattern of the events we have surveyed in Indonesia, Cambodia, and Brazil. The military junta taking power as the new rulers of Chile immediately reversed the major economic policies of the Unidad Popular government because they knew that this was the precondition for a resumption of credit flows.
>
> The IMF sent a mission to Chile in December, and announced on 30 January 1974 that a new stand-by arrangement had been concluded. As usual, this stand-by is less important for the amount of money directly

> involved than for the much larger amounts it will unlock in the form of bilateral and World Bank credits.
>
> The murder and imprisonment of political opponents is a predictable part of this pattern, but Chile has changed with horrifying rapidity from one of the least repressive societies in Latin America to one experiencing institutionalized violence on a scale previously unknown on that continent, even in Brazil.

Chile agreed to a tougher IMF program in 1975 (privatizing social security and public industries and cutting tariffs) and the year featured a 23 percent decline in industrial output and an unemployment rate of 20 percent. Those were a couple of the results of following the "shock treatment" recommended by the IMF and by America's leading promoter of laissez faire and free trade economics, the University of Chicago's Milton Friedman.[146]

What happened in places like Chile and Brazil no doubt served notice to national leaders around the world that resistance to IMF-style laissez faire polices could be dangerous. However, with more than 120 nations in the world in the 1970s, most of them "Third World," or "underdeveloped," or "developing," it was not going to be practical to bring them into compliance with free trade imperialism by carrying out invasions or coups. To bring large numbers of countries to the IMF table some other means would be needed. What was needed was debt on a huge scale, debt that would force large numbers of countries to then go to the IMF for "assistance" and for the approval that would be necessary for new credit. That could force countries to join the emerging New World Order.

CHAPTER SEVEN

Oil, the IMF, and the Free Trade Imperialism Offensive

The 1970s featured new calls for an open, global economic system. Part of this globalism was Anglo-American free trade imperialism under a new label. In fact, as the decade ended, the most ambitious effort ever to force countries to submit to free trade imperialist policies would be under way. High oil prices, high interest rates, and global economic slowdown were the circumstances that forced countries to conform to IMF policies. The calls for a global, free trade, laissez faire system came in part from the leadership of the Council on Foreign Relations (CFR) and from a new organization created by that leadership.

Part of the planning for this new laissez faire offensive was done in the CFR's 1980s project and part of it was done in the newly created Trilateral Commission. The Trilateral was organized and initially led by CFR chairman David Rockefeller. The idea of the Trilateral Commission was first aired among elites by David Rockefeller at the 1972 meeting of the Bilderberg Society.[1] The Bilderberg meeting was quickly followed by a meeting at the Rockefeller Pocantico Estate in New York to plan the organization of the commission. The Trilateral brought together about 180 leaders from North America, Europe, and Japan. The countries represented were to form a core around which the rest of the world would be organized.[2] The Trilateral approach was part of one possible strategy, the one preferred by CFR leaders. This strategy was based on the idea that the era of the nation-state was coming to a close and that the world could be brought together in a political and economic federation. One of the leading proponents of this view was Zbigniew Brzezinski. A second view, less preferred but acceptable, assumed continuing importance for the nation-state and a continuing balance of power, which required an emphasis on U.S. military strength. This second position was voiced by Henry Kissinger.[3] Growing integration of the Trilateral economies and global free trade were expected to be part of the foundation of a global economy, regardless of which strategy was adopted, Kissinger's or Brzezinski's. The Executive Committee of the Trilateral Commission issued a statement of purpose following its first meeting in October of 1973, which began by saying that global interdependence required cooperation to "counteract economic and political nationalism." The Executive Committee included the founder of Trilateral and the chairman of the CFR and of the Chase Manhattan Bank, David Rockefeller, and the soon-to-be National Security Advisor Zbigniew Brzezinski, and other leading CFR-Trilateral figures such as Richard N. Cooper, Paul Warnke, and George S. Franklin.[4] Of the 116 Americans who served on the Trilateral Commission during the 1970s, 68 were also members of the CFR. James Carter brought about half of the existing Trilateral membership into his administration. One of the specific recommendations to come out of the CFR's 1980s project was that limits be placed on democracy by taking some economic issues out of the politics of nations.[5] As we will examine later, one of the most important issues that would largely be taken off the table was the deindustrialization of the United States. The Trilateral Commission's Samuel P. Huntington praised in 1976 the commission's success in lowering the public's "expectations of what government can achieve."[6] If things cannot be done through government, then they are effectively off the table.

The Trilateral Commission, like the CFR and other parts of the upper-class private government, gets little or no coverage by major media. The creation of the commission and the fact that it quickly became something of an issue in the political arena did get a little bit of coverage. The nation's newspaper of record, the *New York Times*, took note in 1977 of the fact that virtually all of the important positions in the incoming Carter administration were Trilateral members, including the president himself. The author of this story, Paul Lewis, observed that the original impetus for the creation of the commission was an upsurge in economic nationalism, both outside of the United States and within.[7] Some of the domestic economic nationalism emanated from President Richard Nixon, something we will return to later. Some of it came from unions and their spokesmen in the Senate.[8] The Trilateral also made it into the newspaper of record during the 1980 Republican primaries when unsigned pamphlets circulated "criticizing Mr. Bush for his former membership in the Trilateral Commission."[9] For the most part, however, the media was silent and the purposes of the Trilateral Commission were never examined, certainly never critically.

The single most important tool available to the Trilateral-CFR crowd in its pursuit of global economic power was the International Monetary Fund (IMF). The problem was, and is, that there were too many countries in the world for invasion or war or coups to be a practical way to get compliance with the IMF agenda. Many countries do not want to follow IMF policy.

Even when leaders are willing to do so, there is often pressure on them to resist. How do you make scores of countries submit to the IMF? Since they come to the IMF when they have significant trade imbalances and can't get loans from the private banks until they go the IMF, what is needed is a sudden and large increase in national trade deficits. Changes in the price of only one commodity could have such an impact, and that is oil.

Oil, Debt, and the IMF

Everything in modern economies requires energy. There is no other thing that is involved in production, transportation, consumption, and everyday life in the way that energy is. It is so fundamental and important that the renowned American anthropologist Leslie White literally defined human culture and civilization in terms of the development of energy. White observed that human culture "develops when the amount of energy harnessed by man per capita per year is increased; or as the efficiency of the technological means of putting this energy to work is increased; or as both factors are simultaneously increased."[10] Civilizations rise or fall as a result of changes in the amount of energy that is harnessed.[11] Given this, it is obvious that control over the development and use of energy would give to those who have such control immense power. Happily for those who have such control, it is also a potential source of vast wealth.

The sources of energy have evolved. Each new source of energy, or new technology to employ energy, was a result of human insight, discovery, or invention. Most or all of this progress was painfully slow. Over thousands of years human and animal labor was replaced with waterfalls and flowing rivers. Coal replaced wood and the invention of the steam engine and turbine dramatically increased human labor power. At the beginning of the twenty-first century petroleum was the source for almost 40 percent of America's energy.[12] Oil was followed by natural gas and coal. Nuclear power, favored and promoted from the 1950s into the early 1970s, has never reached more than 9 percent of the total. In some ways the business of oil is dominated today by the same companies that gained control over it a century ago. We need a little of that story in order to understand what happened in the 1970s and 1980s and what is happening now.

Oil, Some Early History

The history of oil in the United States is partly the history of one of the country's wealthiest and most influential families, the Rockefellers. John Davison Rockefeller (1839–1937) entered the refining part of the oil business in the early 1860s when oil was used primarily for lamps and medicines. Less than a decade after the first well was drilled in 1859 near Titusville, Pennsylvania, Rockefeller began his efforts to establish control over oil. At this time he could not have had any idea of how important oil would be fifty years later. Rockefeller entered into an agreement with three of the largest railroads—New York Central, Pennsylvania, and Erie—in which he guaranteed all of his business to them and in return they gave him an advantage in shipping rates over his competitors.

Rockefeller and his partners then implemented their rebate scheme on a national scale. Seventy-six refiners were either absorbed or driven out of business, including one owned by one of Rockefeller's brothers. By 1875 Rockefeller and his partners, one of whom was another brother, William, controlled over 90 percent of the country's refining capacity. They also dominated most of the oil transport system (pipelines and railroad tanker cars). In 1882 the Standard Oil Trust, which Rockefeller and his partners created in 1870, was incorporated as the Standard Oil Company of New Jersey. Its name was changed to Standard Oil Company in 1892. The 1892 name change was part of a relocation from Ohio to New Jersey to avoid legal actions by the state of Ohio.[13]

An antitrust suit was filed against Standard Oil in 1906 by the U.S. Attorney General Charles Bonaparte. In 1909 an antitrust decision was made against Standard Oil but it was appealed to the Supreme Court, which rendered its decision in 1911 ordering the breakup of the company. Standard Oil was broken up into thirty-three companies but the Court said and did nothing about who owned these companies. In fact, the breakup explicitly left all of the companies under the same ownership.[14] We will return to this later.

By the time this was happening, the Standard Oil Company was already involved outside of the United States. This was first in the form of selling American oil abroad, a major part of Standard's business by 1885.[15] As Standard Oil increased its global activities it ran into competitors that could be neither destroyed nor bought out. There were also competitors developing at home that would have to be dealt with in a more cooperative way. Globally the most important competitor by far was Anglo, or Anglo-Dutch.

The English Oil Strategy

By the end of the 1800s it was apparent that oil would be the fuel for ships in the future, not coal. Oil took up less space, gave ships greater range, was more easily loaded, and so on. England had no oil but was still the dominant naval power in the world. By 1905 England acquired from an

Australian businessman rights granted by Persia's monarch to explore for and extract oil. Also, between 1901 and 1913 England secured access to oil in what is today the southern part of Kuwait.[16] In 1913 the British government bought controlling interest in what was an inactive Anglo-Persian Exploration Company, later British Petroleum or BP. It was by then clear that not only would England need access to large petroleum supplies but that control over such supplies would give England a big advantage in its dealings with other countries that also needed petroleum.[17] Control over oil was going to be itself a source of power. United States Secretary of Defense James Forrestal wrote in 1947 that "whoever sits on the valve of Middle East oil may control the destiny of Europe."[18] The Exploration Company was renamed the Anglo-Iranian Oil Company in 1935 and then British Petroleum in 1954.

British Petroleum and two of the Standard Oil companies, Exxon-Mobil and Chevron, make up three of today's big four. The fourth company is Royal Dutch-Shell. The Royal Dutch Company was established in 1890 and out of a combination of this company and the Asiatic Petroleum Company, Royal Dutch-Shell was formed in 1907.[19] In its early years the company was led by Henri Deterding of the Netherlands, British merchant Marcus Samuel, and the Rothschilds.[20] According to one source, the British dominated Royal-Dutch Shell by 1919.[21]

At the end of World War I the British and, less effectively, the French used what they called the San Remo Agreement (1920) to reorganize and carve up the Middle East and to control the oil.[22] Under the claim of acting to foster self-government in the region, the British and French in reality made independence and real self-government impossible. The American oil companies complained and, consistent with the growing British reliance on American power, were brought into the Middle East. Specifically, Standard Oil of New Jersey (Exxon), Standard Oil of New York (Mobil), and Gulf Oil were brought into the Mosul concession in Iraq.[23] This was an important part of the growing Anglo-American cooperation in controlling Middle Eastern oil that was briefly mentioned in chapter three.

In July of 1928, after six years of negotiations and twenty or more years of competition, Standard Oil of New Jersey and Standard Oil of New York joined Anglo-Persian (BP), Royal Dutch-Shell, and Compagne Francaise Petrole as partners in the Iraq Petroleum Company. At the end of the year representatives of Standard of New Jersey (Walter Teagle), Anglo-Persian (John Cadman), and Royal Dutch-Shell (Henri Deterding) met at the Achnacarry Castle in the Highlands of Scotland to discuss the world oil situation. The meeting was held to deal with specific problems. Prices were being forced down by overproduction and there were outbreaks of unwanted competition. The meeting, joined at some point by other oilmen, such as William Mellon of Gulf Oil, led to an agreement, known as the "As Is Agreement of 1928" or the "Achnacarry Agreement." The agreement was an attempt to stabilize the existing division of the world market ("As Is"), establish a process of fixing prices, produce agreements to limit production (in part by limiting the construction of facilities), and to share facilities and keep speculators out by selling surpluses to each other.[24]

The system worked out at Achnacarry evolved and was later modified, twice by 1934.[25] The results of an investigation by the Federal Trade Commission (FTC) published in 1952 indicated that a version of the agreement was still in place and had become more institutionalized and more elaborate. The commission's investigation focused on the seven companies that later became known as the Seven Sisters. The seven were Anglo-Iranian (BP), Gulf Oil, Royal Dutch-Shell, Standard of New Jersey (Exxon), Standard Oil of New York or Socony-Vacuum (Mobil), Standard Oil of California (Chevron), and the Texas Company (Texaco). From the beginning, high prices and production limits were justified on the basis of conservation.[26] An agreement that was reached to deal with overproduction was explained by the oil companies in terms of insufficient supply and the need to conserve.[27] The Temporary National Economic Committee hearings in the 1930s disclosed that state programs of oil conservation had been "converted into agencies of price and supply control."[28] The FTC staff observed that at the international level "conservation became the cartel's slogan at a time when a rising flood of international production threatened to depress world prices." Anthony Sampson noted in his famous book, *The Seven Sisters and the World They Shared*, that "Not for the last time conservationists and cartelists were in alliance."[29] The American Petroleum Institute approved a plan in 1929 that was consistent with the As Is Agreement and the institute explained the plan in terms of the need for conservation. W. S. Farish, chairman of the executive committee of Standard Oil of New Jersey, testified before Congress that in his view "conservation" and "stabilization of the industry" were literally the same thing. Others knowledgeable about the oil industry made similar observations.[30]

According to the FTC study, the Seven Sisters controlled 92 percent of the world's oil outside of Mexico, Russia, and the United States. That was 65 percent of the world's total known reserves. The Sisters controlled 77 percent of the world's refining capacity outside of the United States and Russia. They also owned most of the tanker fleet and all of the pipeline outside of the United States.[31]

The Sisters were extensively interconnected with each other through their boards of directors and interconnected with many of the other U.S. oil companies. In the Middle East the Sisters were joined together in shared operations. Anglo-Iranian, Royal Dutch-Shell, Socony Vacuum, and Standard of New Jersey jointly controlled the Iraq Petroleum Company. The two U.S.

companies together had 23.75 percent, and Royal and Anglo each had 23.75 percent. This arrangement, created in 1928, was the first joint venture for these four companies.[32] Gulf and Anglo-Iranian together owned Kuwait Oil. Standard of California and Texaco were intertwined with each other, and both were partners with Standard of New Jersey and Socony in the Arabian American Oil Company.[33] Saudi oil was only discovered in 1938 but production climbed quickly and was in second place in the Middle East by 1950, behind Iran.[34] These companies often worked together in other parts of the world. For example, almost all of Venezuela's oil was controlled by Royal Dutch-Shell, Standard of New Jersey, and Gulf.[35]

In a footnote, the FTC staff noted in 1952 that after 1933 five of the Sisters led by Anglo-Iranian could manipulate oil output in Kuwait and Iran so as to bring supply in line with "such 'political' or other considerations as it judged to be important."[36] The political or other considerations would logically emanate in part at least from the interests of those who controlled the oil companies or from allies or associates of those interests. As we are seeing in this book, those interests are the internationally oriented upper classes of the United States and England, what Quigley called the Anglo-American Establishment. In the United States after World War II the Establishment was led by the Rockefeller group.

As of the 1930s it appears that the Rockefeller group was where the 1911 breakup of Standard Oil left them, that is, in control of the Standard companies. In 1929 a conflict developed between the chairman of the Standard Oil Company of Indiana, Robert Stewart, and John D. Rockefeller, Jr. Rockefeller demanded that Stewart resign and he refused. Ferdinand Lundberg, who later wrote *America's Sixty Families* and *The Rich and Super Rich*, was a financial writer covering the Rockefeller-Stewart conflict for the *New York Herald Tribune*. Lundberg questioned Wall Street insiders about the likely outcome of such a conflict and was told that the Rockefellers would be able to easily mobilize enough voting stock to prevail against the company's chairman. The insiders explained that the pro-Rockefeller stock would be

> (1) whatever stock they owned, (2) the stock in Standard of Indiana owned by Standard of New Jersey, (3) all the stock of Indiana owned by various Rockefeller foundations, (4) endowment stock of Indiana owned by the University of Chicago, (5) stock in "Street" names, (6) stock in Chase National Bank trust funds, (7) stock in other bank trust funds, (8) stock still owned by members of all the old line Standard Oil families, etc.[37]

The University of Chicago received large amounts of money from the Rockefellers. Street names were just front names for investors. Those who own or control banks control the votes of stocks held by the bank in trust funds for wealthy clients. The "etc." could include friends, allies, in-laws, and anyone else with stock whose votes could be influenced. Lundberg did not identify all of the financial institutions controlled by the Rockefellers; there were others. At the time of this conflict the family directly owned 4.5 percent of the stock and 5 percent was held in family trust funds. Under most circumstances, that might have been enough. From other sources the Rockefellers were able to mobilize an additional 55 percent giving the family nearly 65 percent. It was no contest.

The methods of controlling stock were later examined by Maurice Zeitlin, one of the country's leading social science experts on the control and ownership of banks and corporations. Zeitlin basically supported what Lundberg had earlier laid out. Individuals, families, and groups have many ways of controlling stock, and with most big companies a 5 or 10 percent voting bloc would be enough because in most situations the majority of stockholders are unorganized and passive.[38]

The report of the Temporary National Economic Committee issued in 1940 concluded that the Rockefeller family had working control of Standard of New Jersey, Socony Vacuum, and Standard of California.[39] A study done forty years later indicated that it was unlikely that the Rockefeller interests had lost control of the leading oil companies. The study was limited to an examination of director interlocks and institutional shareholders in large banks and corporations. The investigation, published in 1980 under the title *Structure of Corporate Concentration*, disclosed a dense set of relationships among the country's leading financial institutions and other big corporations. The Rockefeller-controlled Chase Manhattan bank was the number one institutional shareholder in Exxon (Standard Oil of New Jersey), number two in Chevron (Standard of California), number four in Mobil (Standard of New York or Socony Vacuum), and number three in Standard of Indiana. The FTC had suggested in 1973 that the big oil companies were collectively controlled by banks such as Chase Manhattan. The FTC thought that this made it difficult for independents and competitors to get the credit needed to build new refining capacity. The FTC suggested that oil companies be required to sell off 40 to 60 percent of their refining capacity.[40] The 1980 study also showed what had already been noted by others. That is, there were extensive interlocks between major banks and large oil companies.[41]

Financial institutions that were part of the Rockefeller group were interlocked with major oil companies. For example, individuals serving on the boards of Chase Manhattan and Citicorp (the William Rockefeller wing of the family) were also on the boards of Exxon, Mobil, Chevron, and Standard of Indiana.[42] It appeared that the Rockefellers were a, if not the, leading force in the American part of the global oil cartel and that cartel controlled almost all of Middle East oil and dominated refining, transportation, and marketing in much of the world.[43] Stephen Pelletiere, the CIA's senior analyst for Iraq during the long Iran-Iraq war, observed that the major oil companies, acting as a cartel, had become stronger than governments. That did not mean that the cartel could do anything it wanted to. There were problems, competitors, challenges, and criticism. The companies, though, often got what they wanted. For example, the majors did not want independent oil companies operating in Saudi Arabia. The companies offered to increase the Saudi's share of oil revenues if the Saudis cooperated in keeping independents out. In turn, the Saudis agreed to take their share in the form of taxes, which allowed the oil companies to deduct the Saudi share from their U.S. tax obligations.[44] In effect, the U.S. taxpayer paid to keep the Saudis happy and to maintain the cartel in Saudi Arabia.

At home following World War II, there was plenty of criticism of big oil. The companies were accused of overcharging the military during the war, of selling oil through subsidiaries to the enemy during the war, and of withholding methods to develop synthetic rubber from the U.S. government because of a deal with the German, pro-Nazi I. G. Farben company.[45] In the domestic arena small business, labor, and the smaller oil companies were all critical of big oil after the war. Between 1945 and 1947 the price of a barrel of oil went from \$1.25 to \$2.65, and there were charges that the companies were creating an artificial shortage at the same time that they were claiming that American oil might be gone by 1955.[46] Cooperation among the major companies allowed them to suppress production in the Middle East and to maintain an artificially high price from the end of the war into the 1960s.[47] That international effort was repeated within the United States, where the oil companies displayed a distinct disinterest after World War II in exploring for new sources of oil.[48] The development of Alaskan oil was held up for years after the oil companies succeeded in getting the Eisenhower administration to stop government exploration and to hand over all information on Alaskan oil. Between 1944 and 1953 the Navy and the U.S. Geological Survey had spent 50 million dollars to locate this oil. Whether because the oil companies did not want the new supply or because they did not think it would be sufficiently profitable at that time, they waited until the early 1970s to bring this oil into production. When Exxon, Arco, and BP eventually developed the oil, they refused to supply it via a Canadian pipeline to the continental United States as some in Congress demanded. Instead, it would be delivered to tankers where it could be directed to whatever locations in the world the companies selected.[49]

Conflicts between the cartel and national interests arose abroad as well. As noted earlier, the oil companies came into conflict with the elected government of Iran, which sought to regulate the price of oil in light of Iran's national needs and the market circumstances. Averell Harriman, a personal friend of Brown Brothers Harriman partner Prescott Bush, told Iran's leader, Mosadeq, that the oil companies, not the market, set oil prices. As described earlier, this conflict between the companies and Iran's government led to the CIA-orchestrated overthrow of Mosadeq.[50] In Iraq in 1958 the pro-British monarchy was overthrown, setting in motion a series of events that would lead to the creation of Organization of the Petroleum Exporting Countries (OPEC) in 1961 and bring the Ba'thists to power briefly in 1963 and again in 1968, after which they held power until the U.S. invasion of 2003. From 1958 to the early 1970s the various Iraqi regimes had one thing in common—they all sought ways to reduce the power that the major oil companies exercised over Iraq's oil. By 1968 Iraq's future dictator, Saddam Hussein, was directly involved in the nationalization of Iraq's northern oil fields and in a policy of diversifying the outside oil interests on which Iraq was dependent for technical help.[51] Even before the 1970s there was plenty of conflict and change in the Middle East even if the major companies did continue to control the relationship between the Middle East oil and the rest of the world.[52]

The Sisters, OPEC, and the 1970s

Probably the simplest and most widely disseminated version of what happened with oil in the early 1970s is that Egypt and Syria attacked Israel on October 6, 1973, and the United States backed Israel, bringing retaliation by the OPEC nations in the form of an embargo against the United States and higher prices. That story is better referred to as a tale. Even if it was true, the 1973 war would have been a godsend to the big oil companies who were in this period mostly worried about a global oil glut and falling prices.[53]

In 1973 and 1974 people in the United States were informed that actions taken by Arab countries in retaliation for U.S. support for Israel had created a petroleum shortage. The gas lines and other inconveniences were less severe than what was coming in 1979, but the shortages along with OPEC and oil company price increases delivered a significant shock to the U.S. economy. That the shortage was less than real was indicated by many facts. The United States was dependent on Arab countries for very little of its oil, perhaps 6 percent. The Arabs had no way to selectively punish the United States because they had no control over distribution. The problems were in many ways developing before war broke out. In 1972, before OPEC took any action on supply or price, the oil companies cut back the refining of home heating fuel and gasoline. In the first four months of 1972 the oil companies refined less oil than in the previous year in spite of growing discussions of possible shortages. One way to create a shortage is to build too little refining capacity.[54] President Nixon authorized changes in import quotas to allow more imported oil into the United States, but the oil companies did not take advantage of this.[55]

Once the shortage did develop, there was good evidence indicating that gasoline was being withheld by oil companies from the market. Much of the price increase was attributable to the companies. Nevertheless, in the face of public disbelief, a shortage was proclaimed and blamed on the Arab countries or OPEC.[56] Among the many people questioning the reality of the energy crisis was Richard Nixon's newly appointed and non-Establishment attorney general, William Saxbe, who said in 1974 that he viewed the shortages as an oil company hoax. Also, in a television interview the soon-to-be-deposed shah of Iran said that there was no shortage of oil delivered to the United States.[57]

John Blair, as noted earlier, one of the country's leading experts on the oil companies, observed a couple of years later that

> by now, the commonly accepted explanation for the oil price explosion of October 1973 to January 1974 has become firmly embedded in folklore. Through incessant repetition in every medium of communication, responsibility has been effectively transferred to rulers of distant and undeveloped lands whose attitude toward the United States ranges from casual indifference to belligerent hostility. Today's high prices are invariably traced back to the "Arab embargo" and the resultant "shortage."[58]

Blair also pointed out that production during the "shortage" was about the same as a year later when there was a glut. Sherrill described how the oil companies cut their production in 1974 to keep prices up and in the process saved OPEC from disintegrating in a competitive struggle. The average working American lost 4 percent of their real income between 1973 and 1975, signaling the beginning of the end of the prosperity that developed from the New Deal to the 1960s. During and after Senate hearings in 1974 senators such as Jackson and Percy stated clearly that the federal government lacked the information needed to regulate, evaluate, or even understand the workings of global oil.[59]

In the period immediately following the oil shortage, many environmentalists applauded the event as proof of their resource-scarcity arguments. Both environmentalists and oil companies were claiming that there was something positive in the country's difficulties. Former Secretary of the Interior Stewart Udall toured the country telling people to cut back and think small and that the shortage was proof of conservationist arguments.[60] As noted earlier, oil companies had made use of conservationist arguments before. This is not surprising given the central role that upper-class groups have played historically in the conservation and environmentalist movements.[61] Environmental issues have been heavily politicized by upper-class efforts to convince people that progress is not possible and/or that existing economic problems are caused by resource scarcity or overpopulation.

The activation of OPEC, which had been stillborn in 1961, and the growing control of national governments over their oil left the oil companies in the position of relying on their role in refining, transportation, and marketing. Also, during the 1970s the relationship with Saudi Arabia became much closer and the Saudis by themselves could affect production enough to influence the global price of oil. The Saudis were critical in maintaining high prices in the early 1980s and then in driving the price down in the mid-1980s.[62]

Although the second major oil shock did not come until the tumultuous year of 1979, important things did happen with oil between 1973 and 1979.[63] Higher prices for gasoline had produced a greater decline in demand in 1974 than had been expected. The oil companies' solution was not to lower prices; instead, they succeeded in driving the price still higher, counting on there being limits to drivers' abilities to reduce auto usage. Gasoline production was cut back, leading to a 21.5 percent rise in price at the pump between January and August of 1975. None of this had anything to do with OPEC prices, which were stable until the end of the year. Anger in the United States at the oil companies was intense, and the oil companies almost lost a battle in the Senate in 1975 over a bill that threatened to break up the major companies into separate production, transportation, refining, and marketing units.[64] During 1976 and 1977 the big companies withheld natural gas from the market and got the new Carter administration's support to allow natural gas prices to rise. By this time, the big oil companies were actually diversified companies with major interests in natural gas, coal, and, in a couple of cases, uranium.[65] Some, led by Atlantic Richfield and Standard of Ohio, were now heavily involved in copper.[66] In 1977 the Carter administration suppressed its own study, which showed there was an abundance of natural gas and Carter fired the director of the U.S. Geological Survey for saying publicly that there was such an abundance.[67]

On April 18, 1977, Carter warned a national television audience that we could exhaust the world's proven oil reserves "by the end of the next decade."[68] Both the oil companies and the environmentalist movement received the backing of President Carter in October of 1977 when in two speeches, one to the public and the other to Congress, he asked the nation to make sacrifices in order to deal with the energy crisis and he recommended higher gas and oil prices to force conservation.[69] Soon after this Carter was supporting the drive to deregulate natural gas. These actions and Carter's close association with the Rockefeller-led Trilateral Commission naturally gave rise to charges that Carter was serving big oil's interests.[70]

In August of 1977 a group of top executives from the largest banks and corporations published an open letter to the American people in newspapers around the country. The full-page ad proclaimed in bold print that "Energy is not a political issue. It's an issue of survival." The letter commended Carter for his role in focusing attention on the energy problem and went on to say that everyone must be ready to sacrifice and conserve. The letter then emphasized that it should be the private sector, not government, that solves these problems. The chairmen of thirty-one banks and corporations signed the letter. Among them were the leaders of banks in the Rockefeller-Morgan orbit, including David Rockefeller, and the head of Exxon.[71]

Contrary to the implications of that 1977 letter from the head of the Trilateral Commission and associates in the banking and big business community, the problem in 1978 was once again too much oil, not too little. Increased oil flowing from new fields in Alaska, Mexico, and the North Sea, combined with a global economic slowdown, again made glut rather than shortage the problem for the oil companies. Once again an atmosphere of crisis would be useful to justify high prices and to buttress claims of global shortage. Taking the place of the Arab-Israeli war was the overthrow of the shah of Iran. Although the shah had been put in power by Allen Dulles's CIA, he was increasingly independent and increasingly out of favor by the late 1970s.[72] He was not given any material or real support once he was challenged by the Islamist-led mass movement that took over Iran in 1979. It would be one of many instances in which the foreign policy Establishment would fail to oppose Islamist forces or would act to support such forces. The 1979 overthrow of the shah provided the climate in which new claims could be made of shortage and higher prices could be rationalized.[73]

Retrospectively, the events of 1979 would make those of 1973 look something like a dress rehearsal. If anything, the 1979 version of the energy crisis was even more transparently a managed affair. As numerous studies by both government agencies and private researchers conclusively demonstrated, there was no shortage in 1979. In addition, the evidence was clear that major oil companies led rather than followed OPEC in pushing the price up and that price increases in the United States far exceeded those implemented by OPEC.[74] The cutback in oil exports by Iran after the fall of the shah was more than compensated for by increases in exports to the United States by other oil-producing countries. President Carter, who had access to information indicating that the shortage was contrived, acted more as public relations man for the oil companies than as president of the United States. During the course of the "shortage" he first blamed it on Iran and then on the American people.[75] While some congressmen expressed anger and indignation, and hearings were held, nothing was done. A confrontation had taken place between private and national interests, but most of those responsible for defending the nation's interests decided not to fight.

Evidence concerning the shortage experienced in the United States, which was gathered or produced by the CIA, the deputy secretary of energy, and others indicated that not only was there no shortage, but imports to the United States were 9 percent higher for the first six months of 1979 compared to 1978. Between January and June of 1979 gasoline prices rose by 33 cents a gallon, but most of this was caused by the oil companies, not OPEC. In the midst of the alleged shortage oil companies were exporting oil and cutting back on refining.[76]

Profits for the oil companies soared to what were then thought of by many as obscene levels.[77] The profits of Exxon and Texaco doubled in 1979 over 1978. After Carter indirectly defended higher prices by claiming they would lead to more oil exploration, his Treasury secretary Michael Blumenthal and his transportation secretary Brock Adams both disagreed. They were both fired within a couple of months.[78] After 1979 much of the oil company profits would be used to finance a multitude of corporate takeovers in both the energy field and in other areas, particularly minerals and metals. In 1984, SoCal, Texaco, and Royal Dutch-Shell would spend nearly 30 billion dollars in three such acquisitions.[79] Chevron acquired Gulf Oil for 13.3 billion dollars; Texaco took over Getty Oil for 10 billion dollars; Mobil acquired Superior Oil for 5.7 billion. By expending tens of billions of dollars in this way the oil companies gave a clear indication that they had a limited commitment to the goals of more and cheaper energy. Between the 1970s and the early 2000s the Seven Sisters were reduced to four and the big eight American companies, including the U.S. Sisters, were reduced to two, with two taken over by foreign companies. Within the Sisters, Standard of California, or Chevron, took over Texaco and Gulf and Exxon took over Mobil. All of those companies were also part of the big eight. Royal Dutch-Shell took total control of U.S. Shell, and British Petroleum took over Amoco as well as Atlantic Richfield and Sohio. Chevron's takeover of Gulf was the largest corporate takeover in U.S. history up to that point.[80]

This second energy crisis, accompanied by a rise in the prime interest rate to 18.9 percent in 1981, rocked the U.S. economy and produced an economic disaster for the poorer nations of the world. In the United States the energy shock and the unheard-of interest rates brought about a massive redistribution of wealth while producing the worst economic downturn since the Great Depression. Oil company revenues and profits rose by billions, and dividends paid out jumped by 20 to 50 percent. During each of the years between 1973 and 1978 the increase in utility prices to consumers was twice what it had been for the entire preceding twenty-five years.[81] Between 1978 and 1981 real hourly earnings in the United States fell by about 8 percent and weekly earnings by 10 percent.[82] We will return to the developments in the 1980s in the United States in the next chapter. They are critical to understanding where we are today. For the United States, the 1980s became the decade of deindustrialization and the casino economy (and the 2000s would be worse). For underdeveloped and less developed countries the 1980s were even worse.

Oil and the IMF

A British cabinet official observed in 1966 that the IMF had assumed the role that direct colonial administration had once had.[83] The oil and interest rate shocks and the global slowdown vastly expanded that role. Following the first energy crisis the trade situation of many countries deteriorated badly. The cost of their imports, especially oil, rose faster than their exports. The cost of money also rose. In 1973 the cost of imports for developing countries was 11 billion dollars; by 1978 it was 31 billion and it rose to 40 billion in the following year. In Latin America, where U.S. banks have been primary lenders, the accumulated international debt guaranteed by Latin governments rose from 29 billion dollars in 1972 to 110 billion in 1978, before the next round of oil price and interest rate surges. Much of the money that countries were borrowing was money they had paid for oil and had become deposits that were being recycled by major banks.[84] The high oil prices forced countries to borrow, and the profits made by OPEC became deposits in large banks that were then loaned out to the countries in economic distress, a really vicious circle.

In June of 1979 David Rockefeller noted in a neutral if not indifferent manner that rapidly rising energy prices would severely limit economic growth in the Third World. In 1980, Rockefeller addressed 200 top bankers and government officials at a meeting of the International Monetary Conference in New Orleans, where he warned debt-ridden nations that the major banks would not be able to extend new loans to help borrowers cope with the recent 150 percent increase in oil prices. A couple of years later the hard line was elaborated in a report of President Reagan's commission on Central America, a group headed up by longtime Rockefeller associate, Henry Kissinger. Although the commission acknowledged that energy prices, high interest rates, and recession in the advanced countries had caused much of the regions' economic problems, it did not attack those problems. Instead, the commission recommended reductions in population growth, the use of labor-intensive work on infrastructure and housing, and development of new export industries.[85]

Between 1978 and 1982, 126 billion dollars of the 140 billion lent to underdeveloped countries was used by them to pay interest on debt, meaning that they were in even worse condition. By 1983, forty-six countries were operating under IMF programs. Countries operating under IMF conditionalities are supposed to pay off debt by increasing their exports and reducing imports and domestic consumption. The problem is this: how do dozens of countries do this at the same time, that is, who do they sell to? Between 1973 and 1983 international lending to Latin America increased from 35 billion dollars to 350 billion. Two-thirds of that was based on interest rates that were adjusted every six months or so. By 1982 commodity markets were depressed, interest rates were near 20 percent, and soon there was no new lending. At the end of the 1980s the United States Catholic Conference representative would testify before Congress that the average standard of living had fallen by 25 percent in sub-Saharan Africa and by 15 percent in Latin America.[86]

Richard Nixon

Richard Nixon was president during a period that saw an international currency crisis, the creation of the Trilateral Commission and the beginning of the upper-class–led laissez faire offensive, and a major oil crisis. These developments created the potential for conflicts between the national and general interests of the country and the interests of the Wall Street-CFR Establishment. The Establishment wanted a government and a president that would support the Wall Street-Trilateral agenda. Richard Nixon may have been in important ways a compliant and conservative president, especially in foreign policy, but he also wanted to be thought of as a great president, did not want to be seen as inept or passive, he came from a nonelite background, and his entire political life had been lived out in the immediate aftermath of and under the influence of Roosevelt and the New Deal. Nixon believed in strong government and a strong presidency.[87] Nixon had served for eight years under a Republican president who did not attack the New Deal. He had a generally positive view of the federal government.

As we saw before, the upper class reacted in extreme ways to the efforts of FDR and JFK to use government to influence or shape national economic processes. FDR and, even more so, JFK attempted some of that on a global level. Both of them thought of government and government policies as tools to be used to generate national economic progress and prosperity. The New Deal and the Kennedy program were forms of economic nationalism. They were precisely what the Trilateralists and advocates of laissez faire and free trade did not want. The Establishment accused Roosevelt and Kennedy of pursuing socialistic or antidemocratic policies even though by historical or global standards, the programs of FDR and JFK were, in most respects, quite moderate, involving no nationalization of property and no direct efforts to dictate prices or wages (except war-time controls and the minimum wage). Consistent with American System ideas, what Roosevelt and Kennedy tried to do was influence, stimulate, support, and supplement the private economy. In the midst of economic turmoil and crisis, Nixon was not ready to completely abandon that approach. He did not accept the idea that the president and the federal government would stand by while oil companies and other economic forces undermined the U.S. economy. In domestic matters Nixon believed in the value and usefulness of government. He even accepted some idea of government economic planning.

FDR's administration was interested in identifying elements of the economy that could be influenced through policy and that could affect the whole economy. Those would include natural resources, energy, land use, public credit, incomes, and science and technology. Under FDR work also started on the organizational and evaluative capabilities that would be needed to develop strategies to affect the national economy.[88]

Until the New Deal the only example in the twentieth century of U.S. efforts at national planning were the policies developed for World War I. Those were immediately abandoned at the end of the war.[89] With Franklin Roosevelt the inclination toward federal planning was there from the beginning. Leading pro-planning academics were with FDR when he was campaigning in 1932, including Adolf A. Berle, Rexford Tugwell, and Raymond Moley.[90] As we saw before, the New Deal would come to feature a large variety of programs and tactics that were designed to influence if not plan the direction of the economy. For a period of time during and after World War II, the interventionist role for the federal government, which was created between 1933 and 1945, acquired broad acceptance.[91] As was described earlier, there was major opposition to the New Deal in the upper class and in the corporate and banking world, but even within those circles there was limited acceptance by some, and the majority of the country accepted or supported it.[92] The success of the federal government's role in the economy during World War II and Roosevelt's proposal for an "Economic Bill of Rights" indicated a continuing development of government's role.[93] This was not to be, even though all succeeding presidents up through Nixon generally accepted or, as with Kennedy, even added to the New Deal's approach.

Perhaps the least energetic successor to FDR was his immediate replacement, Harry Truman. Truman did not share FDR's inclination to continue to develop the role of government, and conservatives scored some success under Truman in holding back the momentum of the New Deal.[94] Truman had little experience with and little inclination to use executive powers to initiate change or to engage in any kind of planning. He was inexperienced with large organizations and inclined to live within existing circumstances rather than shape circumstances to serve a purpose.[95]

As a candidate Eisenhower expressed some conservative misgivings about Social Security and government in general, but little changed under his administration and he never demonstrated any interest in repealing the New Deal.[96] In fact, Eisenhower undertook a major highway construction program and initiated other things like federal aid to education and three increases in Social Security benefits that were quite compatible with the New Deal.[97] None of what Eisenhower did probably qualified as an addition to the New Deal, but it indicated how much an activist government was accepted even by those claiming to speak for and act for a conservative constituency.

Kennedy, as we saw earlier, supported and added to the New Deal. Lyndon Johnson, although he did not press the Kennedy program, did oversee the success of Medicare and Medicaid legislation and he never publicly attacked either the Kennedy program or the New Deal. He was more passive in relation to the economy than either FDR or JFK, but he initiated no attack on the legacy of either of those presidents.

Like Eisenhower, Nixon never sought to undermine the institutionalized parts of the New Deal. Under Nixon federal spending as a percentage of gross national profit (GNP) rose slightly even while military spending as a percentage of the budget declined and few programs were reduced in any significant way.[98] Nixon also gave support to an expansion of the federal government's activities in studying and developing national growth policy and national goals.[99] Kevin Phillips summed up some of the distinctly nonconservative tendencies in Nixon, pointing out that he supported a "tax reform that gave a lower top rate to wage earners than to unearned income, invited labor leaders to the White House, and pushed for a guaranteed income program for the poor."[100]

Nixon's lack of hostility to government and his basic acceptance of the New Deal assumption that government had to play a role in the nation's economic affairs were displayed in his reaction to two major problems in the early 1970s, the deterioration in the U.S. balance of payments and the energy crisis.

In the view of some Establishment luminaries, Nixon not only reacted to the deteriorating U.S. balance of payments in a premature and unnecessarily abrupt way, but he went way beyond what was necessary and instituted a protectionist program. Blanche Cooke summarized Nixon's "New Economic Policy" saying that he "unilaterally devalued the dollar, demonetized gold, raised U.S. tariffs, and declared a new era of economic nationalism."[101]

One important place where the criticism of Nixon appeared was in the Council on Foreign Relations' official publication *Foreign Affairs*. One critical assessment of Nixon was written by C. Fred Bergsten; it appeared in January of 1972. Bergsten had recently resigned his position in the Nixon administration where he worked for Henry Kissinger as assistant for international economic affairs.[102] Bergsten's Establishment affiliations up to 1972 included the Council on Foreign Relations, Brookings Institute, Worldwatch Institution, the International Institute for Strategic Studies, and the Overseas Private Investment Corporation. After 1972 he would go on to be a Brookings senior fellow (1972–76), a member of the editorial board of *Foreign Affairs* (1972–77), a member of the executive committee of the Trilateral Commission, and assistant secretary of the Treasury for international affairs from 1977 to 1981.[103] Bergsten was one of the Establishment's voices.

In *Foreign Affairs* Bergsten charged that Nixon had overreacted in suddenly cutting off the dollar from gold. In Bergsten's view, the problem was not the separating of the dollar from gold; that was, he said, going to be necessary. He objected to Nixon's sudden decision to do this and, more importantly, emphatically objected to the protectionist program that Nixon instituted along with the suspension of the dollar's convertability to gold.[104] Bergsten's wrote that Nixon

> imposed an import surcharge, proposed both the most sweeping U.S. export subsidy in history and discrimination against foreign machinery by making it ineligible for the Job Development Credit, bludgeoned East Asia into a "voluntary" restraint agreement on textiles, and sought to extend and tighten the existing "voluntary" agreement on steel—completely reversing the traditional position of U.S. administrations in resisting protectionism and leading the world toward ever freer trade.[105]

Bergsten misrepresented past trade policy. The "traditional position" of U.S. administrations had actually been protectionist during much or most of U.S. history.

Bergsten went on to criticize Nixon for failing to mobilize the forces to counter the protectionist efforts of labor and, in fact, actually promoting protectionism along with expanded executive powers rather that doing what he should do, that is, pursue "maximum *liberalization* of world trade" and promote the role of the IMF and Special Drawing Rights.[106] In other words, Nixon was engaging in something of a nationalist economic program, something the Trilateral Commission's Executive Committee would identify in 1973 as a primary problem to be overcome. By late 1971 or early

1972 Nixon was coming to be viewed as too nationalistic.[107] Nixon was a problem to be overcome.

The other area in which Nixon displayed some commitment to activist government policy to deal with problems was with the 1973–74 oil crisis discussed earlier. In November of 1973 Nixon offered up an energy program to deal with the OPEC oil embargo, or alleged embargo, and rapidly rising oil prices. The program, such as it was, was quickly put together and was an amalgam of the realistic and unrealistic. Some of it was going to be ineffectual, take too much time to implement, or cost too much.[108] On the positive side, Nixon was projecting a major growth in domestic energy production, which included a huge increase in nuclear power.[109] It was, at least, a set of goals that translated into continuing growth for the U.S. economy. That was not to be.

Nixon's program projected for the 1973 to 1985 period a tenfold increase in nuclear energy, more than a 50 percent growth in coal production, and sizable increases in oil and natural gas production.[110] Only with coal did these predictions turn out to be at all accurate. Domestic production of crude oil and natural gas actually declined and nuclear grew at less than half the hoped for rate. Overall, domestic energy production grew by just over 4 percent over the twelve-year period. By comparison, from 1961 to 1973, domestic energy production grew by 50 percent.[111] Clearly, Nixon had little idea of where things were headed, or if he did, he wasn't saying much about it. The Establishment was in some places projecting or proposing no growth in energy production and consumption and their ideas were more accurate, or had more impact, than Nixon's for the next dozen years.

Nixon did not try the kind of coordinated multipronged effort to shape and stimulate the economy that Kennedy had undertaken. Kennedy had been quite single-minded in his approach to the U.S. economy. He knew what progress was and he had a consistent program. Nixon served at least three masters—his own ambition, the nation's interests, and the Establishment. These were often in conflict with each other. Nixon's general approach was more passive and he did not display Kennedy's inclination to shape and control events and processes. Nixon, however, was not simply a laissez faire Republican. His replacement, Gerald Ford, was much more the free market conservative. Otis Graham observed that "Richard Nixon's most negative single contribution to the search for a different political economy, adequate to the needs of America's future, was his decision to appoint Gerald Ford as vice president."[112] Ford reversed Nixon's modest attempts at coordination among government departments, and none of Nixon's planning tendencies survived in the Ford administration. More importantly, Ford proposed no protectionist program and his response to the oil crisis was to give incentives to energy companies and to propose that Americans confront oil companies by wearing WIN buttons; WIN suggesting that we could Whip Inflation Now, meaning rising oil prices, by cutting back on consumption and bringing demand down, as if the price increases had been caused by spikes in demand. Ford's idea of a national response to the oil cartel's price increases and manipulation of supply was largely things like driving slower, working harder, and growing vegetables. All in all, this was a stunning display of submission, repeated, of course, by Carter and Reagan. Ford, not Nixon, began the talk of deregulating the economy in general, talk that continued with Carter, intensified under Reagan, and, perhaps, peaked with the second Bush's continuous pursuit of free trade and laissez faire.[113] For those who wanted to go in that direction in the early 1970s, Nixon's policies were at the least undesirable and unwanted.[114] Nixon did not give leadership to the forces in the country who wished to roll back the New Deal and avoid any repeat of the Kennedy program. Those forces had prevailed to some degree in the growing influence and power of the IMF, but their laissez faire, free trade ideas had not yet captured American politics. As the 1970s came to a close, Americans no longer had the faith or trust in government that they once had, but they had not yet consistently embraced an antigovernment ideology. That antigovernment laissez faire ideology remained "for the most part" a "narrow set of class prejudices not viable either politically or socially."[115]

Ford and Carter began in domestic policy the transition from interventionist government to so-called laissez faire. They did this to a great extent through their passivity and submissiveness. They both allowed an oligopoly, probably the most powerful oligopoly in the world, to wreak havoc not just on scores of vulnerable countries, but on the U.S. economy as well. Their lack of response discredited the presidency and government in general. In that sense, Ford and Carter, not Reagan, began the transition from the New Deal to a new global economic order dominated by the investor class and their minions. There were other ways in which Reagan followed rather than led.

CHAPTER EIGHT

Bush, Laissez Faire, and Free Trade Imperialism

The 1970s began a period in which the American Establishment got much of what it wanted in domestic and international affairs. This period of overall Establishment success began with Ford and Carter, and it has lasted at least up through 2008, roughly thirty-five years. If we focus on foreign policy only, the period is longer, roughly forty-five years. As we will see, there are clear signs that in some areas, such as the effort to expand and deepen "free trade," this period is ending for much of the world. As will be explained later, the laissez faire policy is quite clearly a failure for most people. That, however, does not mean that the policies of the Establishment will be changed any time soon. The Anglo-American Establishment is likely to continue to press the same set of policies they have been supporting in recent decades and, in the case of England, on and off for two centuries or more.

There are two defining characteristics of this recent laissez faire period. One is the continuing commitment of the policy-making groups in the U.S. and British upper classes to achieving global economic dominance through global investments and the subordination of government at home and abroad to those private upper-class interests. In part, this has taken the form of a laissez faire offensive that emerged in the 1970s, was strengthened in the 1980s, and was sustained and then intensified in the 1990s and 2000s. The other key feature or trend in this period is the declining relative and absolute productivity of the U.S. economy, sometimes referred to as deindustrialization or post-industrialism. These two developments are related to each other in numerous and perhaps subtle and complicated ways. The deindustrialization of the United States, if it continues, will ultimately make it impossible for the

U.S. Establishment, or Anglo-American Establishment, to achieve its goals. At the same time, the goals and policies of the Establishment make it impossible to attack the deindustrialization problem. In fact, the Establishment acts as if there is no decline. That is quickly becoming in itself a major problem. The Establishment is engaged in a self-destructive strategy, but it is a strategy that is hurting other people much more and much earlier than it hurts policymakers in the upper class or the upper class in general. They have many ways to protect themselves while the country is deteriorating and, as we will see, they have good reason to block out the realities. In this chapter we will examine the ascendance of the laissez faire strategy over the course of the post-Kennedy or post-Nixon period up to the immediate past. As we will see, it makes sense to treat this period as the context and background for the George W. Bush presidency.

Poisoning the Goose and the Gander

The invasion of Iraq in March of 2003 has been, in some respects, competently analyzed and extensively examined. In nearly all, if not all, of these analyses and examinations, however, it is overlooked that the Bush administration's policies in Iraq were literally a strong dose of International Monetary Fund (IMF) conditionalities. In this sense, the war on Iraq was a "free trade" imperialist war fought to open up Iraq to foreign takeover and to dismantle the Iraqi government and eliminate its ability to manage its economy. At some point, perhaps early 2007, perhaps earlier, oil became the focus of the Bush team, the idea being to open up Iraq's oil to takeover by the major Anglo-American companies, to reverse what happened in the 1970s. That, of course, would reverse the changes that began in Iraq with the 1958 overthrow of the Iraqi monarchy. This story of free trade imperialism has been all too often ignored. Because the war was fought for these kinds of purposes, purposes that most Americans would find difficult to embrace, there was a constant need for deception. We briefly summarize some of the work that has been done on how the Bush team aggressively misled the country into supporting this war.

On the day after September 11, 2001, Richard Clarke returned to the White House after a very brief time at his Arlington home. Clarke was the national coordinator for security, infrastructure protection, and counterterrorism. He had held a series of important positions since 1973. Back at the White House early on September 12, Clarke expected that the focus in the West Wing was going to be on the vulnerabilities of the country to terrorism and how to address those. He also expected a focus on al-Qaeda. To

Clarke's surprise he found that on the day after 9/11 the focus was on Iraq. Clarke recalled that

> then I realized with almost a sharp physical pain that Rumsfeld and Wolfowitz were going to try to take advantage of this national tragedy to promote their agenda about Iraq. Since the beginning of the administration, indeed well before, they had been pressing for a war with Iraq. My friends in the Pentagon had been telling me that the word was we would be invading Iraq sometime in 2002.
>
> On the morning of the 12th DOD's [Department of Defense] focus was already beginning to shift from al Qaeda. CIA was explicit now that al Qaeda was guilty of the attacks, but Paul Wolfowitz, [Defense Secretary] Rumsfeld's deputy, was not persuaded. It was too sophisticated and complicated an operation, he said, for a terrorist group to have pulled off by itself, without a state sponsor—Iraq must have been helping them.
>
> I had a flashback to Wolfowitz saying the very same thing in April when the Administration had finally held its first deputy secretary-level meeting on terrorism. When I had urged action on al Qaeda then, Wolfowitz had harked back to the 1993 attack on the World Trade Center, saying al Qaeda could not have done that alone and must have had help from Iraq…Now this line of thinking was coming back.[1]

President Bush himself pressed Clarke to find a link between Saddam Hussein and 9/11.[2]

Paul O'Neil, appointed by Bush to be secretary of the Treasury, said that the occupation of Iraq was being discussed in the White House just days after Bush was inaugurated in January of 2001, and within a month the Pentagon had produced a document entitled "Foreign Suitors for Iraqi Oilfield Contracts," indicating an early preoccupation with control of Iraq's oil.[3] Also, within a month of the inauguration, groups directly connected to Rumsfeld and Wolfowitz and the president had begun mobilizing support for an invasion of Iraq.[4] Some Bush advisors had wanted this long before 2001.[5] George Packer, in his award-winning *The Assassin's Gate*, observed that the decision to go to war in Iraq was firm by early 2002 and from that time forward evidence on weapons of mass destruction and Saddam's connections to al-Qaeda was slanted or created to back that decision.[6]

In the months prior to 9/11 Bush had shown little or no interest in terrorism and he did not respond in any way to warnings that something significant, perhaps an airline hijacking, was going to happen in the United States. After a briefing to this effect in early August of 2001 Bush did nothing and then left for a month of golf and vacationing.[7] Bush and his people were far, far more aggressive in creating a justification for attacking Iraq beginning the day after the 9/11 attacks.[8] Bush, Cheney, Rumsfeld, Wolfowitz, and others involved in the Iraq war policy never demonstrated any real interest in knowing much about any of this. They knew what they wanted to do and that was the only important reality. About this Craig Unger observed in *The House of Bush, House of Saud* that

> having excluded from the decision-making process the government officials who knew the most about Iraq—certain CIA analysts and State Department officials who had studied it for years—the United States went to war against Iraq on March 19, 2003, based on a wide variety of startlingly false assumptions. Allegations that Iraq's nuclear weapons program was alive and well turned out to be based on forged documents from Niger. Charges about Iraq's role in 9/11 or its links to Al Qaeda turned out to be wildly exaggerated or baseless. The premise for the preemptive strike—that Saddam's weapons of mass destruction posed an immediate threat to the United States—appears to have been completely false.[9]

Without consulting available experts, Bush and his team claimed certainty about things they could not be certain about. As other students of these events besides Packer and Unger have concluded,[10] the Bush team lied. Charles Lewis and Mark Reading-Smith examined what Bush and seven of his administration's top officials said about Saddam Hussein's Iraq between 9/11 and the beginning of the occupation. They counted 935 false statements and concluded that the Bush administration engaged in a conscious effort to manipulate public opinion in order to go to war.[11]

It is true that many people thought that Iraq had weapons programs. That, however, did not mean that people thought they couldn't be discovered or contained through further inspection or that people thought that these programs posed a direct threat or near-term threat to the United States. According to Richard Clarke, the evidence available in 2002 indicated that weapons inspection could contain any nuclear program Saddam might have and that whatever biological or chemical weapons Iraq had were not a significant threat to the United States.[12] An early, forceful, and accurate refutation of the Bush team's arguments for war came from former Marine Corps. officer and UN weapons inspector Scott Ritter. Ritter raised questions about the Bush administration's claims about weapons of mass destruction (WMD), Saddam's connections to bin Laden, and other matters, but got only perfunctory coverage from a few cable networks.[13] The major media simply blacked out a speech against the war by one of the leading political figures in the country, Senator Edward Kennedy.

Kennedy observed in this September 27, 2002, speech, less than six months before the invasion, that

> there is clearly a threat from Iraq, and there is clearly a danger, but the Administration has not made a convincing case that we face such an imminent threat to our national security that a unilateral, pre-emptive American strike and an immediate war are necessary.[14]

Kennedy went on to observe that the situation in Afghanistan required our focus and commitment and that it was no time to shift resources to Iraq. He noted that there was no evidence of any connection between Iraq and al-Qaeda. He argued that the option of weapons inspection had to be exhausted. Unless you happened to catch live daytime coverage of this speech on cable TV, you would probably not know about it. One of the country's most prominent political figures made a strong case against war, and the media acted like it did not happen. Even the allegedly "liberal" *New York Times* failed to reproduce or quote or discuss the speech. The speech was available at the senator's website.

This is consistent with what many have noted. The major media facilitated Bush's efforts to invade Iraq. The major media were not interested in Kennedy's arguments, nor were they interested in the fact that much of the country's military leadership was also reluctant to invade Iraq.[15] Writing in the *Columbia Journalism Review*, the publisher of *Harper's Magazine*, John MacArthur charged in the spring of 2003 that the press "uncritically repeated almost every fraudulent administration claim about the threat posed to America by Saddam Hussein."[16] A similarly scathing indictment of the media appeared in a *New York Review of Books* article by Michael Massing,[17] and Norman Solomon has provided an extensive description of the media's complicity with the Bush administration's campaign to go to war in Iraq.[18]

The duplicity of the Bush administration was almost matched by the arrogance and incompetence displayed in the invasion and immediate occupation. According to Thomas Ricks, arrogance and lack of foresight permeated war planning.[19] Wolfowitz, Cheney, and others involved in making policy had no background in military affairs and had never even served in the military, yet they and President Bush thought that their judgment was superior to the officers and other experts.[20] Packer observed that the arrogant Bush planners did not understand that a guerrilla or insurgent resistance was highly likely.[21] As it turned out, Saddam and the Iraqi military had been planning for such a resistance. As Pelletiere has emphasized, the Bush group completely underestimated the level of nationalism that had developed within much of the Iraqi population.[22] They also apparently underestimated some of the divisions within Iraq as well, missing still other troublesome possibilities. They apparently assumed much more support for the invasion from the Iraqi people and from the Iraqi military than was there.[23]

Consistent with all this stupidity, ignorance, and arrogance and shortly after the occupation began, Bush appointed someone to oversee things, Paul Bremmer, who knew very little about Iraq. Within days of his arrival in Iraq, he began making major decisions, which included de-Ba'thification of the government, disbanding the military, and wholesale privatization of the government.[24] U.S. military leaders opposed the wholesale de-Ba'thification and some of them criticized Bremmer for his extreme "free market" policies,[25] something we will come back to later. Reconstruction in Iraq was slow to get started and was undermined by corruption, security problems, and cronyism (e.g., no-bid contracts to Bush-Cheney–allied firms such as Halliburton and Bechtel). In a short period 9 billion dollars just disappeared.[26] James Bamford concluded that the

> Bush administration turned Iraq into a grizzly death factory for Americans and innocent Iraqi men, women, and children. Its invasion created the insurgency, its brutal occupation kept it growing, and its utter lack of planning and foresight armed it with a virtually unlimited supply of powerful weapons.[27]

The reality of Iraq has always been more complex and different from the image the Bush team sold to the American public. For example, Iraq had never been a supporter of radical Islam or of radical anti-West politics. In the pre-Saddam 1970s, Iraq had established close relations with the Soviet Union, something that a country with radical Islamist tendencies would never do. In the 1980s, under Saddam, Iraq had a very moderate policy on Israel.[28] In the post-9/11 White House, no such complexities were to be considered or even mentioned.

One of the great ironies of the Iraq war is that it was, in part, justified by associating Saddam Hussein with Islamist extremism. It is ironic because the Anglo-American Establishment that led this war did itself have long and deep connections to Islamic extremism, while Saddam and the political party he led were thoroughly opposed to Islamist political groups and these groups were not allowed to operate in Iraq. The Islamist threat was not only a pretext for war against a secular state; it was the Anglo-American Establishment itself, not Iraq, that had a history of supporting Islamism.[29] This means that the deception carried out by Bush, Cheney, Wolfowitz, and the others was far more profound and complex than has been allowed for in most criticisms of Bush and the war.

Robert Dreyfuss has observed that British support for political Islam, or Islamic fundamentalism, developed along with British interest in Middle

East oil in the late 1800s.[30] Islamic fundamentalism has appeared since that time in a variety of groups and organizations, all or almost all of which are to some degree linked to the British. Islamic fundamentalism has presented itself with different appearances. These include the Muslim Brotherhood; Ayatollah Khomeini's movement in Iran; Saudi Wahhabism and its offshoot, Osama bin Laden's al-Qaeda; Hamas, an Islamist rival to the Palestine Liberation Organization (PLO); and Hezbollah; the Afghan jihadis.[31] The Muslim Brotherhood, over the long term the most important of these groups, was founded in 1928 with financial support from the British Establishment. From the beginning, it was a counterweight to nationalism and to the Arab left. Islamists generally have been opposed to nationalism, socialism and communism, secular government, and trade unions. In Iraq this meant opposition to the Ba'th Party.[32]

The political doctrine of most or all Islamic groups made them a weapon that could be used against any party or government that asserted national interests against either the British or its own wealthy elites. As the American role grew in the Middle East and the U.S. Establishment took on polices established by the British, the Islamists became a potential tool of the U.S. Establishment also.[33] Nationalism and Arab socialism were the primary threats to Anglo-American control of the Middle East and its oil. From a U.S. Establishment point of view Islamic fundamentalism was the enemy of your enemy and was therefore to be supported. According to Dreyfuss, this became the dominant view within the U.S. foreign policy Establishment in the 1950s.[34] Both British and U.S. intelligence, both MI6 and CIA, attempted to use Islamists against the two leading Middle East nationalists of that period, Nasser and Mossadegh.[35] Some of the pro-United States Saudi elite have been supportive of Islamic fundamentalism since at least as early as 1954 when the Muslim Brotherhood was forced out of Egypt and resettled in Saudi Arabia. The Saudi upper class cooperates with U.S. oil companies and invests in the United States while it tolerates the anti-United States Muslim Brotherhood and Brotherhood influenced Wahhabis.[36]

The U.S. Establishment supported Islamist movements against the PLO and Syria in the late 1970s and 1980s.[37] Radical and extremist acts by Islamists (like the attack on U.S. marines in Lebanon, the assassination of Sadat, and the Khomeini take over of Iran) did not change the Establishment's relationship to Islamists. Carter's National Security Advisor Zbigniew Brzezinski and Reagan's CIA director William Casey both thought that Islamist fundamentalism could be used against the Soviets in Afghanistan and even to destabilize the Soviet Union itself. U.S. support for Islamists became relatively open in Afghanistan in the 1980s. This support, overseen by Reagan, George H. W. Bush, and Casey, greatly increased jihadi or Islamist capabilities and their prestige and status within the Muslim world. U.S. support contributed to the Soviet failure in Afghanistan and the takeover of the country in the 1990s by the Wahhabi Taliban.[38] The anti-Soviet campaign was also the spawning ground of al-Qaeda and Osama bin Laden. The fact that George W. Bush, Cheney, and others then used the assertion that Iraq backed al-Qaeda, bin Laden, and Islamist terrorists in order to justify an invasion of Iraq is truly extraordinary.

It seems likely that there were numerous reasons for the invasion of Iraq. Getting rid of a troublesome regime may be one. Preventing growing influence in the region by rivals to the United States who were making deals with Iraq may be another.[39] Beyond these specific and important purposes, the invasion of Iraq was a bold action in furtherance of "free trade" imperialism. What was attempted in Iraq was a rapid transformation of the country along the lines of IMF conditionalities. Included in that would have been the takeover of Iraq's oil.

The Economic Blitzkreig

The Bush administration undertook what was a veritable blitzkreig against the Iraqi government in the immediate aftermath of the invasion. In general, the major media never made any attempt to educate the American public about this. There are very, very few exceptions to this generalization. One is an article written by Jeff Madrick that appeared in the *New York Times* about six months after the invasion. Madrick reported that

> Iraq's new finance minister, Kamel al-Gailani, announced a sweeping liberalization of his country's economy at the annual meeting of the World Bank and International Monetary Fund in Dubai early last week. Amid the controversy over President Bush's request for $87 billion to finance the American presence in Iraq, the new laws hardly attracted attention in the United States.
>
> But by almost any mainstream economist's standard, the plan, already approved by L. Paul Bremer II, the American in charge of the Coalition Provisional Authority, is extreme—in fact, stunning. It would immediately make Iraq's economy one of the most open to trade and capital flows in the world, and put it among the lowest taxed in the world, rich or poor. Is this Middle Eastern nation, racked by war, ready for such severe experimentation? Moreover, the radical laws have been adopted without a democratic government to discuss or approve them.[40]

Madrick observed that one might think after the disaster that such policies produced in Russia in the 1990s there would have been greater reluctance to impose a similar program on Iraq at the point of a gun. The economic disaster in Russia brought about no such reluctance. We will return to this later. Madrick went on to note that the plan for Iraq cut the top tax rates on corporations and wealthy people down to 15 percent. This plan also cut tariffs to 5 percent and abolished "almost all restrictions on foreign investment." The plan would allow "a handful of foreign banks to take over the domestic banking system." Perhaps Bush thought he was with Stimson in Nicaragua. Finally, Madrick pointed out that there was no provision in the plan for social spending or jobs or for the fact that Iraq's economy had been devastated by decades of war and economic sanctions. Unemployment was reportedly between 50 and 60 percent.

About a month before Madrick's article appeared, a lengthier and even more scathing critique of Bush's economic program in Iraq appeared in one of the country's most respected magazines, *Harper's Magazine*. Bush has been criticized for not having a plan for the post-invasion occupation. This is not fair. He did have plan; it was just extreme, destructive, and unworkable. The plan, described in *Harper's* by Naomi Klein, was to turn Iraq into a model of laissez faire economics, to create an economy open to foreign investors, venture capitalists, and corporations like Bechtel and Halliburton.

Opening up the country to foreign investors has been, since the 1950s, one of the key goals of IMF conditionalities. Also in line with those conditionalities, the Bush team planned to drastically reduce the role of government in Iraq's domestic economy and to reduce or eliminate tariffs and other mechanisms by which Iraq might manage its trade.[41] Bremmer quickly directed that 200 state-owned companies, much of the Iraqi economy, be sold off and he immediately fired 500,000 state employees, including 300,000 soldiers. Bremmer took from soldiers their income, security, status, and identity but they did get to keep their weapons. Tax rates on private corporations were lowered from 40 to 15 percent and foreign investors were allowed to take all of their profits out of the country tax-free. Cheney, Rumsfeld, Deputy Secretary of State Paul Wolfowitz, and Under Secretary of Defense Douglas Feith were implementing the ideas of the neocon philosopher Leo Strauss and laissez faire champion Milton Friedman.[42] Friedman and Strauss were in turn indebted to Smith and Locke. Many in the military thought that this laissez faire economic program was fueling the resistance. The rising level of violence was frustrating the economic strategy by scaring away corporations and insurance companies who were supposed to play a key role in Iraq's recovery. Things deteriorated so quickly that some of the Bush-Bremmer program had to be put on hold or partially reversed.

What did this radical free market program in Iraq have to do with a group of fundamentalists—mostly Saudi, none Iraqi—who hijacked planes and used them to commit mass murder? The answer—nothing. What did this invasion have to do with the national security of the United States? The answer should also be "nothing," but it is not. Bush and his team believed that promoting this extreme economic doctrine was part of the promotion of America's national security, as they thought of the nation's security. What they thought of as the nation's security is in reality the security of various Wall Street–Council on Foreign Relations private interests.

In 2002 the Bush administration transmitted to Congress a document entitled "The National Security of the United States." In this document Bush linked U.S. national security directly to the promotion of "free enterprise," "free trade," and "free markets." This linkage appears many times in the document. The document also includes a stark choice for the United States and the world. You can choose either free enterprise, free markets, and democracy or the "command-and-control economy" with "the heavy hand of government."[43] The choice being offered by the Bush team in reality does not allow for the kinds of policies that have been used by most countries, including the United States, to achieve and sustain economic progress and prosperity. France's dirigisme, European Social Democracy, the New Deal, the American System, and anything like these are all in the mind of Bush part of the unacceptable command-and-control strategy. Not so long ago, of course, spokesmen for the upper class grouped all of these alternatives to "laissez faire" with socialism or totalitarianism. Bush's national security doctrine was in effect a commitment to free trade imperialism. It was also a vision of economy, society, and government that is ultimately rooted in the ideas of Locke and Smith; it was a repudiation of American System ideas.

One of the goals stated in Bush's "National Security" document was to achieve a world in which all societies are open to investment. This simply states as a global goal what the IMF has demanded from each country forced by circumstances to come to the IMF for loans and official approval. In Iraq the single most important area for possible foreign investment was and is oil. While economic sanctions were in place between 1990 and 2003 the U.S. and British companies had few opportunities to do anything in Iraq. Instead, the Russians and French came to play a major role in refining and marketing Iraqi oil.[44] This has changed completely since the invasion, at least up to 2009.

By 2007 an open and direct attempt had begun to put Iraq's oil under the long-term control of the major Anglo-American companies. By the beginning of 2007 there was an attempt under way to get the Iraqi parliament to approve a law that would give control of the oil to those companies while excluding French, Russian, Italian, Chinese, and other potential entrants. The Iraqi Federation of Oil Unions went on strike in June of 2007 and succeeded in preventing the passage of the law.[45] Given the history of the major oil companies, there is little reason to think that this has anything to do with getting a reliable supple of cheap oil for consumers. Rather, it is obviously an issue of international economic and political power.[46] It may be directly connected to the linkage between oil and the U.S. dollar.

The attempt to forcibly transform Iraq into a free trade, laissez faire paradise for foreign investors and Bush's conception of what national security is about were part of his overall commitment, both at home and abroad. That is, to weaken government except in areas where the Establishment sees a need for strong government, such as, of course, fighting wars or bailing out financial institutions. Bush did not invent any of this and he is not alone in pursuing this agenda in recent times. Reagan, Clinton, and both Bushes have been known for their energetic promotion of global free trade and laissez faire. Although one can separate Clinton from the three Republicans on some issues (e.g., tax rates and assistance to the poor), he was a champion of global free trade.[47] For example, the Free Trade Area of the Americas was first promoted by Clinton and included all Western Hemisphere nations (except Cuba) in an agreement that would "virtually eliminate barriers to foreign investment, strengthen investor rights" and "eliminate tariffs, ban capital controls, and establish secret trade courts." This went beyond the North American Free Trade Agreement by requiring that things like banking, insurance, and public services be open to foreign takeover.[48]

The focus on foreign investors was, as noted before, also a focus of the proposals made fifty years ago by Wall Street's C. Douglas Dillon and it was a central concern of Elihu Root and Henry Stimson. In the view of some, agreements like the Central American Free Trade Agreement (CAFTA) are basically reproductions of IMF conditionalities with, perhaps, even more support for the rights and interests of investors.[49] CAFTA covered the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. That 2005 agreement passed in the House of Representatives "by the paper-thin margin of two votes, 217 to 215."[50] That division in the House indicates how divided the country is over these polices and how decisive the president's influence might be on such votes.

"Free trade" and "globalization" have always been about the interests of investors and financiers, not about domestic exporters and certainly not the nation's economic interests. The policies pursued by Reagan, Bush, Clinton, and Bush II have been the polices of the Wall Street-CFR Establishment. Those policies came out of their opposition to FDR and JFK, out of their century-long commitment to increasing and expanding their power, and from their judgment that the road to global power was through a form of free trade imperialism. With the last, they obviously benefited from the experience of the British. The Establishment's role in this has been apparent in presidential administrations and in various private organizations formed to promote a stronger commitment to free trade and laissez faire and a foreign policy based on military power.

The Laissez Faire Affair

Private efforts to promote a more aggressive foreign policy intensified in the 1970s even though the Vietnam disaster was at the time just ending. One of these was the creation in 1974 of the Foreign Policy Task Force by the conservative Coalition for a Democratic Majority. Another was the formation in 1976 of the Committee on the Present Danger.

Both of these new organizations were initially led by Eugene V. Rostow. The Committee on the Present Danger included such foreign policy hawks as Richard Pipes, Midge Decter, Norman Podhoretz, Jeane Kirkpatrick, and Max Kampelman.[51] All of them were or would be members of the CFR. Kirkpatrick was a CFR director from 1985 to 1994. Eugene Rostow, educated at Yale and at King's College, Cambridge, held a variety of government positions, including consultant to the undersecretary of state from 1961 to 1966, the critical years for Vietnam policy decisions, and undersecretary of state for political affairs from 1966 to 1969. Rostow was a CFR member and a member of the Century Association, also known as the Century Club. Another leader of the Committee on the Present Danger was CFR member and investment banker Paul Nitze. The Harvard-educated Nitze spent more than a decade at Dillon Read & Company.[52] Nitze and Rostow each contributed to a conservative manifesto produced around 1976 by the Institute for Contemporary Studies, which was an affiliate of the much more famous American Enterprise Institute (AEI). The AEI would become one of the most influential think tanks in the country. It has promoted the Locke-Smith idea of government with an emphasis on tough if not militarized foreign policy. Nitze, Rostow, and the AEI thought that Richard Nixon had been too soft. Rostow thought that foreign policy should be focused aggressively on countering Soviet influence and on controlling the Middle East.[53]

This initiative from Establishment groups such as the Committee on the Present Danger and AEI coincided with the creation and development of the Trilateral Commission. As noted before, the leaders of the U.S. Trilateral contingent, including especially David Rockefeller and Zbigniew Brzezinski, emphasized the need to defeat economic nationalism. Writing much later, in 1997, Brzezinski was still arguing for a global strategy based on free trade, laissez faire, and the prevention of the rise of rivals to the United States.[54] AEI shared these core goals with the Trilateral group, but may have been even more dogmatically opposed to the use of government in economic affairs than the Trilateralists.[55]

As noted in the previous chapter, this emphasis on laissez faire and a more aggressive foreign policy appeared in the 1970s well before the so-called "Reagan Revolution," a phrase used thousands of times by people in the media without much or any explanation of what the revolution was against. The majority of Americans may have become more cautious about the use of force in foreign affairs as a result of the Vietnam debacle, but there is no indication that the Establishment was similarly affected for any significant length of time. If anything, Establishment leaders became more aggressive in the 1970s. Peschek has pointed out that a tougher foreign policy began during the Carter administration, not Reagan.

> In March 1978, Carter had called for a real increase in military spending. Over the next year and a half his administration made Cold War issues of alleged Cuban involvement in the Shaba rebellion in Zaire (1978) and the presence of a Soviet brigade in Cuba (1979), supported the development of the MX missile system, and hastened to build the interventionist Rapid Deployment Force, all prior to the hostage seizure in Teheran or the Soviet move on Kabul. Inside the United States an elite-level conflict over the direction of foreign policy was pushing Carter to the right.[56]

Reagan moved the debate even closer to the AEI's program by criticizing Carter for being insufficiently hawkish.[57]

Zbigniew Brzezinski, Carter's national security advisor and a CFR director and Trilateral founder, initiated U.S. support for Afghan rebels in 1979. This policy was continued by Reagan and his vice-president, George H.W. Bush. Bush became directly involved in overseeing U.S. support for a coalition of Islamic groups fighting against the Soviets. Osama bin Laden was involved in this anti-Soviet resistance almost from the beginning. It is where bin Laden developed his reputation among Islamic groups and where he became a founder of "al-Qaeda" (meaning "the Base").[58]

Ronald Reagan became the face of and voice for something that was developing for years prior to his presidency and continued to develop during and after the 1980s.[59] The year that Reagan was elected the AEI was promoting global free trade, greater military spending, more interventionism, and "remilitarized opposition to the Soviet Union and radical Third World nationalism."[60] In the Establishment's view, military intervention in other nations was good; government intervention in the economy was usually bad. While Reagan was giving voice to the tougher foreign policy stance, countries around the world, both developed and underdeveloped, were giving in to pressures, both domestic and foreign, to abandon the interventionist and protectionist policies that had in general worked well in the decades immediately following World War II.[61]

By 1980 the tougher international position had also surfaced at the Trilateral Commission where the Trilateral's Harold Brown asserted in a speech to the CFR that the United States might intervene in the Middle East if its interests were threatened.[62] This vaguely implied a doctrine of preemption, something the Establishment had asserted over a hundred years ago in the Platt Amendment and something George W. Bush would assert in the attack on Iraq.

When Reagan came into office he brought more than thirty AEI scholars and officials into high-level positions. The AEI board of trustees at that time included such Establishment corporate figures as Willard Butcher of Chase Manhattan, H. J. Haynes of Standard Oil of California (Chevron-Gulf), and Walter Wriston of Citicorp.[63] There was also a strong presence in the middle levels of the Reagan administration of people from the possibly even more laissez faire think tank, the Heritage Foundation. Heritage had been created in 1973 with money from Joseph Coors, Richard Mellon Scaife, and others.[64]

Reagan and the Reagan Revolution became virtually synonymous with free market and laissez faire economics and the assault on government. In spite of this, the Establishment was not always satisfied with Reagan. For example, Nixon's critic, C. Fred Bergsten, complained in 1985 in the pages of *Foreign Policy* that the budget deficits had grown under Reagan and that Reagan had failed to seek a devaluation of the dollar to deal with trade deficits.[65] Reagan was, however, a pivotal figure, elevating the laissez faire tendency that appeared with Ford and Carter to the level of national ideal and purpose. Rhetorically, Reagan did make government the problem. He did this even though he took office in the immediate aftermath of the 1979 oil crisis with its demonstration of destructive private power. More on this later.

George H. W. Bush and Bill Clinton both acted as champions of global free trade and of government deregulation at home. According to Bacevich, Bush and Clinton shared a commitment to five key ideas. Those were:

> the identification of interdependence as the dominant reality of international politics; a commitment to advancing the cause of global openness; an emphasis on free trade and investment as central to that strategy and a prerequisite for prosperity at home; a belief in the necessity of American hegemony...and frequent reference to the bugbear of "isolationism" as a means of disciplining public opinion...[66]

We always need to keep in mind that in practice "free trade" actually refers to an aggressive program that involves much more than countries being open to each other's products. We also always need to remember that most trade in the world is not, by almost any definition, free. For example, one estimate is that as of the early 1980s about 40 percent of world trade was between parent firms and their subsidiaries. An additional 25 percent was trade managed by governments.[67] Without even getting into the question of whether two drastically unequal countries can usefully engage in free trade, it is apparent that the realities are different from what is assumed or implied by the advocates of unfettered free trade.

In a speech given at the IMF's annual meeting in 1998 President Clinton emphasized some of the ideas that Bacevich said he shared with Bush I. Clinton stated that "No nation can avoid the necessity of an open, transparent, properly regulated financial system; an honest, effective tax system; and laws that protect investment." Clinton said these were "imperatives of the market place."[68] As we learned, of course, neither Clinton nor Bush did much to produce or maintain proper regulation of the financial system—quite the opposite. In 2000 Clinton signed legislation sent to him by Congress that eliminated most oversight of derivatives trading.[69] Clinton had already signed off on the elimination of Glass-Steagall. Both Bush and Clinton pushed free trade, and this effort did not serve the American people well, as some have suggested it did.[70]

Even though the Republican Party was once a protectionist party (at least from Lincoln to 1932), few would be surprised today with the Reagan-Bush push for less government regulation of trade. A few Democrats, at least, were surprised at how committed Clinton was to global trade dominated by private interests. The North American Free Trade Agreement (NAFTA) was signed into law by Bill Clinton on December 8, 1993. Clinton had supported NAFTA against the majority of his party and most citizens. One of Clinton's point men on NAFTA was Rahm Emanuel[71] who would later be President Barack Obama's White House chief of staff. Clinton's allies on the free trade issue and NAFTA were Republicans and the nation's most powerful lobbying group, the Business Roundtable.[72] Clinton sought and got major free trade deals with China and Mexico.[73]

Clinton went up against the labor movement on the free trade issue. David Bonior, Democrat from Michigan, observed that in general, Clinton displayed little knowledge of and little appreciation of the labor movement and that he discussed things with corporate leaders, not with labor. Consequently, he ended up on the side of people with money.[74] Interestingly, given the association in many people's minds between environmentalism and big government, most of the mainline environmental groups (like Natural Resource Defense Council, World Wildlife Fund, and Environmental Defense Fund) had lined up on the side of free trade during the Bush I administration, thereby aligning themselves with the Business Roundtable.[75] Elsewhere I have described and documented the long-standing involvement of upper-class groups in the growth and development of environmentalism. It is then not surprising, for example, that the 1992 Rio Declaration proclaimed that trade liberalization and environmental protection go together.[76] While the initial impact of NAFTA was negative for U.S. trade, production, and jobs and while trends in Mexico were terrible, Clinton pressed on in the following year with support for the creation of the World Trade Organization.[77]

The policies of Reagan, Bush I, and Clinton were creating the context for the even more aggressive approach of George W. Bush. There is a deep continuity in policy between Bush II and his three predecessors (or five if we include Ford and Carter). As we will see later the inclination to separate Bush from his predecessors is in error. Bush is the descendant and product of a century of upper-class policy. If he is a "neoconservative," so was Elihu Root in most or all important respects. Before we turn to the issue of neoconservatism we need to examine two events that indicate the continuity in policy among recent presidents and also provide an important part of the context and background for where we are today. The two events are the first Gulf War and the U.S. policy toward Russia in the 1990s.

The Good Gulf War

The first Gulf War has acquired the status of the good Gulf War, usually compared to the disaster that was the 2003 Gulf War. The first Gulf War did have much greater support in the world, although not in the U.S. Congress.[78] It was in response to Iraq's invasion of a neighboring country. It had specific and limited goals. There were few casualties on the allied side. It was over quickly. All of that is substantially true. Nevertheless, the reality of that 1991 war was far more complicated, and awareness of that complexity might have caused much more reluctance to embark on the second war than there was. Much of that complexity is related to the actions and purposes of the Bush I administration.

Critics of George H. W. Bush accused the Bush administration of failing to clearly warn Iraq not to invade Kuwait. Bush was accused of ignoring information given to him showing a buildup of Iraqi forces near the Iraq-Kuwait border. He was also accused after Iraq invaded Kuwait of adopting a negotiating position that precluded any settlement that would avoid war. In other words, both his pre-invasion passivity and his post-invasion aggressiveness were in effect causes of war. This would later be repeated by his son. Many in the U.S. Senate felt in the summer of 1991, after the war, that the Bush administration, including the U.S. ambassador to Iraq April C. Glaspie, had misled the Congress about what the Bush administration knew and what it did in the months prior to the war. The Bush administration's claim that it warned Iraq not to invade Kuwait was contradicted by secret cables obtained by the Senate Foreign Relations Committee in 1991. They indicated that Glaspie had not delivered a strong or clear warning about Kuwait to Hussein.[79] A *New York Times* story had reported earlier, in August of 1990, that the CIA had given the Bush administration information on a buildup of Iraqi forces on the Kuwait border from 30,000 soldiers to 100,000 a week before the invasion. Intelligence experts reportedly told Bush that Iraq was likely to invade.[80] A September 23, 1990, newspaper story reported that the Bush administration "gave President Saddam Hussein little reason to fear a forceful American response if his troops invaded the country."[81] After Iraq invaded Kuwait it was an entirely different story.

The hardline aggressiveness displayed immediately after the Iraq invasion of Kuwait fulfilled the hopes expressed publicly by Richard Perle, then a resident scholar at AEI, the home of hardline laissez faire, and a former assistant secretary of defense under Reagan. Perle would later be involved in the decision to invade Iraq in 2003. In September of 1990 he was warning that the worse thing that could happen was that Iraq might agree to withdraw from Kuwait. Perle was primarily interested in the destruction of Iraq's military and he worried that Saddam's army would escape "the noose" that their occupation of Kuwait had put around its neck. Such were the purposes of Richard Perle in the "good Gulf War."[82]

The *Progressive* magazine editorialized shortly before the first Gulf War that

> Bush's actions and his rhetoric cry havoc. By dispatching an additional 100,000 U.S. troops to the Persian Gulf to join the already bloated force of more than 200,000, Bush leaves little doubt about his intentions: He means war. And his bellicose language lays the groundwork. When he calls Saddam Hussein Hitler, when he trumpets accounts of Hussein's atrocities, when he rattles the saber, he is not trying to increase the pressure on Saddam Hussein to leave Kuwait; he is trying to increase the pressure on the American people to go along with his warmaking.
>
> With astonishing high-handedness, Bush has dismissed every attempt at negotiations. He has spurned overtures from Iraq itself, as well as from France, the Soviet Union, Jordan, Yemen, the Palestinian Liberation Organization, and Saudi Arabia (which Bush rebuked for even considering the possibility of peace).
>
> And Bush no longer seems even to feign any interest in giving economic sanctions a chance to work. Like Lyndon Johnson, the President is praying for a pretext to launch an all-out war. His plans are set, the

> weapons readied, the targets chosen. He awaits only the excuse, and it is likely he will come up with one.[83]

The charge that George H.W. Bush was looking for an excuse to go to war would be made against George W. Bush with even more sinister implications. *The Progressive* went on to observe that while the Bush administration had no record of protecting human rights, it was interested in power.

> Saddam Hussein is a thug, his invasion of Kuwait indefensible, his use of torture reprehensible. Unfortunately, there are many thugs and torturers around the world, most of whom the United States has backed and financed—in El Salvador, Guatemala, Zaire, and Indonesia, among other places. And Bush cares not a whit about their gross violations of human rights and international law.
>
> He does care about protecting U.S. military power around the globe, maintaining U.S. control over Third World natural resources, and shoring up his own fading popularity in the polls. That's why he wants war.
>
> But war is not the way. It is immoral to counter a thug by placing hundreds of thousands of human lives in jeopardy. And this particular thug poses no danger to U.S. national security. His weapons cannot reach Pearl Harbor, his armies cannot invade New Jersey.[84]

Setting aside the simplistic idea of Bush's motives (i.e., reversing his declining popularity), this was a good, although far from complete, criticism of the way Bush I took us to war. The article might have noted that Iraq viewed Kuwait as a creature of British imperialism and that Iraq had some legitimate or at least defensible grievances against Kuwait. At any rate, this "good Gulf War" created much of the context for the 2003 invasion, something now widely viewed as not a good war. Neither war should be thought of as "good" if they were ultimately aimed at giving a handful of upper-class interests control over much of the world's oil. Richard Perle, Bush I and II, and many other key policymakers have been intimately involved in making foreign policy and in promoting laissez faire in the United States and abroad. Over the last three or four decades the Establishment has tried to impose the laissez faire program on dozens of countries. In all likelihood, the single most important example of this is what transpired in Russia in the 1990s.

Russia, Replacing One Extreme with Another

Following the collapse of the Soviet Union the Russian economy was put through a radical restructuring. This included wholesale privatization of state enterprises and assets. By 1994 "over 75% of small-scale enterprises were privatized through direct competitive bidding or lease buyouts. Another 49,000 medium- and large-scale enterprises, forming 60% of industrial assets had completed or were undergoing 'mass' privatization."[85] By the end of 1994 over half of the gross domestic profit (GDP) was private.[86] The state was subjected to severe budgetary austerity and consumer and welfare subsidies were cut. The country was opened up to foreign competition. Part of this program was in response to IMF demands. It was carried out with the enthusiastic endorsement of the Bush I and Clinton administrations and the Republican Party.[87] These changes could not have occurred, however, without the active cooperation of forces within Russia who wanted to go way beyond what most Soviet citizens had wanted, which was reform of the existing economic system.

A coalition developed within Russia in the late 1980s and the beginning of the 1990s that sought much more than reform, or openness, or greater democracy. This coalition agreed with the IMF, the Clinton-Gore administration, and the U.S. Republican Party that the Soviet Union should be dismantled and the economies put through a radical restructuring in keeping with the laissez faire tide surging around the world. According to Kotz and Weir, the pro-laissez faire coalition in Russia was made up of four groups: intellectuals, economists, the emerging private business class, and elites with the Communist Party and government bureaucracies.[88] Among these four groups, the party-state elite was the leading force, led for a period by Boris Yeltsin and his economic advisor Yegor Gaidar. The restructuring was motivated by the new opportunities for personal wealth and influence that could be created and were being created by the dismantling of the state-owned economy. These opportunities began appearing in the reform period of 1987 to 1991 and were vastly expanded after that. The state institutions responsible for economic planning and decision making became disorganized and ineffective in the late 1980s, setting the stage for 1991.[89]

In 1990 and 1991 the effort to reform the Soviet economic system was replaced by the beginning of the "dismantlement of its main institutions."[90] Kotz and Weir emphasize in their study of what happened that this dismantling was not in response to a Soviet economic crisis, but was a result of a set of decisions made within that coalition, led by the elites, and backed by the IMF and other external forces. The IMF program was applied to Russia with the enthusiastic cooperation of that elite against the interests and desires of most Soviet or Russian citizens, who did not want the Soviet Union broken up and did not want the wholesale restructuring of its economy.[91]

But, the wholesale restructuring is what the people of the Soviet Union were going to get. The results of the rapid privatization of the Soviet economies and the dismantling of the state were devastating. Between 1992 and 1998 GDP declined by 50 percent, capital investments went down by 80 percent, and real wages went down more than 50 percent.[92] One Russian scholar characterized what happened as "the collapse of modern life."[93]

In the 1991 to 1995 period the Russian economy experienced a collapse in production. The following declines, for example, took place in output: tractors down 88 percent; passenger cars down 24 percent; cement down 52 percent; steel down 33 percent; electric power down 22 percent; chemicals down 46 percent; machinery down 55 percent; light industry down 82 percent.[94] The percent of people in Russia earning less than "subsistence" rose from 18 in 1991 to 73 in 1996.[95]

There was virtually no coverage of these disastrous developments in the major U.S. media at the time it was happening and there has been little or no coverage since then.[96] Most Americans probably have no idea of what happened there and would have no idea what the recent Putin period has been about or what the continuing problems are in Russia or the other former Soviet republics. The superficial references in the U.S. media to changes in Russia in the 1990s were generally positive, indicating that reform and progress were proceeding, sometimes against the efforts of backward-looking communist elements.[97] After a decade of this kind of progress and reform, the vast majority of the Russian people (75 to 85 percent) responded in polls that they regretted the breakup of the Soviet Union and they looked back to the Brezhnev era, before even the reforms carried out by Gorbachev, as a good time.[98] Russians wanted change, but not the change they got. As the new century began neither Clinton nor George W. Bush saw any need for a change in the policies that were being pushed on Russia or other countries. After ten disastrous years the IMF, Clinton, and Al Gore were calling for more of the same.[99] George W. Bush did not change these things. If he was more extreme, it was in things like linking a military invasion of another country directly to restructuring its economy or in calling for no tariffs instead of just extremely low tariffs. But the core of his program was directly derived from long-standing laissez faire policies. The term "neocon" perhaps reflected the extremism of some aspects of the Bush presidency, but the term is misleading if it is interpreted to mean that Bush represented a qualitative break from previous Establishment policies. That is not the case.

Neocons

The term "neocon," or neoconservative, has come to be part of our political vocabulary. The term is often used as if it refers to a political movement or organization or to a group sharing a single, clearly defined doctrine or political and social philosophy. The term more accurately refers to something like a network of individuals and organizations who agree on enough that they often support the same policies and at certain times they act in concert. The area of agreement among neocons coincides with the core goals and interests of the Anglo-American Establishment, and most of it is not new. The term is itself a kind of disinformation or misdirection because it disconnects the ideas and policies from their most important source of support, the upper-class Establishment, and because it separates the ideas and policies from their background and history. The neocons and their ideas are essentially just an extension of the Establishment's long-standing ideas about property, markets, and government and are derived from the views set forth centuries ago by Locke and Smith.

The term "neocon" may have its origin in the years immediately following World War II. In her exploration of the ideas and influence of University of Chicago philosopher Leo Strauss, Shadia Drury suggested that the neocon or "new right" politics was a reaction to the New Deal.[100] She mistakenly represents the New Deal as merely the development of the "social welfare state" and thereby misses or downplays the fact that the New Deal embraced a multitude of policies and actions, much of it focused on the nation's infrastructure and productivity, and that it threatened the wealth and power of the upper class. The New Deal made labor and the government itself important players in the nation's policy-making process, particularly as it related to infrastructure, investment, trade, and the distribution of income and wealth. Drury misses this, even if she is right about the connection to the New Deal.

Among those early neocons or new right thinkers were people who later became well-known neocon or conservative thinkers, including Samuel Huntington, Jeane Kirkpatrick, James Q. Wilson, and Irving Kristol. Kristol's son, William, would later be the editor of one of the most strident neocon publications, *The Weekly Standard*.[101] These anti–New Deal conservative thinkers were continuing the activities that had developed in the 1930s with the Liberty League and other efforts. Those were upper-class–led and –backed efforts. The leaders of today's neocons are obviously connected to the Establishment. For example, Elizabeth Drew, writing in *The New York Review of Books* in June of 2003, identified the following six people as leading neocon activists: Richard Perle, James Woolsey, Kenneth Adelman, Paul Wolfowitz, Douglas Feith, and I. Lewis ("Scooter") Libby. At least four of these people played significant roles in the creation of or selling of the 2003 Iraq war policy. All six were members of the CFR around the time that Bush II was elected.[102] The two not directly involved in the 2003 Iraq policy served in earlier administrations. Woolsey was Clinton's CIA director, and Adelman served in the Reagan and Ford administrations.

Wolfowitz and Perle worked in 1969 directly for Dean Acheson and Paul Nitze at the short-lived Committee to Maintain a Prudent Defense Policy.[103]

Acheson and Nitze were two of the Establishment's most important foreign policy gurus in the post–World War II period. Neocons Wolfowitz and Perle were then personally and directly connected to the Establishment early on. When the neoconservative Project for the New American Century was founded in 1997, Wolfowitz and Perle were among its members.[104]

Organizations like the AEI and the Committee on the Present Danger (CPD) bring together generations of power and influence and indicate that the neocon phenomena is a stage in the Establishment's efforts to control the nation's policies. While AEI has devoted most of its energy to promoting free market economic policies, the CPD has focused on a tougher, more militarized foreign policy. The two are generally in agreement with each other. For example, one of the few areas for which AEI supports more government spending is for the military. They beat Ronald Reagan to the punch on these issues, beginning an intense effort while Carter was still in the White House.

Gerald Ford, who first elevated 2003 Iraq war architects Donald Rumsfeld and Dick Cheney to high-level positions, had connections to both AEI and CPD.[105] Ford was an AEI Distinguished Fellow. Also, in 1978 Ford was the honorary chairman of a committee created to raise money for AEI. The committee included such high-finance luminaries as Walter Wriston of Citicorp and Willard Butcher of Chase Manhattan.[106] As president, Ford took actions that led directly to the creation of the CPD. In 1976 President Ford had CIA Director George H. W. Bush create a group, called Team B, to evaluate Soviet military power and Soviet intentions. The CPD, which had existed briefly in the 1950s, emerged from Team B in 1976.[107] By the time George W. Bush took office the neocon network had developed into a loosely connected set of institutions and influential people, many of whom came into, or back into, government with Bush. The institutions include AEI, the Hoover Institute, the Heritage Foundation, the Hudson Institute, the Cato Institute, and William Kristol's *Weekly Standard*.[108] As is suggested by the role played by Citicorp's Wriston and Chase's Butcher at the AEI, these organizations have enjoyed considerable support from the corporate elite and the upper class.[109]

A number of ideas have been associated with this network of people and institutions, and those ideas have sometimes been linked to the now-deceased University of Chicago professor Leo Strauss. One of the striking ideas associated with neoconservatism is that lying, deception, and manipulation are and should be part of politics. This idea follows from other elements of the neocon worldview. Part of neoconservative (and postmodern) thought is a belief that the world cannot be fundamentally changed or improved.[110] Neoconservatives, followers of Leo Strauss, and postmodernists all believe that truth and justice are fictions and are unachievable.[111]

Since the discovery of truth is impossible, falsehood and deception are not only acceptable—they are inevitable. In the neoconservative and postmodern view, reason, objectivity, and truth, being fictions, cannot be the basis of society. A true elite understands this and faces it. Most people, however, need to believe in something. People need lies and they need religion.[112] The job of intellectuals, then, is to deliver the myths, beliefs, and deceptions that allow the majority of people to function. The natural enemies, then, of neconservatism are people who claim to deal in knowledge, facts, and truth (like scientists, engineers, city planners, doctors, and government bureaucrats).[113] Like all Lockeans, neoconservatives have a general hostility toward government, but will make practical exceptions where government serves their interests.[114]

Because most people need beliefs and illusions to live by, the elite must outwardly champion the ideas of truth and justice while secretly it ruthlessly pursues its own interests. The elite simultaneously pretends to be devoted to those things the masses want to believe in while behind the scenes it has a profound disdain for what the masses believe in and a disdain for the people themselves.[115] Neoconservatives like Iraq war architect Paul Wolfowitz were attracted to the ideas of Leo Strauss and his followers because Strauss offered a rationalization for deception.[116]

Since, in the view of neocons, it is impossible to understand the world and because there is no way to arrive at any objective truth, what counts is power, the capacity to act on the world, to in effect create realities by winning, by imposing one's interests on the world. Neoconservatives sound very much like Social Darwinists or other previous defenders of power, rank, and privilege. The universe is made up of those who prevail and those who submit; there are winners and losers. Winners create reality. A senior advisor in the George W. Bush administration reportedly told journalist Ron Suskind that people like Suskind were part of the "reality-based community" while the United States under Bush was an empire that creates its own reality through action.[117] The emphasis on action and the idea that you can ignore what is usually understood by the term "reality" would feed the boldness and sense of certainty that some see as a basic characteristic of neoconservatives.[118]

So, is neoconservatism a new phenomenon, a qualitative departure from past ideas and practices? Is this just more of what upper-class conservatism has been in the past or is it a substantially different thing? Should it even be called neoconservatism? Perhaps it is only a slight variation from past "conservative" practices. I think that the Bush foreign policy displayed some significant elements that differ from some previous periods but that the central purposes of the policy are firmly rooted in the long-standing goals and purposes of the Establishment, that is, the CFR and the top financial institutions and key businesses, especially media and energy.

The answer to this does depend partly on what earlier period we compare the recent past to. Perhaps the recent neocon phenomenon has more in common with the Root-Stimson period (say 1890s to 1933) than with the Cold War period (say 1945 to the 1980s). With the neocon Bush II foreign policy the enemy is more a created or fictitious enemy than was true in the 1945 to 1990 period. That is, the Soviet Union, China, and communism did constitute a real threat, to the upper class and to the United States as a people and nation. Few Americans wanted a communist system for the United States and few wanted to see such a system spread globally. It is, though, also critically important that we keep in mind that the communist threat also became a cover for Establishment policies that were rooted in earlier periods and had little to do with opposing totalitarianism or promoting democracy. That is, upper-class opposition to Arbenz in Guatemala, Mossadegh in Iran, or Juan Bosch in the Dominican Republic had everything to do with upper-class imperialism and little or nothing to do with communism. The Establishment did not, of course, want the American public to understand that. Even with Chile and Vietnam, issues of nationalism, independence, and imperialism were thoroughly intertwined with the issue of communism. Also, the aggressive promotion of laissez faire by the Establishment in the 1952 to 1964 period was mostly a part of Establishment imperialism, not a reaction to communism. This complexity was never given much or any public airing. All of this said, it still remains that communism and the spread of communism constituted a real enemy.

The enemy, or enemies, Bush took us to war against was not only an enemy with far, far less capability to hurt us than the Soviet Union or China, but it was also an enemy that the Establishment itself is partly responsible for creating. It was an enemy created in part by the Establishment in two different ways. "Islamofascists," al-Qaeda, and bin Laden are serious problems, but they have not posed a threat to the United States as a country like the one posed by Soviet communism. It is a different and in most ways a lesser threat. As we discussed earlier, the British and American Establishments have been aiding and abetting these Islamist groups from the creation of the Muslim Brotherhood through the backing of Islamists in Afghanistan and beyond. Bush and the neocons and earlier Establishment elites helped to create an enemy that they now exaggerate or distort in order to promote a freedom of action globally that has little to do with bin Laden and everything to do with Anglo-American Establishment wealth and power. The exaggeration and distortion is the second way in which the Establishment has created this threat. Because of both the secret history of Establishment support for Islamists and the degree of exaggeration of that threat, it does seem possible or even likely that the kind of deceit engaged in by Bush, Cheney, and their team was qualitatively different from and greater than that engaged in by Eisenhower, Lyndon Johnson, or Nixon in relation to the communist threat. The difference is far less clear if we compare Bush to the CFR's representation of the overthrow of specific governments, such as Iran and Guatemala.

Because of the relative and absolute decline of the U.S. economy, a topic we come to shortly, the Establishment has fewer cards to play at the level of the nation-state. The United States has fewer goodies to distribute and its status is being eroded by both its decline and its international behavior (i.e., use of military power and promotion of IMF conditionalities). With less economic muscle and less prestige, it is somewhat natural or logical that some or many in the Anglo-American Establishment would think more and more in terms of exploiting America's one remaining area of clear superiority, its military power. The inclinations, then, of Bush, Cheney, Wolfowitz, Perle, etc., have coincided with or converged with that broader set of circumstances to produce the unilateral bullying by team Bush.

There is at least one other way in which the Bush presidency has distinguished itself. That is, no administration in the last century has more aggressively co-opted, exploited, and solicited support from fundamentalist or conservative Christians.[119] While this may have begun with Reagan, Bush's team elevated this to a much higher priority and developed a level of organization and interaction never seen before. This helped build a popular base for Bush's presidency.

These are some aspects of the Bush neocon record that may separate them and this recent period from earlier periods and Establishment people. However, the purposes of the Anglo-American Establishment remained under Bush what they have been for more than fifty years, and perhaps for more than a century: reduce all interference with the free flow of investments; gain access to valuable assets and resources in other countries; prevent state-supported, nationally oriented economic development; and generally reduce and limit the role of government. Much of this at least was part of English colonialism and free trade imperialism and was part of Wall Street's orientation to Latin America by the time of the Platt Amendment.

The CFR–Wall Street Establishment has been deceiving and manipulating American citizens from the beginning of its existence. George W. Bush did not initiate this. Also, Bush did not disagree at all with the Establishment's goals. He pursued those goals with what was probably more boldness than most or all of his predecessors. In foreign policy Bush's aggressive promotion of global free trade and his tougher foreign policy were part of the Establishment's policies and were developing over several decades. They are ultimately self-destructive for the United States as a nation.

CHAPTER NINE

Laissez Faire at Home

As we have seen, the international "free trade" offensive emerged in the 1950s and got rolling between the early 1970s and early 1980s, with the oil crisis of the 1979–80 period helping to bring dozens of countries under International Monetary Fund (IMF) supervision in just a couple of years. This was also the time period in which a major shift began in the direction of American politics. The Ford and Carter presidencies marked a significant departure from the tone and tenor of American politics in the middle of the twentieth century. The idea of an active government held responsible for the general direction of the U.S. economy, a part of America's political history, became widely accepted under FDR. Kennedy gave it new dimensions and new momentum. No president from FDR to Nixon made government the target of a general attack. For forty-one years, from 1933 to 1974, the federal government was widely viewed as an instrument of progress. That began to change in a clear way in the period between 1974 and the early 1980s.

Although Ronald Reagan came to be a virtual symbol of the economic and political changes that occurred in the United States after 1980, those changes had begun in the previous decade and the Reagan Revolution was actually underway for years before he became its titular leader. For example, Reagan is often associated with the effort to reduce or eliminate government's role as regulator, but this actually got started under Ford and Carter with the deregulation of trucking and commercial aviation, or in the early 1970s when the federal government began to relax its efforts to regulate the flow of capital in and out of the country.[1] In 1983 *Business Week* observed that "Deregulation as a political possibility began to take shape during the Ford Administration followed by a strong commitment during the Carter era." Deregulation of finance, telecommunications, and transportation was under way when Reagan took office, and Reagan was not always consistent in his support for deregulation.[2] The pace of deregulation, according to

Harrison and Bluestone, quickened in the year before Reagan took office in trucking, railroads, oil, cable television, and intercity bus transportation.[3] In 1978 the Civil Aeronautics Board (CAB) was eliminated. The CAB had extensively controlled the makeup of the industry and its prices and profits.

So, part of the Reagan Revolution, deregulation, got under way without Reagan, under the leadership of Ford and Carter. Those two made other contributions to the unfolding laissez faire offensive. As we saw earlier, both Ford and Carter discredited government through their passive response to the oil crises. Carter added to this by introducing themes of "diminished expectations and the age of limits."[4] A surge in speculation, which would take on gargantuan proportions in later years, and in corporate mergers and acquisitions was under way in the late 1970s, and Carter's response to this was similar to his reaction to the oil companies—nothing.[5]

The phrase "Reagan Revolution" is misleading in another way, a way that is more significant than the fact that Ford and Carter initiated the revolution. That is, the so-called Reagan Revolution was gathering steam in upper-class circles, big corporations, and think tanks well before Reagan came along to deliver the rhetoric. There are many indicators of this. Part of it we looked at in the previous chapter. Part of it was in the mobilization of resources to promote the laissez faire agenda. The country's most influential business lobby, the Business Roundtable, was created in 1972. Business political action committees (PACs) increased in number from 248 in 1974 to 1,100 in 1978. Expenditures of corporate and trade association PACs grew from 8 million dollars in 1972 to 84.9 million in 1982.[6] Much of this money was spent promoting laissez faire ideas. Also, by the mid-1970s U.S. corporations "were spending more than 400 million dollars a year on 'advocacy advertising,' much of it directed against government constraints on business."[7] Some of this may have been a direct response to profit problems in the 1970s,[8] but it is now obvious that something bigger and more significant was afoot, that is, attacking the New Deal and related ideas and policies. This rightward move, like the global free trade offensive, was being led by Establishment luminaries such as David Packard, William Simon, and John J. McCloy and it was financed by foundations such as Pew, Lilly, Scaife, and Smith Richardson.[9]

As with the global free trade initiatives, think tanks also played a role. During the 1970s the American Enterprise Institute (AEI) provided support to and a forum for leading neoconservatives such as Irving Kristol, Michael Novak, and James Q. Wilson.[10] A 1978 AEI study concluded that New Deal ideas had become weaker and no longer provided a basis for politics. The AEI was apparently not interested in the possibility that people just didn't know much about New Deal polices. At any rate, this meant in the view of the AEI that there was an opening for a political realignment producing a more conservative direction for the country.[11] The Establishment Brookings Institution, often described as "liberal," published a study in 1976, entitled "Setting National Priorities," which favored free market policies over active government, and Brookings backed Carter's rightward move in the late 1970s.[12] A similar thing was happening in England where Maggie Thatcher's conservative revolution actually got started without her. Although Thatcher was elected in 1979, the movement toward more laissez faire policies began in earnest before that. For example, the Center for Policy Studies was created in 1974 to promote laissez faire. In 1976 the Adam Smith Institute was formed to move Tory politics to the right. In the early 1980s, many Reaganites were wearing Adam Smith ties.[13] The laissez faire offensive in England was led by City of London financial interests, think tanks, and the economic and financial press,[14] much the same kind of network as in the United States.

On the eve of the so-called Reagan Revolution there was no popular support for many elements of that program and no general support for reduced government activism. For example, a national opinion poll showed that the percentage of Americans who thought that too much power was in the hands of private corporations went up in the 1970s, from 61 percent in 1969 to 79 percent in 1979. The percentage that thought that business was making too much profit was 38 in 1969, 35 in 1975, and 51 in 1979. These numbers support what many thought about Reagan's election. That is, many people voted for him in spite of his policies and because democrats abandoned the New Deal. Voters shifted to the Republican Party because they lost their confidence in the Democratic Party's ability to deliver on economic issues.[15] The vote was partly about the Democrat being Carter, not FDR or JFK.

Once in office Reagan did deliver on his theme that government is the problem, not the solution. He significantly reduced government revenues by implementing regressive tax cuts and continued to reduce government's power through deregulation, but substantially increased funding for a military buildup.[16] Those were consistent with the Lockean idea of government. The wealthy gained more from tax breaks than from national economic growth. The policies of Reagan were implemented against, not as a reflection of, public opinion. For example, a *Los Angeles Times* poll found that only 5 percent of Americans thought there was too much government regulation while 42 percent thought there was too little. The majority of people did not have a positive response to the beginning of Reagan's presidency. His approval rating on average was 54 percent his first year in office and 44 percent for the second. The comparable numbers for Eisenhower were 69 and 65 and for Kennedy 75 and 72.[17]

With little public support, Reagan pursued the policy of weakening government and increasing the freedom of big business and the upper class. He pursued a policy of "deregulation, regressive tax reform, privatization, and out-right union bashing."[18] Among the areas deregulated were savings and loan banks. Deregulation in this area not only destroyed local banks but set in motion financial practices that ultimately played a direct role in mortgage speculation and the financial crisis of 2008.[19] Another area of deregulation was television. Under Reagan, requirements that some TV time be set aside for educational programming and protection of children from advertising were both relaxed. Also, limits on time and frequency of commercials were eliminated. The Fairness Doctrine, which required TV stations to air competing points of view, was eliminated. Foreshadowing the more extensive ownership deregulation under Clinton, Reagan increased the number of broadcast stations that one entity could own from seven to twelve. In general, Reagan reduced government's regulatory capacity by reducing the funding for government agencies.[20] He also carried out some privatization of government operations and sold off Conrail, which had operated for five consecutive years as a government-owned, profitable railroad.[21]

Reagan, like both Bushes and Clinton after him, sat idly by while the U.S. economy was restructured through corporate mergers and acquisitions, and while investment increasingly went to various kinds of speculative activity. Between 1973 and 1985, "the volume of futures trading in stocks and bonds rose nineteen fold."[22] Six years after *Business Week* had warned that investment was losing out to speculation, the magazine declared that speculation had won; we had become a "casino society." A year later, 1986, the magazine warned that "financial gamesmanship" was diverting resources away from production into speculation and mergers. In the following year they warned that the economy was being deindustrialized and that threatened the U.S. standard of living.[23] The deindustrialization and shift to a service economy was characterized by *Business Week* as the "hollowing of America."[24] This warning about deindustrialization and about speculation and financial manipulation came two decades before the recent financial crisis. That should be distressing to everyone.

Similar trends were appearing in England accompanied by a heavy dose of laissez faire. According to Hobsbawm, Great Britain was "dramatically de-industrialized" after 1970.[25] After 1979 the Tory government, led by Margaret Thatcher, began a massive privatization of industries owned in part or whole by the government, including coal, steel, gas, electricity, water, railways, airlines, telecommunications, nuclear power, and shipbuilding. Hobsbawm referred to the Thatcher program as "radical economic laissez-faire."[26] By 1997 these industries were almost completely private and the government had given up lesser stakes in oil and banking.[27] Thatcher's pursuit of competition and free markets did not actually change the size of government, but it did change its role and it changed English society. Also, a successful campaign was waged to reduce the influence of trade unions and professional associations and anything else in the way of free markets.[28]

There was in England an explosion in part-time and contract work and in low-wage jobs. Marriage and families became less stable. The number of serious crimes reported went from 1.6 million in 1970 to 5.6 million in 1992.[29] Inequality increased in England faster than in almost any comparable country in the world. Meanwhile, British business forced British workers to compete with cheap labor in Asia, Latin America, and Africa, and British investors looked increasingly to speculation as a source of profits.[30] Laissez faire eventually became discredited. As of 1997 the Conservative vote was the lowest it had been since 1832. Where to go next was less clear.[31]

It was also becoming less clear in the United States. In 1992 George Herbert Walker Bush, and by association the Reagan Revolution, was thoroughly repudiated in the elections. As a sitting president, Bush received a stunningly low 37 percent of the vote. Republicans had done almost that badly before (Landon against FDR in 1936 and Goldwater against LBJ in 1964), but those Republicans were challengers, they were not in the White House. Also, they were running against FDR and the ghost of JFK. Clinton won that 1992 election with only 43 percent of the popular vote, most of the rest going to independent candidate H. Ross Perot, who campaigned to some extent against "free trade."

Clinton's diagnosis of the country's economic ills was frequently accurate. He did outline a tax policy aimed at increasing investment and he did identify the loss of industry as a problem. But, given the drift of things, his program was quite limited. Among the economic problems facing Clinton and the country were a shrinking industrial base, deteriorating infrastructure, falling incomes, and rising poverty. Clinton was elected to do something about this. The Establishment's view expressed through *Fortune*, the *Wall Street Journal*, and the public statements of CFR Chairman Peter G. Peterson was that Clinton should do very little.[32] Clinton had a choice to make: he could be an FDR or JFK Democrat or a Carter Democrat. He opted for an upbeat version of Carter.

Once elected, Clinton quickly gave up on any idea of using government to restart America's industrial economy. Clinton, like the Democratic Leadership Council had already done, abandoned the New Deal. He would later announce that the "era of big government is over."[33] William Leuchtenburg described Clinton as Roosevelt in reverse.[34] Clinton allegedly was told by this Treasury Secretary Robert Rubin, formerly of Goldman Sachs, that investors would react negatively to any big program and they would withdraw from government bond markets.[35] Clinton abandoned the stimulus program that had been part of his campaign promises and he was soon sounding like a free market conservative.[36] Clinton's administration increasingly looked like Bush I and Reagan. Both Bush and Clinton continued the deregulation of the economy. Clinton succeeded in repealing the Glass-Steagall Act of 1933 and in the process increased the likelihood of financial crisis. He successfully promoted "free trade" deals with Mexico and China.[37] Clinton supported and signed into law the Telecommunications Act of 1996, which continued the process begun under Reagan of reversing the regulations begun under FDR in 1934.[38] The 1996 act facilitated increased concentration of media ownership, particularly in radio. Neither Bush I nor Clinton apparently had any significant objection to consolidation of control over media. Time, Inc., took over or merged with Warner Communications (1989), Turner Communications (1995), and America Online (2000). Viacom took over Paramount (1993), Blockbuster (1993), and CBS (1999). The federal government, for the most part, had little or no objection to these or other giant mergers and acquisitions, including all of the oil company combinations described earlier or other noteworthy mergers such as Chase Manhattan and J. P. Morgan. With a Democrat leading the charge for deregulation and free trade and not responding to growing corporate concentration in critical areas of the economy, it was not surprising that someone would suggest in the late 1990s that the "free market" had become something like an American civil religion, something that happened even though the United States was not historically a laissez faire country.[39] Like advocates of global free trade, Clinton had put his trust in private property, markets, and passive government.[40]

This happened through an alliance between Clinton and, primarily, Republicans in the House and Senate. As we saw before, Clinton backed free trade initiatives against the majority of his own party. Writing in 1996 James K. Galbraith criticized Clinton and Carter for their acceptance of reactionary and incompetent economic ideas. Because they had accepted a belief in the rational, self-regulating market along with conservative monetary policies, these two Democrats, according to Galbraith, had denied to themselves the tools they needed to affect things. Galbraith recommended a program that included, among other things, expanded research and development (R & D) spending, reduction of inequality, and aggressive spending on infrastructure.[41]

Galbraith was far from alone on this. Writing while Bush I was still in office, David Aschauer emphasized that infrastructure investment was critical and that U.S. investments in the 1970s and more so in the 1980s were much too small. Aschauer observed that "the slowdown in spending for infrastructure over the past 25 years has been a major cause of the U.S. economy's poor performance since 1970."[42] Aschauer argued that each dollar of public infrastructure spending, mostly done in the U.S. at the state and local levels, contributes more in gross national profit (GNP) growth than does private investment and that after technological progress it is the most important factor. Aschauer pointed out that

> public investment in infrastructure has dramatically declined. Over the last two decades, non-military public investment, as a fraction of GNP, was only 65 percent of its average level during the preceding two decades, falling from 3.7 percent to 2.4 percent. When depreciation is taken into account, the rate of non-military public investment in the 1980s was only half that of the 1970s and just one-forth that of the 1950s and 1960s.[43]

Somewhat earlier a complementary argument was made by Walt Rostow.[44] Walt was less trusting in markets and private interests than his brother, Eugene, who was, as we saw earlier, a founder of the post–World War II, anti-New Deal, laissez faire movement.

About a decade after Aschauer's call for a big increase in infrastructure spending, Barry Bluestone delivered a concise argument in favor of such an increase and in favor of a major public commitment to investment in science and technology. Writing during the last full year of the Clinton presidency, Bluestone argued that it is technological progress that fuels an economy, not the balanced budgets and market forces promoted by Clinton's Secretary of the Treasury Lawrence Summers. Bluestone pointed out that it was government action and money that brought about the research that led to "the information revolution and the new economy," not the forces of the market.

> It was the need for massive computing power to run modern defense systems that helped lead to the construction of powerful mainframe computers. It was the need for miniaturized guidance systems for ICBMs and NASA rockets that led to the development of microprocessors and the software they use. It was the federal government's investment in the ARPANET that led to the Internet, the World Wide Web, and the explosion in e-commerce. Moreover, investments in education and training helped prepare a workforce to operate the immensely profitable commercial applications these technologies made possible.[45]

At that time, in Bluestone's view, there was no immediate budgetary reason to limit spending, especially in areas where investment might produce big returns to the country. Bluestone went on later to say that

> to build up massive budget surpluses, the federal government has been cutting its support of basic research, public infrastructure, and even

> education and training, as a share of gross domestic product. President Clinton's recent announcement of more money for the National Science Foundation and Defense Department research hardly puts a dent in this downward trend in government financing of basic research.
>
> Since 1979, the share of federal investment in public nondefense infrastructure, education, and research has fallen steadily. And such investments are destined to decline further under the Clinton budget and congressionally imposed spending caps. This spending is part of what the government calls "total discretionary federal funding"—that is, the budget excluding Social Security, Medicare, Medicaid, and interest on the federal debt.[46]

Clinton allowed the decline in the country's commitment to infrastructure and technology to continue. I think it is worth noting that Barack Obama in *The Audacity of Hope* defers to Robert Rubin's judgment about trade, investment, and production.[47] It was Rubin, once cochairman of Goldman Sachs, who emerged early on in the Clinton presidency as a dominant voice on economic policy.[48] Bluestone went on to observe that

> back in 1968, discretionary funding was 13.6 percent of GDP. Even as late as 1986, it amounted to 10 percent of GDP. Twelve years later it was down to 6.6 percent and, according to the latest budget estimates, is scheduled to fall to only 5.5 percent by 2004. Hence, by the middle of this decade, the federal government's role in underwriting economic activity will have been cut in half.
>
> The steepest declines in the budget are for precisely what has been so important to growth in the past. According to the National Science Foundation, the federal share of support for the nation's research and development first fell below 50 percent in 1979, and it remained between 45 and 50 percent until 1988. After then, it fell steadily, dropping from 44.9 percent in 1988 to only 26.7 percent projected for 1999. This is the lowest it has been in almost half a century.[49]

Bluestone concluded that while the results of "this neglect of public investment" may not be seen for years, it was clear that Clinton's policies might be undermining the foundation of economic progress, that is, technological advance. The priorities of the president who followed Clinton into the White House were not in slowing down speculation and corporate takeovers or in rebuilding and improving infrastructure or in stimulating scientific and technological progress. His priorities were in extending and deepening the laissez faire revolution.

By the time that Bush took office and stated that the spreading of free market economics was a primary national security goal, the country had already been headed in that direction for more than forty years in foreign policy and twenty-five years in domestic policy. The decision to impose laissez faire on the rest of the world was made, as we have seen, in the 1950s and the view of the world that produced that decision had roots in the 1890s in the United States and long before that in England. George Walker Bush, a kind of anti-FDR, may be both the most extreme proponent of the Locke-Smith agenda ever to occupy the White House and one of the clearest examples of how destructive that agenda is for almost everyone involved. This and the overall policy of the last few decades are historical aberrations. Only England tried anything like this. This aberration involves actions and policies designed to provide maximum freedom for property interests, led by the captains of banking, oil, and media and today's investor class, and maximum support for those same interests.

An Aberration

What the United States Establishment has been trying to do is an aberration. The usual and apparently normal state of affairs is for societies to use government to stimulate, guide, support, regulate, shape, and even control economic processes. Throughout history, even the history of the United States and England, this has been the norm. The attempt to base an economy on the self-interest of a tiny percentage of the population is, in fact, a rare thing. Nevertheless, many experts apparently believe that laissez faire policies are the best method by which to achieve development and prosperity. Such beliefs are not based on evidence and reason and, hence, may not be amenable to change.[50] We will look more closely at this problem as it exists within the higher circles in the last chapter.

According to Ha-Joon Chang, all successful countries in the post–World War II period have used nationalistic economic policies. Also, the developed countries of the twentieth century all used protectionist and interventionist policies. Even the two countries that have been the primary supporters of laissez faire both used those policies in their own development.[51] The big exceptions to all of this are the two periods in which England (mid-1800s to World War I) and then England and the United States (1970s to the present) attempted to impose a laissez faire policy on the world.

England achieved economic leadership as a protectionist, not a free trade, country. Prior to 1721 England used state subsidies and protectionist measures to support its shipping and wool industries. After this England became a high-tariff, protectionist nation until the mid-1800s. British tariffs were higher than other European nations. Also, English manufacturing was supported in numerous ways by government from 1721 until the transition to free trade in the 1846 to 1860s period.[52] In addition to tariffs to protect British manufacturing, special tax breaks were given on materials needed by English manufacturers and tax exemptions to promote certain exports. England only became opposed to such measures after they had successfully used them.[53] Similarly, as we saw before, for over a century the United States was the most protectionist country in the world and the fastest growing. The U.S. federal and state and local governments, of course, also relied on aggressive programs in infrastructure and in the support of education, science, and research.[54] Only in England and areas under her influence from the mid-1800s to 1914 and in the United States and areas under her influence from the 1970s to the present has a different approach prevailed. Wherever the state is responsive to economic needs and to the desire for stability, it will be activist and interventionist. Laissez faire and free markets, according to John Gray, have to be imposed through deceit, manipulation, and coercion.[55] In the late 1800s England imposed free trade policies on its colonies and successfully pushed them on many independent countries through "unequal treaties."[56] Getting countries or majorities of populations, especially where poverty is widespread, to accept an economy based on passive government, maximum freedom for private enterprise, free trade, and free movement of investment is usually not easy, especially over the long term. In the view of Ha-Joon Chang, England's success in spreading free trade between 1870 and 1913, the first episode of globalization, was due more to England's military power than to economic forces.[57] Also, the upper classes of England and the United States have taken advantage of industrial economies that they themselves had little role in creating. They then ignored the real history of the policies used to create those industrial economies telling everyone, including their own countries, that such success was based on giving them maximum freedom and support.

When the U.S. upper class launched the laissez faire effort in the 1970s it had the huge advantage of doing so in an economy that had progressed for decades with activist government. That was true within the United States and in much of the world. In addition to the Marshall Plan in Europe, the early international policy of the United States and other advanced countries after World War II was to allow "developing countries to protect and subsidize their producers more actively than the rich countries."[58] Many poor countries had been pursuing activist government policies since the 1930s.[59] This was part of the 1947 General Agreement on Tariffs and Trade (GATT) policy. The laissez faire offensive that emerged in the 1950s and was intensified in the 1970s and early 1980s was reinforced by the replacement of GATT by the World Trade Organization (WTO) in 1995.[60]

Post–World War II policies around the world featured more protectionism and state intervention in economies than has been true since the 1970s. In the United States the huge infrastructure investments of the 1930s and the mobilization of the economy during World War II were followed by a period of investment and prosperity lasting to the beginning of the 1970s. Peschek observed that between 1947 and 1968 there was "a 107 percent increase in the real net value of structures and equipment in manufacturing, a more than doubling of output per worker, and a 70 percent increase in real personal income per capita in the United States."[61] In spite of the real record at home and abroad, the U.S. Establishment has remained committed to the laissez faire polices of the IMF, World Bank, and WTO. The supporters of free trade, privatization, free flow of investment, and other laissez faire policies do not question or critically examine these policies. The explanations for the failures of the last thirty years are found in the politics or cultures of individual countries, not the polices the Establishment has promoted.[62] In spite of the failures and the growing opposition to laissez faire, the Establishment goes on, apparently seeing no alternative that is acceptable. John Gray predicted in 1998 that when the expected financial crisis came, perhaps triggered by derivatives, change might occur because no country, including the United States, could act to sustain the global economy.[63] As the new century began the Bush II administration was attempting to intensify U.S. and international commitment to laissez faire, demanding, for example, the complete elimination of "all industrial tariffs by 2015."[64] This reflects the fact that the U.S. Establishment remains thoroughly committed to laissez faire, including the IMF program. These policies still have the backing of the powers that be, but are increasingly resisted and opposed.[65]

So far, nothing fazes the Anglo-American Establishment, not the complaints and resistance of affected nations, not political opposition or street demonstrations, not the critiques and criticisms of scholars around the world, not the data on rising poverty or other failures of the program, not the fact that the pre-1970s record was better. I will attempt in the last chapter to explain why nothing affects their commitment to laissez faire. Their commitment to global laissez faire is beginning to be matched and challenged by resurgent nationalism. The nationalism takes different forms, including protectionism, the creation of government-controlled investment funds, and movement away from the dollar.[66]

Writing in the very pro-laissez faire *Wall Street Journal*, Bob Davis describes some of this resurgent nationalism.

> Just a decade ago, Asia, Latin America and Russia were on financial life support from the International Monetary Fund and World Bank. The U.S. was planning yet another round of global trade negotiations. The

> European Union was writing a constitution to shift power to Brussels from member nations.
>
> Now borrowers shun the IMF and World Bank. Trade talks are shelved. Barriers to foreign investment are rising around the world. State-owned companies are expanding, particularly in oil and gas. Public support of immigration restrictions is growing in countries from the U.S. to India.
>
> The rising influence of governments can be seen in massive state-funded investment pools, many backed by countries that were reeling financially a decade ago. Sovereign wealth funds from Asia and Middle East are now propping up wobbly financial institutions in the U.S. and Europe, and may hunt next for real-estate bargains…[67]

As Davis and the *Journal* pointed out, this rising tide of nationalism was affecting the other pillar of Anglo-American global power, oil.

> Energy companies have been among the first to feel the new nationalism. Since oil prices started rising in 2004, Russia, Venezuela, Bolivia and Ecuador have nationalized foreign owned oil assets, the first big wave of nationalization since the 1970s. After Venezuela's state-owned oil firm doubled its ownership of heavy-oil projects along the Orinoco River last year, ConocoPhillips pulled out, taking a $4.5 billion charge. Exxon Mobil Corp. left as well, and is suing Venezuela for compensation.
>
> Growing petro-nationalism has prompted Royal Dutch Shell PLC to change the global scenarios its economists create to help the company plot its next moves. In the 1990s, Shell's scenarios assumed government power was diminishing. The company invested heavily in Russia's Sakhalin oil fields, assuming it would see minimal interference. But as the Kremlin tightened its grip on the energy sector, Shell was forced to sell half of its stake in the project to Russia's state-owned OAO Gazprom.[68]

This is part of the drift of things. Naomi Klein noted the growing resistance to free trade in a 2005 story on George W. Bush's trip to South America:

> Facing mass protests in Argentina yesterday during the Summit of the Americas, George Bush saw that the spirit of that revolt is alive and well. And although Bush didn't take up Hugo Chavez's offer to hold an open debate on the merits of "free trade," that debate has already happened in the continent's streets and ballot boxes, and Bush has lost. Consider this: the last time these 34 heads of state got together, it was April 2001 in Quebec City; it was Bush's first summit after his election, and he announced with great confidence that the Free Trade Area of

> the Americas would be law by 2005. Now, four years later, many of the faces of his colleagues have changed and Bush can't even get the free-trade area on the agenda, let alone get it signed.[69]

Globally, there is now the outline of the conflict of the coming decade or decades. Except with the poorest countries, which are still submitting to IMF policies,[70] the conflict is already out in the open—an Anglo-American Establishment committed to laissez faire versus development-oriented state activism. This is, of course, not new and nationalist economics was only briefly suppressed by the laissez faire victories of the 1980s and 1990s. Meanwhile, the decades of laissez faire policy have left us with a world that is far more unstable and uncertain than it was.

Uncertainty

Uncertainty has become a central feature of the global economy. Labor has lost what little security it used to have. Much work is part-time, and contract work and jobs can leave for more profitable locations at any time. In a globalized economy, free trade means an endless loss of jobs to cheap labor markets. National economies are less able to manage their affairs, especially if leaders comply with laissez faire prescriptions.[71]

The world economy to some extent and the U.S. economy especially have moved toward increased speculation and the acquisition of existing properties rather than investments in creating industrial production.[72] Money is constantly moving in search of the highest rate of return.[73] Before the collapse of Bretton Woods in 1972, 90 percent of all currency exchanges were related to trade and long-term investments. Afterward, however, almost 90 percent was related to speculation. Cross-border investments in bonds, equities, and currency transactions reached 1.2 trillion dollars per day during the 1990s.[74] Since the 1990s even foreign direct investment globally has been mostly for purposes of taking over existing operations, not creating something new.[75] Feeding global speculation is the huge growth of assets held offshore in places with little taxation and regulation but with plenty of secrecy. One estimate is that a third of the world's assets are now held "offshore." For example, "seventy-five percent of the world's hedge funds are based in four Caribbean tax havens: the Cayman Islands, Bermuda, the British Virgin Islands, and the Bahamas."[76]

Deindustrialization

Signs of or the first indicators of a trend toward deindustrialization in the United States appeared by the end of the 1970s. This became associated for some people with the idea of post-industrial society. That term was introduced by Daniel Bell in his 1973 book *The Coming of Post-Industrial Society*. Bell, however, did not envision a deindustrialized or declining America. That was left to those who adopted the term "post-industrial society" and argued that such a society would have to be deindustrialized to prevent the destruction of the environment.[77] For those who were not convinced that the world was about to run out of many key resources or that the environment was being destroyed by human production, reproduction, and consumption, the idea of a deindustrialized society was not a welcome one. In 1980 Paul Blumberg's book *Inequality in an Age of Decline* appeared, followed two years later by Barry Bluestone and Bennett Harrison's *The Deindustrialization of America*. These books raised early concerns about the consequences of deindustrialization. Ever since then the major media, most politicians, and most intellectuals have avoided the problem most of the time. There have been notable exceptions.

Writing about "The Hollow Corporation" in 1986, Norman Jonas warned that "the idea that a post-industrial America can become increasingly prosperous as a service-based economy appears to be a dangerous myth."[78] As Jonas pointed out, the impact of some negative trends was being partly and temporarily offset. For example, up to 1986, and this would continue until the early 1990s, the consequences of the outsourcing of American jobs were partly offset by investment coming into the United States.[79] That was not something that would necessarily continue.

By the beginning of the 1980s there was also a recognition that the economy was increasingly dominated by short-term financial interests. Writing in the *Harvard Business Review* in 1980 Robert Hayes and William Abernathy reported that U.S. corporations were becoming more and more like financial institutions, not very concerned with long-term technological success, but instead, focused on short-term return on investment. They noted a declining commitment to core areas of research and development and a declining investment in industrial plants. They also noted that after World War II fewer and fewer top management people had backgrounds in production and more and more came from the financial, marketing, or legal sides of business. Finally, they pointed out that there were almost no courses on production in business schools.[80] Much later, a *Foreign Affairs* article acknowledged that not enough money was going into research and development and not enough American students were pursuing doctorate degrees in engineering and science.[81]

The editors of *Business Week* sounded the alarm in 1980 with this commentary:

> The U.S. economy must undergo a fundamental change if it is to retain a measure of economic vitality let alone leadership in the remaining 20

> years of this century. The goal must be nothing less than the reindustrialization of America. A conscious effort to rebuild America's productive capacity is the only real alternative to the precipitous loss of competitiveness of the last 15 years, of which this year's wave of plant closings across the continent is only the most vivid manifestation.[82]

The deindustrialization has continued, due in part to the movement of production out of the United States, and the consequences are evident in the huge trade deficits and in the declining value of the dollar.[83] The status of the dollar globally is being sustained partly by the fact that "central banks hold their reserves in dollars, and countries are billed in dollars for their oil imports."[84] There is also the continuing military power of the United States. The dollar's value was for a time based on the productivity of the U.S. economy; it is now based on political factors such as the willingness of other nations to treat the dollar like an international currency. This status for the dollar was increasingly questioned by 2010.

One manifestation of deindustrialization is the declining number of manufacturing jobs in the United States. This decline is directly connected to a declining standard of living and an eroding tax base. Over the long term (decades and centuries) there is a natural reduction in the percentage of people required in modern societies to produce things. This reduction is caused by technological progress and the accompanying rise in labor power. While there is still some of this progress, the causes of recent declines in manufacturing employment have more to do with deindustrialization.

Employment in manufacturing can change rather quickly based on economic conditions and on government policy. During the Great Depression and World War II, large changes occurred in employment in manufacturing. It declined rapidly between 1929 and 1932, falling more than 30 percent. After FDR took office, the number of people employed in manufacturing recovered to the 1929 level by 1937. A huge change occurred with the World War II mobilization of the economy. The Census Bureau's historical data shows an increase from 11 million employed in manufacturing in 1940 to 17.3 million in 1944, an increase of more than 60 percent. Between 1961 and 1969, employment in manufacturing rose from 15 million to 18.6 million. These rapid expansions coincided with, were part of, and were one of the causes of periods of recovery, mobilization, and rapid progress. (Note: Manufacturing employees are counted differently in the post-1959 data compared to the historical data cited here. This does not affect interpretation of the trends.)

What has happened recently with manufacturing is part of and one of the causes of the decline of the U.S. economy and of the standard of living of the majority of people in this country. It represents or is an indicator of a direct threat to the everyday lives of most people. The absolute number employed in manufacturing reached 19.4 million in 1979. It declined in 1980 and 1981, and it would never get to 18 million again after 1981. From 1982 to 2000 it ranged between 16.8 and 17.9 million. The overall non-farm labor force grew throughout the post–World War II period so that manufacturing employment as a percentage of the total declined throughout. So, even in the 1961 to 1969 time period when manufacturing employment rose from 15 to 18.6 million, manufacturing as a percentage of the workforce declined from 28 percent to 26 percent. Over the long term the changes have been much bigger. In 1979, the peak year for manufacturing employment, the 19.4 million employed in manufacturing represented only 22 percent of the labor force. In 2000 the 17.3 million in manufacturing was only 13.1 percent of the much larger labor force. So, when Bush took office the United States was already substantially deindustrialized. This roughly corresponded to growing trade deficits, a declining dollar, and declining standard of living. The process of deindustrialization has accelerated since the end of Clinton's presidency and the beginning of the Bush II period. From 2000 to 2008 the number of manufacturing jobs declined from 17.3 million to 13.4 million, from 13 percent of the total to 9.8 percent. Not surprisingly, the number declined further in the wake of the 2008 financial blowout; manufacturing employment declined from 13.2 million in October of 2008 to 11.7 million a year later. How many of those jobs will come back remains to be seen. Even without the 2008–09 losses, this has been a period of extreme deindustrialization. Over 20 percent of the nation's manufacturing jobs disappeared in eight years. The country's standard of living and its economic position in the world have both declined along with the nation's industrial base. What was the response of our flag-waving president to this threat to the nation's general welfare? The answer, of course, is absolutely nothing, because in Bush's mind this was not a problem; it is the by-product of the Establishment's national and international strategy, a strategy they are not willing to revise. One reason for the Establishment's lack of concern is that they themselves are protected from what is happening to the country.

Redividing the Pie and Upper-Class Insulation

It has become a generally recognized fact that the United States has become a much more unequal society since the 1970s. This recent trend reversed what had been the direction of things from the New Deal to the early 1970s. This has been emphasized by those on the left and acknowledged even by the Establishment. For example, Doug Henwood observed that from the 1970s to the end of the 1990s the lowest 40 percent of income earners lost real income while the very rich doubled their income and increased their share to a level not seen since the beginning of the 1930s.[85] Writing in *Foreign Affairs* in 2007, Kenneth Scheve and Matthew Slaughter acknowledged that real earnings for most people were declining in recent years and that inequality was at levels not seen since the 1920s.[86] According to Les Leopold, the average wage of nonsupervisory workers dropped by 18 percent between 1973 and 2007.[87] In *The State of Working America, 2006/2007*, Mishel, Brown, and Allegretto note that the trend for the 1947 to 1973 period was that real family incomes for the lowest 60 percent rose at a faster rate than for the top 20 percent.[88] The reverse happened between 1973 and 2000. James Cypher points out that whereas the top 10 percent received 33 percent of total income in 1970, they took 48 percent in 2000. There is a generational factor in this.[89] Krugman notes that between 1973 and 2005 the losses for men in the 35-to-44 age range were much bigger than for older men.[90] The really huge gains have occurred with those at the very top. For example, the incomes of the top 1 percent of households rose by 34.8 percent between 2001 and 2005.[91] As of 2004 the top 1 percent received more of the total income than at any time since 1929.[92] In 1973 the top 1 percent took in 8 percent of the nation's total income; in 2006 it was 23 percent.[93] It is the super-wealthy who have benefited from changes in the economy; they have also benefited from changes in the tax codes. With only minor exceptions, like Clinton's increase in the Earned Income Tax Credit, all changes in tax policy in recent decades have benefited the top 1 percent, reversing what was done from the early 1930s to the 1950s. The top income tax rate rose from 24 percent in the 1920s to 63 percent by 1937, to 79 percent by 1941, and 91 percent by the mid-1950s.[94] This significantly reduced the share of the nation's wealth owned by the top one-tenth of 1 percent, from 20 percent down to 10 percent.[95] Since the 1970s, the tax breaks for the rich have increased their share of the pie while that pie has been shrinking. This financial insulation during the decline makes it less likely that they will see any reason to consider significant changes or reforms. Unfortunately, that is not the only reason they are unlikely to initiate or accept changes.

CHAPTER TEN

An Oligarchy That Must Change and Can't Change

Between the early 1950s and the 1970s the Establishment committed itself and the country to an agenda. At the heart of this agenda have been some very self-serving goals and purposes. Within the United States the goals have included a more passive and compliant federal government. In part this meant a big reduction in the portion of upper-class wealth taken by the government, and it involved the adoption of a policy of laissez faire in relation to government's regulatory role and in government's response to mergers and acquisitions and to all forms of speculation. This significantly reduced the role of the federal government in shaping the economy. Consistent with this has been the reduction in government's role in or expenditures for research and development, science and technology, and infrastructure. This, too, means a reduction in government's ability to shape or influence the economy. This agenda has also included a reduction in government's role in regulating trade, a policy tied to the promotion of so-called free trade and laissez faire globally. The global laissez faire policy has put the U.S. Establishment in direct opposition to all forms of government-led economic development and put the United States and international institutions, led by the International Monetary Fund (IMF), in the position of pushing imperialist economic policies. The elimination of foreign exchange controls and of import-export controls and the opening up of countries to foreign investors have been key IMF policies. These kinds of things were directly implemented at one time by English colonial administrators; the achievement of these things today is the core of "free trade" imperialism. The implementation of this agenda has meant the elevation of private wealth and whatever market forces do exist. The role for government and labor in the United States, both greatly enhanced during the New Deal, has been greatly reduced through the pacification of government and destruction of unions, leaving wealth and the market to decide the fate of the country.

We have now had about thirty-five years of domestic laissez faire policy. The impact of that policy on the United States has been softened by things unrelated to or only partly related to that policy, things that were or are transient. The explosion in information and communication technologies in the 1990s contributed to a period of relative prosperity. That explosion was substantially due to earlier government support and funding; it was not simply a product of private forces. From the early 1980s to the beginning of the 1990s the U.S. economy benefited from foreign investments in U.S. production, particularly autos.[1] Also, U.S. global military power and influence have helped to sustain the value of the dollar, and other countries have been accepting vast amounts of U.S. IOU's. Our country's decline would be much deeper and more obvious were it not for those things and for the lasting effects of the achievements of the 1933 to 1974 period.

The shift in the economy toward financial activity that has been a part of this laissez faire period has meant that a much greater share of the nation's income now goes to investors and financial institutions than in the 1930s to early 1970s period. The tax rate changes, plus the laissez faire orientation of government, have made the last three decades very, very profitable for a tiny part of the U.S. population. The economic system has been reshaped to serve the purposes of this tiny group. Whether or not those involved in the reshaping of the economy knew what the consequences would be for the majority of people will never be known. They could have known and they should have known. It is fairly obvious that as of the end of the first decade of the twenty-first century, and after pushing these policies for more than fifty years (or longer), the Establishment shows no signs of changing direction. This is true even though it is becoming increasingly obvious that the policies themselves are undermining the basis of Anglo-American upper-class power in the world. We might expect them to respond to this even if they aren't affected by the difficulties and insecurity that the policies have produced for most people. They are apparently unfazed by all of it.

Writing in the 1820s, one of America's most famous authors, James Fenimore Cooper, observed that those born to wealth and privilege have more difficulty finding the truth than others do.[2] Cooper thought that in the early decades of the nineteenth century the trend in America was toward greater democracy and greater attention to the truth rather than to traditions and appearances. But Cooper worried about the influence and power of what he viewed as the insulated and self-protective merchant wealth based in New York City.[3] He was right to worry.

The upper class in the United States today is highly insulated and self-protective. Its vast wealth insulates it from the economic problems of the nation and the consequences of its own actions. Its social organization only serves to further insulate it from the everyday problems confronting most people. The private schools, exclusive neighborhoods, social clubs, and elite organizations allow upper-class individuals and their highly paid minions to live in a self-perpetuating, self-reinforcing world of delusion. Writing in 1936 about an earlier time of economic hardship, Marquis Childs noted that the events of 1929 to 1933 and the fact that 12 million people were without work had no impact on the insulated upper class.[4] This was reflected in their militant opposition to the New Deal. In this upper-class world there is no reason to reflect on the possible conflict between their interests and the interests of this nation or of the world; it is assumed that their interests are the interests of the nation and the world. If they didn't "know" this from their own families or their own experiences, they were taught it in their schools or by their understanding of Locke, Smith, and all the others who have argued that the only social duty of the owner of wealth is the pursuit of perceived self-interest. Upper-class delusions are protected by their social existence and by self-serving ideologies. Also, the same mindset that fuels their success creates a kind of blindness. Francois Crouzet has noted that England's dominance from 1815 to World War I was partly a result of the English elite's "remarkable steadfastness, ruthlessness, and single mindedness."[5] That kind of "political will" can also cause people to refuse to recognize realities.

In the case of the Anglo-American upper class during the past several decades, it also is probably true that they support radical laissez faire because it is, in their view, the only strategy that enhances their power and influence within the United States and it is the only means by which they can gain the control of assets around the world, which will help to keep them on top of other interests and groups and nations. That is, just as free trade imperialism was the only alternative to colonialism, so is laissez faire today the only known method of sustaining Anglo-American power and influence globally. They are the dominant private power in the world, and only national governments can challenge that power. The commitment of the Anglo-American Establishment to laissez faire is their commitment to their global superiority. To ask them to give up one is to ask them to give up the other. That and their isolation and insulation probably mean that they cannot change direction unless forced to do so by some massive disruption of or challenge to existing patterns. Any reform program for the United States or the world that means they will be one voice among many, or that they will share influence and power, is probably off the table as far as the Establishment is concerned. It may be possible to conjure up a scenario in which they accept or even initiate a limited set of changes or reforms, but there is no reason to expect this and no reason to expect that such reform or changes would go far enough so as to actually reverse the decline of the U.S. economy. In order for them to initiate major positive reforms they would have to give up most or all of the following: their role as unilateral policymakers, their habit of managing people through manipulation, their disregard for the actual conditions of life experienced by the majority of people, and their assumption that what is good for them is good for the nation and the world.

The renowned sociologist Robert MacIver once observed that the "power of a group is no simple function of the force it disposes; it depends no less on its solidarity, its organizing ability, its leadership, its resources and its resourcefulness, its tenacity of purpose, and other things."[6] The Establishment clearly has solidarity, organizing ability, and resources. When it embarked on the laissez faire offensive, it had leadership, notably people like David Rockefeller, C. Douglas Dillon, and Eugene Rostow. Certainly they have been willing to use force and for more than thirty years they have displayed a tenacity of purpose. The upper class today may not have the leadership needed to challenge the laissez faire strategy that was earlier adopted by the likes of Acheson, McCloy, and Rockefeller. The upper class does not expect the rest of us to do anything other than adapt to the circumstances presented to us, or perish. They are in a much better position to adapt; things are rigged to favor them in any competitive struggle.[7] These are reasons that the ideas of Malthus, Darwin, and the Social Darwinists always appeal to the upper classes.

The upper class, or more accurately the active part of that class, and its highest-level employees, deduces policy from what it wants or needs to believe. That is what allowed them to ignore the successes of the New Deal and of the government interventionism of World War II and of the post-war period. The growing influence of laissez faire ideas after the 1970s was not based on any evidence that the FDR to JFK period was a failure or anything other than a big success, and it was not based on comparative studies of various national strategies that showed the superiority of laissez faire ideas. The influence of laissez faire ideas was based not on the policy record, but on the wealth, power, and influence of the people who promoted them. Those people accepted and promoted those ideas because they wanted to. They still do. Writing about a different time, Gabriel Kolko once observed that the "political imperatives of power interests basically define the nature of 'relevant' truth in American society."[8] He went on to suggest that those in power ignore those parts of reality that do not confirm "the power structure's interests and predetermined policy."

The Establishment is self-deluded. They believe what they want to believe and see what they need to see to sustain those beliefs. What they want to believe, need to believe, is that it is best for everyone in the long term if decisions about the creation, allocation, and use of wealth are left in their hands. Government can be involved, but only for purposes and in ways approved by them. The rest of us get no significant role in the decision making and, therefore, do not need to understand why things happen; we are to be managed.

Writing in the CFR's *Foreign Affairs* in 1994 Michael Clough clearly indicated that in order for the Establishment to shape U.S. international policy, they needed the appearance of an external threat that would force people to trust the Establishment or its "experts," that is, be managed.[9] This threat was missing in the mid-1990s. "Without a clear and present danger," Clough wrote, "the public is no longer willing to trust the experts." Clough suggested that today's Wise Men, who have replaced the likes of Dean Acheson and John J. McCloy, will need an external threat if they are going to influence the public and the country's institutions. Barely concealed, if at all, is the Establishment's general attitude toward most people; that is, they are to be managed and manipulated.

The organized, systematic, and conscious effort to manage or manipulate people's motivations, perceptions, values, and beliefs got under way in the early decades of the last century. In a number of important areas the developments were parallel to each other. In business this meant a shift in focus away from the physical work process and to a focus on the management of worker attitudes. In political studies it meant a shift from the study of what government does and can do to a focus on voter beliefs and behavior. The study of propaganda came to be more on how to do it and less on countering or debunking propaganda. In advertising a shift took place away from advertising to inform toward advertising as a means to manipulate the desires, impulses, and emotions of the consumer. An interest in using modern means of communication to influence, manage, and manipulate people also came to pervade modern theories of and studies of communication in this same period.[10] The upper-class effort to gain broad acceptance of laissez faire has always been about manipulating the public's opinions, not on careful studies of which strategies work for the majority of people. In spite of those efforts, there has never been a sustained support for laissez faire among the majority of people. The majority seems to recognize that laissez faire is not so much about opportunity in a fair and efficient marketplace, but is primarily about creating freedoms for a wealthy minority.

The Investor Class and Laissez Faire

As pointed out at the beginning of the book, laissez faire has always been about the freedom of the investor, not about the creation of basic consumable wealth for the majority of people. As Veblen explained, the English school supported freedom to invest and acquire and was only incidentally interested in production. Adam Smith told us that the self-seeking individual is always the best judge, unconsciously, of what will work best for everyone. Smith also told us that the private interests of the controller of wealth are naturally also the interests of the nation and the world. The nation, government, and democratic processes are in this view to be kept out of economic affairs and prevented from interfering with the self-interest of those seeking to make a profitable investment. The protection of and freedom for those who own or control property is central to laissez faire. Locke told us that a hundred years before Smith provided the investor-oriented economic doctrine. In today's language it is that self-seeking investor and the market that allegedly operate to allocate "scarce capital resources" in the most rational way.[11]

Veblen opposed this Locke-Smith view, explaining that by the early 1900s the economy had come under the control or influence of investors and financiers who had little commitment to the actual processes of production. This economic class developed rather quickly into an organized social class, which by the early 1900s controlled economic institutions more than it directly managed those institutions. There were many conflicts between this emerging investor class and other interests in the society, but it was the Great Depression and the New Deal that clearly and dramatically defined the conflict between investor-oriented laissez faire and general welfare-oriented activist government. With some periods of ebbing or flowing, the general welfare ideas achieved great success in the 1933 to 1963, or 1974, period. That has changed over the last three decades as the country has followed a path based on dogma and the plausible arguments of skilled defenders of laissez faire. Direct challenges to this dogma have appeared more in the international arena than in domestic politics.

Outside of the United States, Anglo-American laissez faire, or free trade imperialism, is being challenged in several ways. Within the IMF the so-called BRIC group (Brazil, Russia, India, China) has said that they should have greater voting power. In their view, the allocation of voting power no longer reflects the relative strengths of the member countries, but is a remnant of earlier times. The United States still has 17 percent of the vote and can block changes. With allies the U.S. upper class still controls the IMF and World Bank.[12] It has been suggested that the "U.S. would rather walk away from the IMF than give up control."[13] In this regard it is worth remembering that the system that emerged from the World War II negotiations had to be changed in the 1950s to better serve free trade imperialist goals. Some Establishment voices were initially opposed to Bretton Woods and favored a unilateral U.S. promotion of laissez faire. For example, Winthrop W. Aldrich, president of the Chase National Bank, called in 1944 for scrapping the Bretton Woods system and pursuing other methods to ensure global openness for investment. Aldrich then recommended that the United States, United Kingdom, and other Commonwealth nations come up with a substitute for Bretton Woods.[14] The ability of the Establishment to continue its dominance of this important institution over the long term is now at least questionable. What would they do if they lost it?

Another challenge, as noted before, is coming from a resurgent economic nationalism and a determination to resist or evade IMF conditionalities. National resistance has always been one of the problems facing the IMF. This has continued. For example, countries such as Japan, Korea, and India all control the investments coming into their countries.[15] More recently there has been a growing effort in several regions of the world to create alternatives to the IMF-World Bank system. That IMF system was of little help to Asian nations during the 1990s' financial crisis, and those nations have been developing institutions and resources that will allow them to avoid the IMF in the future.[16] Around the world middle-income countries, such as Argentina and Brazil, are paying off their loans and avoiding any new borrowing that is attached to IMF conditionalities.[17]

None of this seems to be causing any doubts within the Establishment about its policies; their primary reaction is to try to figure out how to counter these efforts and restore the IMF's influence.[18] The financial crisis of 2008 made Roger Altman, deputy Treasury secretary under Clinton, acknowledge in *Foreign Affairs* that the "Anglo-Saxon brand of market based capitalism" had lost much of its influence around the world. This brought no serious reevaluation of the policies. Instead, Altman suggested a temporary relaxation of IMF conditionalities and he observed that a declining United States will continue to be dominant for a while because of its military power.[19] The idea seems to be that as long as we have the guns we should keep pushing the same agenda. This seems to be roughly the attitude of the Establishment in general.

This commitment to laissez faire abroad is matched by the Establishment's determination to continue following laissez faire policies domestically and to continue recent U.S. trade policy. This commitment is unshaken in spite of the growing opposition to it and in spite of laissez faire's record of failure. As Irving Fisher, a leading U.S. economist, noted in 1907, laissez faire just does not work well.[20] In the aftermath of the 2008 financial crisis the financiers who created the crisis opposed any significant regulations or reforms designed to prevent future crises. The reasons for opposing financial regulation, or re-regulation, are partly simple and obvious. People got rich off of these financial activities. As Kevin Phillips has pointed out, the financial sector has been getting a much larger slice of the profit pie.[21] In the process that sector has been reshaping the U.S. economy.

> From 1973 to 1985 the financial sector never earned more than 16 percent of domestic corporate profits. In 1986, that figure reached 19 percent. In the 1990s, it oscillated between 21 percent and 30 percent, higher than it had ever been in the postwar period. This decade, it reached 41 percent.[22]

As their share of the economy grew, so did their freedom from government interference. Johnson cites the following areas of deregulatory success for Wall Street:

- — insistence on free movement of capital across borders;
- — the repeal of Depression-era regulations separating commercial and investment banking;
- — a congressional ban on the regulation of credit-default swaps;
- — major increases in the amount of leverage allowed to investment banks;
- — a light (dare I say invisible?) hand at the Securities and Exchange Commission in its regulatory enforcement;
- — an international agreement to allow banks to measure their own riskiness;
- — an intentional failure to update regulations so as to keep up with the tremendous pace of financial innovation.[23]

After the 2008 financial crisis the federal government has worried more about pleasing financial interests than it has about changing any of this.

Is Reform Possible?

Various economists have come forward with recommendations for reform. For example, with a new president coming into office, Robert Kuttner has offered both diagnoses of and cures for the country's economic ills. In *Obama's Challenge: America's Economic Crisis and the Power of a Transformative Presidency*, Kuttner observes that Obama will take office at a time "when the previous Republican administration is disgraced and the ideology of letting speculative markets rule is discredited by financial catastrophe." The upcoming Obama administration will be, Kuttner says, "the first time in four decades" that "a principled progressive enjoys an ideological tailwind." In Kuttner's view, "Clinton largely carried out the business agenda of globalization" and both Carter and Clinton took the position that government can do little to affect the economy.[24] Kuttner points out that Clinton bragged in 1996 that he had shrunk the government, eliminating 200,000 federal jobs. Kuttner sees an opportunity for Obama to do something different.

The problem is that Kuttner himself is not ready to focus on the core problem, which is deindustrialization. Kuttner says that Obama faces "four chronic problems," all made worse by recession. The four are increasing inequality and insecurity, energy and climate crisis, health care, and the decay of "public spaces and facilities." The nation's loss of manufacturing and its declining ability to produce do not make the list of chronic problems. He does mention the country's exploding trade deficit and the declining relative value of the dollar, but these are not examined in relation to deindustrialization.[25] Kuttner eventually gets around to mentioning the big decline in manufacturing employment between 1978 and 2008 but he does not explore the significance of this and, instead, gets into a lengthy, largely irrelevant discussion of Denmark and wages for "human service work" in Denmark.[26] Similarly, Kuttner mentions outsourcing,[27] but offers no discussion of the problem. Kuttner does focus on infrastructure problems,[28] but he never explores FDR's massive infrastructure program and he never even touches on Kennedy's policies. As weak as all of this is, he does at times strike the right tone and he does recommend far more change than is probably acceptable to Wall Street and the investor class. He even hints that free trade may have to go.

Kuttner observes that the economic crisis of 2008 is a result of "too much deregulation—too much private-sector mischief, too little government counterweight."[29] Kuttner goes on to say that the deregulation was driven by an ideological commitment to laissez faire, which was pushed by the "business class." Kuttner logically calls for a new round of regulation.[30] Like some other critics of recent trends,[31] Kuttner also calls for a return to more progressive tax policies and an expanded commitment to infrastructure investments.[32] Kuttner also specifically recommends the adoption of a transfer tax on speculative activities.[33] Near the end of his discussion he again alludes to the bigger and more central problem—the United States is being deindustrialized, in fact, demodernized. Kuttner indicates that serious changes are needed and that "tinkering with trade policy around the edges will lead to symbolic commitments on labor standards that do little to change the export of jobs, the widening trade imbalance, or the globalization of destabilizing financial speculation."[34] In the end, then, Kuttner commits to some kind of management of trade along with new regulation of financial activities.

Others have recently offered insightful criticisms of laissez faire with at least implied reforms or solutions. For example, James Galbraith observes in a recent book that while laissez faire may continue to dominate academic economics and parts of the media, it is widely discredited for the majority of Americans and it is widely rejected by countries around the world, particularly in Latin America, where no country is now willing to follow the IMF's program.[35] Galbraith notes that the IMF's program removed controls over the movement of capital and contributed thereby to the growth of speculative activities.[36] He also notes that the program opened up countries' resources to foreign takeover. None of this, Galbraith points out, is acknowledged by most of America's political leaders.

According to Galbraith, the early 1980s saw a return to dominance on the part of American banks.[37] This was partly achieved by the high interest rates of that period and a new corporate dependence on banks. That dependence and the need to service debt encouraged a short-term, cash-flow orientation by CEOs and managers. In Galbraith's view, these developments, along with deregulation and rising levels of speculative activity, changed the nature of the relationship between CEOs and the companies. The emphasis came to be on satisfaction of investors in the stock market and the banks rather than on the long-term productivity and health of the companies. Meanwhile, the CEOs have used their positions to create huge payouts to themselves.[38]

Deregulation, financial manipulation, and politics often produced complex webs of influence and corruption. Some examples of this are provided by Galbraith in the following:

> The deregulation of the savings and loans was the work, in substantial part, of a task force in the early 1980s headed by Vice President George H. W. Bush; the beneficiaries were people like Charles Keating, head of Lincoln Savings and Loan, the largest fraudulent S & L, who could hire Alan Greenspan, then in private consulting practice, to shill for his company with federal regulators. The deregulation of electricity in California, which so favored Enron (a company headed by George W. Bush's largest campaign contributor), was facilitated by an energy task force in the early 2000s headed by Vice President Richard W. Cheney.[39]

Galbraith argues that, in general, deregulation facilitated various kinds of market manipulation.[40] This was also part of what Kevin Phillips criticized as the Bush administration's proclivity toward crony capitalism.[41]

There is at this time no shortage of insightful analysis and criticism. Similarly there is no lack of suggestions for change, obviously some better than others. The problem is that virtually everyone who wants change is approaching this as if it is a question of what is good economic policy, when what we are looking at is something more than this. It is also an issue of power, and that will bring us back to the laissez faire agenda at home and abroad and to what is at the heart of the economic problem, the deindustrialization of the United States.

Ideas for Change and Reform

We need a package of reforms that is coherently focused on restoring and increasing what Alexander Hamilton called the nation's "labor power." The last such program was offered by President Kennedy. It was partially implemented and seems to have contributed to an economic boom. That boom lasted from 1962 to 1966, but the momentum from this probably carried over into the early 1970s. Today, all areas of the nation's economy, all issues, and all policies should be considered in relation to the goal of restoring and increasing the nation's labor power. The final product, of course, should be based on input from a multitude of experts from many fields. Nevertheless, the general nature of what is needed is pretty obvious.

We should spend much more on infrastructure. We need to maintain what we have and expand, improve, or replace what we have. We should continue to do things, such as finding better ways to burn coal. We should build a new generation of nuclear power plants. We might create a federal agency to explore and develop new sources of energy. We have to stop the disappearance of manufacturing from our country. We need to discourage speculation and limit mergers and acquisitions to those that provide some observable benefit to the national economy. We need a limit on interest rates. If banks cannot lend money at less than 6 percent interest, that is in itself a crisis. We need to make the banking and credit system serve the long-term productive interests of the nation. This will probably require a new version of the Glass-Steagall Act. The financial system, including the Federal Reserve system, needs to be regulated and restructured with the purpose of channeling money and credit into productive investment in the United States. This may require a combination of basic change in the Federal Reserve system plus re-regulation plus either breaking up the large banks or introducing a much greater role for government in the creation of credit and money.

The tax system needs to be fundamentally altered. We need to restore the progressivity that existed in the federal income tax in the 1930s to 1960s period. Although not the most aggressive in this period, something like the rates implemented during the Kennedy administration might be adequate. That included a top rate of 50 percent on earned income and 70 percent on unearned. The latter might be set even higher. The capital gains rates need to be restored to a higher rate and estate taxes need to be maintained. A transfer tax could be and should be used on many forms of speculation. We should provide tax breaks and/or government subsidies for economic activity that is beneficial to the national economy. As Robert Kennedy once pointed out, we have used the tax system to support and encourage various economic activities from the beginning of our country's history.[42]

Some form of trade regulation must be implemented. The strongest and most flexible method in this area is probably also the method that is most firmly rooted in U.S. experience and tradition, that is, tariffs. If some combination of other policies can achieve the same goals, they should be considered. Tariffs, however, have many advantages. They can directly affect imports and domestic production. The rates can be varied in relation to the particular characteristics of trading partners. Tariffs can be increased or decreased gradually, and tariff policy can be designed to avoid punishing American firms that committed to foreign production. Something has to be done to stop and reverse the movement of production out of the United States. U.S. support for IMF conditionalities and global laissez faire must end. We need to return to practical negotiations between nations. Also, in order to avoid trade war problems, it is essential that new mechanisms be created to expand global demand and investment. A growing global market will allow the United States to engage in some protectionism without damaging other nations.

One thing is clear and that is that in the long term you cannot have a prosperous and successful nation based on financial activity, speculation, and foreign investment. You may for a time have a prosperous and successful upper class based on those things, but not a nation. There is no shortage of ideas for reform. As William Greider noted in 1997, the main barrier to reform is "the dominating political power of finance capital."[43]

The Establishment and the Nation

The future of the U.S. upper class, in spite of their global aspirations and dreams, is tied to the future of nations. The whole history of today's globalized investor class is connected to the relationship between that class and nations, including the United States. They cannot escape that connection. The U.S. Establishment developed as an imperialist interest; they have always been such an interest. The Establishment's earliest and most lasting effort to organize itself, the Council on Foreign Relations (CFR), was related to its growing foreign involvement. The U.S. upper class existed and had roots within the country in earlier times, but the organized upper class of today is a product of a process of development that began in the late 1800s and culminated in the creation of the CFR in 1921.

From the 1890s forward the leaders of the U.S. investor class have been engaged in a constant effort to limit and shape the role of the nation and of national governments. By the early 1900s they were openly violating the sovereignty of other nations and they were manipulating and exploiting the national resources and the people of the United States. The policies adopted toward Cuba, Nicaragua, and other countries were designed to advance the power and wealth of the investor class; they had little or nothing to do with any legitimate U.S. national interests. The U.S. upper class was following the lead of their English partners. The long-term development of the English upper class was thoroughly intertwined with England's role in centuries of colonialism and imperialism.

Government and political processes developed in England under the auspices of an evolving but stable upper class. Government in the United States was born of revolution and its early development occurred with most of the colonial upper class on the sidelines or even in opposition to the new government. This and the emergence of a role for government in promoting economic development gave government a level of independence that probably never appeared in England. During much of this country's history the government was widely viewed as an instrument of economic progress. This idea was central to the Washington-Hamilton administration and was the basis for the American System school of thought. These ideas and the roots of U.S. government in revolution meant that government could play a role more independent of all class interests. This history also meant that there would be a significant potential for conflict between government and the interests of private wealth. In the early decades of the country's history that conflict revolved around the clash between pro-industrialization forces, private and public, and the interests of free traders in the South and Northeast.

National economic policy most recently came into conflict with private wealth and private interests during the New Deal period. Roosevelt and Kennedy, and to some extent even Eisenhower and Nixon, thought of government as an instrument of economic progress. Leading forces within the upper class never accepted the New Deal, never appreciated or recognized the achievements of New Deal policies, and were apparently always ready to junk those policies in favor of a more controlled and limited role for government. This was apparent in their clash with FDR, their hostile response to Kennedy, their early commitment to the antigovernment IMF program, and in the laissez faire offensive in the United States that began in the 1970s and continues today.

The laissez faire offensive, embodied in IMF conditionalities and obvious in the drift of things in the United States after Nixon left office, was intended to place as much decision-making power in private hands as was possible. Laissez faire is ultimately and actually about the accumulation of wealth and about influence and power, not about the efficiency or effectiveness of particular economic policies. Laissez faire allows private wealth a much greater role in shaping the world than does an idea of active government committed to economic progress and the interests of most people, that is, to the general welfare. Where government is responsive to the needs and interests of the majority, it is fulfilling its role in a democracy. That idea of democracy has not been near or dear to the Establishment.

The Establishment's primary goals have been to maintain and increase their wealth, influence, and power. Control over money and the creation of money is a means to that end. In order to achieve that goal money has to be used. With "globalism" the Establishment turned its attention to the use of American economic power and of U.S. currency to achieve global power. Ultimately that means trading the dollar for ownership and control of assets in other countries and it means the elevation of private power over public or governmental power. That does not necessarily mean a smaller or weaker government in all areas. Even the great state minimalist, John Locke, proposed an important role for government in domestic law and order, foreign affairs, and protection of property. The role of government in these areas was apparently open-ended for Locke. That is, in his mind that role could be huge. The key to understanding Locke and the importance of his ideas to the upper class is that Locke's focus was on the purposes of government, not its size.

In international affairs the Establishment has been using the dollar to further its own international ambitions. United States currency has become a tool used by the upper class to expand its global wealth and influence. Perhaps ironically, the upper class's choice of policies means that the traditional foundation for a national currency is in the case of the dollar collapsing, at the same time that the amount of dollars out there is vastly increasing. The deteriorating U.S. economy cannot indefinitely back up the value of the dollar. For that matter, it cannot indefinitely provide the other primary resource used by the upper class to further their global objectives, that is, U.S. military strength. There is now a very dangerous dynamic involving the Anglo-American Establishment's continuing drive for power, a declining U.S. economy, the rise of China, and a growing rejection of laissez faire in most of the world.

The Acquisition of Wealth

The one obvious thing that profits from rigged oil prices; excessive interest rates; income from tax cuts; profits enhanced through mergers and acquisitions; money made from financial manipulation, speculation, and buying and selling financial instruments; and profits from derivatives have in common is that they are all forms of wealth acquisition, not wealth creation. Vast amounts of money have become available to the upper class since the 1970s. They have probably used much of that to buy up assets in foreign countries.

By one estimate of changes between 1970 and 2000 in the reported income of the country's 134,000 wealthiest families, those families had several hundred billion dollars more in income in 2000 than in 1970.[44] Those figures were for before-tax-reported income. The growth in after-tax income would be larger as the rich enjoyed a series of tax cuts. For example, the tax rate on capital gains, a major source of the income for the super-rich, was down to 28 percent in 1987 and fell further to 20 percent in 1998 and 15 percent in 2003.[45]

We have very little information about what has been done with that money. There are hints out there. Some money probably went into real estate speculation for a time, up to 2006 or 2007.[46] Some of it, perhaps a great deal of it, has ultimately gone into foreign portfolio investments, investments that supposedly do not involve active control of the assets. For example, after some legal changes, foreign portfolio investment in Brazil rose from 760 million dollars in 1994 to 30 billion in 1997. Also, perhaps indicative of the drift of things, foreign direct investment in Brazil by American corporations, a separate category, rose from 19 billion dollars in 1997 to 45 billion dollars in 2008.[47] Reportedly, around 2005, U.S. corporations had large amounts of money and little inclination to invest it in the United States.[48] In 2008 a Swiss bank acknowledged that it was sheltering from U.S. taxation 18 billion dollars in American money.[49] This was one bank. As noted in the previous chapter, the income of the top 1 percent of U.S. households rose by 34.8 percent between 2001 and 2005. We have no reliable information on how many tens or hundreds of billions of dollars have left the United States over the last fifteen or twenty years. The growth in income and the tax cuts given to the wealthy have likely financed both speculation and investments around the world, perhaps separating the investor class from the dollar to some extent. It is now only one of the currencies in which their wealth is based. Although the investor class is globally oriented, it seems unlikely that the dollar has actually become a global currency, as was recently declared in *Foreign Affairs*.[50]

Many people may think of the financial crisis that erupted in 2007 and 2008 as something extreme, that is, extraordinarily reckless profit seeking producing a dangerous bubble bound to burst. Certainly the recent crisis, apparently triggered by the collapse of the mortgage securities market, displays a type of extremism in financial manipulation and recklessness. Much of the details and many important facts are unknown now and will likely remain unknown. That includes anything like good figures on how much money was made and by whom. It also includes a lack of good estimates of who the big losers were and how much they lost.

Most of the growth in the creation and selling of mortgage securities took place in the 2002 to 2007 period. The securitized mortgages came to be known as collateralized debt obligations. Thousands of mortgages and other debts were packaged together, and people and institutions bought and sold the rights to a piece of the principal and the interest contained in the packages. The people who originally offered the mortgages sold them quickly and often were not interested in whether people could actually pay on these mortgages. Home buyers were, in many cases, enticed to borrow by giving them low interest rates for the early years or just adjustable rate mortgages. Mortgages were often offered requiring zero down payment. Often the borrower did not have to show an ability to pay. These and other techniques allowed for rapid expansion of the mortgage securities and contributed to rising housing prices by creating an artificial demand, that is, a housing bubble. The bubble quickly became unsustainable.[51] The percentage of houses purchased with no down payment rose from 3 percent in 2003 to 33 percent in 2006. The subprime share of mortgages, mortgages given to people with doubtful capacities to pay, rose from 9 percent in 2002 to 25 percent four years later.[52]

The mortgages were not held, as was the case from the 1930s through the 1970s, by local banks interested in promoting local home building and the local economy. The financial companies offering the loans did so purely as a financial operation. The buying and selling of mortgage securities and of the insurance on these securities, known as credit default swaps, produced plenty of winners and losers. Winners were major banks like Citigroup, J. P. Morgan Chase, Bank of America, Goldman Sachs, Morgan Stanley, and Merrill Lynch. These banks and their shareholders made large amounts of money from mortgage securities and other forms of derivatives and they expected, correctly, that the federal government would bail them out if eventually things went badly.[53] The losers, and we have very little information about this, included pension funds, local governments, university endowments, school districts, and also banks and insurance companies.[54] These events were important in and of themselves, but we need to keep in mind that they are part of a bigger picture, which is far more important. The subprime mortgage crisis is a crisis within a crisis in two ways. First, it is in some ways similar to many other crises over the last thirty or so years. Second, it is part of the financialization of the U.S. economy, which is directly connected to the deindustrialization of the economy.

In his discussion of Goldman Sachs's role in the mortgage securities crisis, Matt Taibbi notes that Goldman and other major banks were heavily involved around the same time, 2003 to 2008, in speculation on oil prices and other commodities.[55] Overall, commodities speculation rose from 13 billion dollars in 2003 to 317 billion in 2008. Bank speculation in oil brings together the two sets of interests, which have been important in so many ways in American history and which have been long interconnected in other ways. Recently, Goldman has also become involved, along with Al Gore, in buying and selling carbon credits.[56]

While the scale of and the specific characteristics of the mortgage securities-related crisis may be unique, the financial nature of the activity and of the crisis it produced are not really new. Kevin Phillips points out that the federal government has been facilitating the financialization of the economy since the early 1980s and has been repeatedly involved in bailing out bankers and speculators.[57] That and the directly associated process of deindustrialization constitute the bigger crisis, one in motion since the 1970s, but accelerated, as noted in chapter nine, since the end of the 1990s. In 1950 29.3 percent of U.S. gross domestic profit (GDP) was in manufacturing; in 2005 it was 12 percent. In the early 1950s over half of all U.S. corporate profits came from manufacturing; it is now less than 10 percent. The financial sector took only 6 percent of corporate profits in 1947; less than 10 percent in the 1960s; over 30 percent in 2004.[58]

Kevin Phillips suggests that bailouts, expanding liquidity, regulatory passivity, and other national policies have directly contributed to the ascendance of finance in the national economy and in national policy making.[59] This "financial sector takeover of the U.S. economy" got underway in the 1980s according to Phillips.[60] Earlier, we placed the beginning of the takeover in the 1974 to 1980 period. Either way, the takeover of the economy by what FDR called "high finance" was enabled by economic deregulation and tolerance of debt-financed mergers and acquisitions, speculation, and derivatives.[61] The justifications for and defenses of these policies were lifted from free market economics. Reagan, Clinton, and the two Bushes embraced and promoted this free market. No major public official was more zealous than Alan Greenspan, who was chairman of the Federal Reserve from 1987 to 2006, overlapping all four of our free market presidents. Greenspan disdained government and claimed that unfettered markets produced the most efficient allocation of capital, a slightly more sophisticated version of Smith's claim that the investor always knows best how to employ his capital. Greenspan fiercely opposed any regulation of derivatives, and that view triumphed completely around 2000.[62] The forerunner to and source of Greenspan's disdain for government and trust in markets was Adam Smith.[63]

As we saw at the beginning of this book, Smith did not measure economic success and progress in terms of actual production and consumption.[64] He thought of it in terms of maximizing revenue. The best way, according to Smith, to maximize society's total revenue is to have individuals try to maximize their individual revenues. In Smith's view, that is how society's revenue is maximized and that is what he called the invisible hand. The individual knows best how to maximize revenue, not government. Therefore, those who command capital should do with it whatever yields the best return on investment. Smith's economic world was a money or financial world, not a world centered around production. What distinguished an American System thinker, whether it was Hamilton, Lincoln, Veblen, or FDR, from the British school was the clear-headed focus on the physical economy. What distinguished the British school was a steadfast commitment to protecting the rights of a small part of the population to acquire and accumulate wealth.

Hamilton developed a strategy to promote the long-term development of the nation's physical economy. Things like trade regulation, investment in and support for science and infrastructure, and a national bank were supposed to help to create and produce physical wealth. While Hamilton accepted property, markets, profits, and self-interest as part of the economy, he thought that there had to be a "common directing power." He thought that that power had to be an energetic national government. Hamilton rejected a core assumption of Smith's economics, the idea that there is an identity of interests between private controllers of wealth and the nation. That identity of interests in Smith's economic ideas was made possible by Smith's assertion that maximizing revenue is the measure of all things. Later arguments about markets only served to dress up Smith's core argument in new clothes, that is, alleged impersonal forces that promoted efficiency or rationally allocated capital.

One of the things that was probably shared by all American System thinkers from Hamilton to Kennedy was the inclination to think first about what we want out of economic activity. That forced immediate attention to the outcomes of economic processes for the nation as a whole. The desired outcome was a prosperous and capable nation. The next question, of course, would be whether government could and should play some role in promoting such physical progress. The development of American System ideas from Hamilton to Kennedy provided a framework or general program for government action. The general ideas had to do with an active government role in infrastructure, science, education, regulation of credit and finance through a national bank, and regulation of trade. In Smith's view, all of this was either unnecessary or should be kept to a minimum, and only in areas where it was absolutely necessary. None of it should disturb or replace the role of return on investment as the dominant factor in the economy. In practice, this would leave what Veblen called the investor class, or more frequently absentee owners, as the force that shaped the direction of the country.

The effort to make the investor class's interests the interests of the country got under way in the United States in the first third of the last century. Part of that effort included a close alliance with a British upper class that had come to rely heavily on financial activity and foreign investments.[65] The CFR-Wall Street establishment has, in many respects, tried to repeat that British strategy, especially since the 1970s. The middle of the last century was to a considerable degree shaped by American System ideas. Between 1933 and the early 1970s the United States developed the most economically advanced and most prosperous nation in history. The New Deal and World War II mobilization played major roles in that prosperity. Eisenhower's highway program and the space program were also important, as was the overall role of government in the economy.

Concluding Remarks, and Obama

We are faced with the economic decline of the country. The most relevant source of this decline is the abandonment of the economic policies that originated with Alexander Hamilton and were expressed most recently in Franklin Roosevelt's New Deal and JFK's New Frontier. We abandoned those policies in favor of policies rooted in the ideas of Locke and Smith. Instead of developing and organizing our abilities to provide for ourselves, we have embraced a program that undermines production in favor of acquisition, a program that facilitates the concentration of claims on production without taking care of production. We have since the 1970s reorganized things to serve those who seek to acquire wealth, acquire it here in the United States and around the world. The investor class that Veblen saw developing a century ago as the dominant interest in the United States has recovered the position it lost to some extent in the middle of the last century. Since the 1970s it regained its control over much of the nation's and, until recently, the world's affairs. As a result, the economy has in recent times increasingly operated to facilitate acquisition of wealth instead of creation of wealth. The creation of national wealth and the promotion of the general welfare have been treated by the upper class as irrelevant.

This tendency toward acquisition of wealth, what the upper class often or typically means by "investment," was recognized as characteristic of the British upper class by representatives of the American System such as Henry Carey and Thorstein Veblen. Carey observed that the British school of thought showed little or no appreciation for the human potential to create wealth, but instead defended a social order in which a few acquire wealth while millions perish.[66] In nations where acquisition of wealth is the dominant tendency, Carey observed, those who have power get to take and keep.[67] Veblen noted that in the British school of economics, from Smith onward, little or no distinction has been made between the production of wealth and the acquisition of wealth and "what passes for a theory of production is occupied with phenomena of investment and acquisition." The goal in the British school is gain, not national prosperity; investment is a substitute for industry.[68]

The observation that the British school of economics and the practices of the British upper class and the emerging U.S. absentee owner class were based in acquisition rather than production was present in Veblen's work throughout his life. In his first major work, *The Theory of the Leisure Class*, Veblen noted that

> the relation of the leisure (that is, propertied non-industrial) class to the economic process is a pecuniary relation—a relation of acquisition, not of production; of exploitation, not of serviceability…Their office is of a parasitic character, and their interest is to divert what substance they may to their own use, and to retain whatever is under their hand.[69]

Veblen then suggested, somewhat optimistically, that this class would find ways to acquire wealth that were at least compatible with the continuing survival of the industrial process. In his later work he was somewhat less optimistic, and we should know from what has happened in the United States over the last thirty-five years or so that there is not much basis for optimism when it comes to the behavior of the upper class.

Because the upper class, or its leading elements, is unlikely to change, we need the federal government to do what leaders from Hamilton to Kennedy have done, provide a common purpose and direction for the country. As Richard Vernier notes, "Hamilton's vision of national strength depended above all on the endless attentions and devotions of statesmen to actively design and execute the nation's interests."[70] Kennedy's efforts to do this would be negatively but accurately characterized in the Wall Street charge against Kennedy that he was acting as the "enforcer of progress."

The American System, and similar approaches in other nations, provide an alternative to the two major ideological doctrines of the twentieth century, Soviet-influenced Marxism and British school laissez faire. One gave something like direct and total power over economic processes to a centralized state apparatus. The other stipulated that economic processes are best left to private interests seeking to maximize their own self-interest, perhaps with some influence from market forces. Government, in the spirit of John Locke, should be minimal in most areas. Government's role in police, military, and protection of property functions is implicitly open-ended in Locke's political doctrine. He never said anything about limiting government in those areas.

The American System school of thought offered and offers a pragmatic approach that is nevertheless directly tied to an ideal, a fixed goal or purpose, that is, maximum economic progress to allow people the opportunity to lead an interesting, productive, and secure life. The government's role in this is neither nothing nor everything; it is to be worked out in light of current circumstances and problems. Government can initiate, stimulate, facilitate, support, control, sanction, or protect economic activities in pursuit of economic progress. If education, scientific and technological research, and infrastructure are taken care of and we can produce cheap energy and provide adequate credit and stimulate investment in domestic production, we can have a prosperous nation.

The Anglo-American doctrine of laissez faire and free trade received something of a setback by the financial crisis of 2007–08. That crisis apparently was viewed by a majority of people as having more to do with too little government than too much. Many Americans are aware that laissez faire in the area of trade is contributing to the loss of the country's ability to produce. The election in 2008 went to the candidate who vaguely promised to use governmental powers to address problems.

President Barack Obama followed one of the most aggressive promoters of laissez faire and private wealth ever to be in the White House. George W. Bush was president during one of the, if not the, sharpest losses of manufacturing in history and he never even acknowledged that it was happening. For the most part, the major media cooperated with him in that. Obama came into office clearly indicating that he was bothered by how much influence the upper class and Wall Street had in his own party.[71] He was critical of the Republican Party's commitment to laissez faire and he was critical of the doctrine itself.[72] In his budget and personnel decisions he began to repair the federal regulatory apparatus.[73] In the area of trade, Obama has acknowledged that free trade and globalization have damaged U.S. labor in both incomes and opportunity.[74] However, he takes his basic perspective on this from Robert Rubin, and Rubin's view is that globalization is inevitable and no tariff or other form of trade regulation is desirable or even possible, even with something like steel that is relatively costly to ship.[75] Obama's familiarity with Hamilton, Lincoln, and FDR[76] apparently does not provide him with ideas to counter Rubin's basic argument for free trade. Implicit in Rubin's perspective is the idea that there is no loss of production and jobs that would be big enough to justify or bring about a change in direction. That is, in Rubin's view—and this seems to be typical of almost all in the laissez faire, free trade camp—the United States could be thoroughly deindustrialized, to the point of disaster for most Americans, and you still wouldn't abandon that economic strategy. That Obama would accept Rubin's views as authoritative is disturbing. Laissez faire means that if the so-called markets dictate that the United States be reduced to rubble, so be it.

Obama has at times said the right things. In his speech on the economy at Georgetown University shortly after taking office, Obama said that we need to have our best people committed to making things, being engineers, scientists, and innovators, rather than engaging in financial manipulation.[77] Yet, in the same speech he said that we will deal with national debt by controlling health care costs; he does not say we will solve this by expanding the tax base through expanded production and rising income. He proposed an economic program that was at best largely irrelevant to the real issue, which is the decline of the United States as a producer nation. If the published excerpts of a lengthy October 2010 interview with President Obama are any indication, the president intends to carry on, like the upper class, as if the country is not in a state of industrial decline. On his own or in response to questions, the president touched on clean energy, health care, education, immigration, the deficit, infrastructure, and government spending. The loss of our industries and the loss of our ability to produce were not mentioned.[78]

It appears that Obama's personal life has involved the continuous need to adapt, conform, conciliate, and blend in.[79] Those habits, acquired living in a strange culture, attending an upper-class prep school, and in elite universities, will not serve him well as a leader. The circumstances of this time demand a president with a strong economic program and a willingness to aggressively push the program. That means someone who is ready for a fight. There may be a fundamental mismatch between this president's character and the demands of this period. What is needed is a strong program of reform, perhaps a program that circumvents existing programs and institutions. The president must be committed, persistent, and combative. In these circumstances one of the traits that has endeared Barack Obama to people may turn out to be a critical character flaw. That is, his ability to fit in, to adapt, to see all sides of an argument, to conciliate, to compromise and to mediate, to be the man in the middle. This set of inclinations or tendencies has in some ways served Barack Obama well. It has enabled him to cope with numerous changes and to deal with his own status as a biracial man. It has often been a plus. At this time, however, as character traits, these tendencies may essentially complement the Establishment's resistance to change. His caution and their resistance may add up to failure—for him, for them, and for the nation.

Barak was able to fit in at Punahou, the top private school in Hawaii, by relating positively to virtually every group in the school.[80] This would have been an important ability for a biracial boy from a relatively humble background. This ability was noted again at Barack's next stop, Occidental College in California. One student noted that Barack's biracial background allowed him to get along with people of many different backgrounds. An African-American student at Occidental observed that Barack had an unusual ability to fit in with different communities.[81] A coworker of Barack's in the early 1980s noted that he had an exceptional "ability to figure out what people wanted."[82]

Barack's ability to see the world from multiple perspectives was noted at Harvard Law. As a law student Barack excelled at understanding all sides of an argument, an asset for a lawyer or for the president of the *Harvard Law Review*, a position achieved by Barack.[83] His ability to identify with various conflicting viewpoints and his inclination to mediate conflicts rather than to pick a side was widely recognized and even a target of humor on the part of fellow students.[84] He really disliked confrontation.[85] The consensus among people at Harvard Law was that while Barack held generally "progressive views," he "always used language of reconciliation rather than of insistence."[86] Even as a community organizer Barack displayed an aversion to conflict, and as a United States senator conciliation was the "dominant strain of his political personality."[87] Reportedly, both his critics and his supporters often wondered what he stood for. One of Obama's harshest critics said in 2005 that he had never heard Obama "say anything new or earthshaking, or support anything that would require the courage of his convictions."[88] An even harsher view was expressed earlier, in 1996, by a political science professor who described Obama as a foundation-hatched agent of IMF policies.[89]

This lack of commitment to a program and the inclination to conciliate are part of the explanation for his excessive caution and lack of an FDR-type boldness.[90] It may also be that Obama's reported detachment[91] contributes to inaction. Whatever the final and complete list of explanations might include, it is becoming obvious that the first thing Barack Obama has to overcome is his own reluctance to do what Alexander Hamilton said was necessary, that is, impose a common purpose. Barack Obama recognizes that common purpose is essential to a presidency that matters and he knows that to be successful he must "come to grips with the larger economic forces."[92] That was part of the success of the New Deal.

The successes of the New Deal up to World War II are probably attributable to a number of factors, including the severity of the circumstances, the related popular support for reforms, the presence of capable and aggressive pro–New Deal leaders in the Senate and House, FDR's own leadership, and the overall coherence of most of FDR's policies. As of 2010 we have some of the severity of circumstances and some of the popular support for reform, but little else. The upper class, as noted earlier, is unlikely to provide any impetus for change. They are wealthier today than they were thirty-five years ago. In spite of recent setbacks in the promotion of laissez faire globally, they probably own much more of the world's wealth than they did thirty-five years ago. They probably see no alternative to the laissez faire, free trade strategy that will further their global interests. They are thoroughly insulated from criticism and from the problems of the majority of people. They appear to be incapable of making even minor changes that might be in their long-term interests. From a distance, they appear to be frozen, unwilling to challenge the accepted wisdom and unwilling to challenge the generation that left them their current battle plans. The global laissez faire strategy developed in the 1950s is in serious jeopardy now, but the U.S. Establishment apparently doesn't see that yet and as long as they don't, they won't entertain any major change for this country either. That means that all hopes for useful change are primarily with the general citizenry and our elected chief executive.

We may be witnessing the end of an era. The era could be the contemporary age of laissez faire that began in the 1950s in international policy and accelerated in the 1970s and early 1980s. It might also be the end of the era of free trade imperialism that began in earnest in the mid-1800s with a shift in that direction by the British. The U.S. Establishment embraced something like that a century ago, but only seriously attempted to implement it beginning in the 1950s. The era that is ending could also be the 200-year run that the Anglo and then Anglo-American upper classes have had as the leading world power. That would also end the era of Anglo-American laissez faire.

About 2,500 years ago humanity took a huge step forward when in some systematic way the species became conscious of its capacity to understand and improve the world. Consciousness of this capacity became a foundation of the idea of progress. It was in Greece, according to Ludwig Edelstein, that humans first assumed the role of authors of progress.[93] Our greatest presidents have consciously filled that role. That is obviously true of Washington, Lincoln, FDR, and Kennedy. They recognized that there was no system that would transform the interests of private wealth into the general welfare without the conscious intervention of the country's leaders and its citizens. The country moves forward by consciously shaping itself, not by passively waiting to see if the interests of private wealth coincide with the nation's or humanity's interests. For much of two centuries the United States was identified with the idea of progress. If we don't restore that, most of our lives and future lives will be much less than they could have been. Material prosperity and progress are no guarantees that lives will be meaningful and rewarding. Progress and prosperity, however, do give us a chance to choose. Decay and decline will deny that choice to most people. Decay and decline will also create dangerous situations.

Very near the end of his life, Robert Kennedy said about Vietnam that the people and government of the United States must abandon their illusions about that war and face the grim realities if the country was to avoid a much greater anguish.[94] We need now to confront the grim realities of this country's accelerating economic decline if we are to reverse that decline and avoid a much greater anguish. The illusions we need to abandon now include the belief that all of the narrow private interests operating in our society will, if left to their own imperatives, somehow add up to the nation's or the world's general welfare.

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