The Concrete Characteristics of Laissez-Faire Capitalism

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« Laissez-faire » liberalism advocated a system of free economy animated by competition and based on the individual enterprise and initiative. Now let us see what are the traits which are presented by « laissez-faire » capitalism in its American setting.

The regime of collective enterprise

First of all, private enterprise in many fields has ceased to be individual and become collective. This change was led up to by the era of « corporations » i.e. joint stock companies, which they call in France « les sociétés anonymes » — an expression worth noting. Already in 1930 there were in the United States more than 300,000 « corporations ». The anonymity of these companies and especially the sale of shares on the market permitted a considerable growth in the number of the owners of an enterprise.

However, the fact that an enterprise is a joint stock company does not necessarily signify that it is collective. This connection is only verified on the level of the large corporation. Now in the United States it is particularly this category which is predominant. The authors Berle and Means, in their book entitled « The Modern Corporation and Private Property » analyzed the position of the two hundred biggest industrial companies of this country in 1930. At that time, they, themselves, held almost half the total shares of all the industrial companies of the United States. And the movement of concentration has since increased because it is claimed that big enterprises develop twice as fast as others. From the point of view of economic importance the big corporation represents then the predominant and truly significant type of enterprise in the North American Continent. We will see, moreover, further on, in what its real influence consists.

The economic system of the United States then is to-day characterized by collective enterprise. This statement appears still more apparent when we consider that — always in 1930 — among the hundred and forty-four biggest American companies only twenty had less than five thousand shareholders. Fifty-three had from 5,000 to 20,000; thirty-nine from 20,000 to 50,000; twenty-two from 50,000 to 100,000; seven from 100,000 to 200,000 and three from 200,000 to 500,000. The number of shareholders in the American Telephone and Telegraph Co. rose in 1931 to 642,180, that in the Pennsylvania Railroad to 241,391, and that in the United States Steel Corporation to 174,507.

Separation between ownership and control

Individual enterprise depended upon the initiative of the proprietor; collective ownership is directed by men who often have no direct interest or hold only a small portion of the shares of the company. Actually, the increase in the number of shareholders is accompanied by a growing dispersal of ownership. The twenty largest shareholders of the Pennsylvania Railroad hold only 2.7% of the shares; those of the American Telephone and Telegraph but 4% and those of the United States Steel Corporation only 5%. This wide circulation of the shares of industrial companies has entailed a separation between ownership and control. Owners now are too numerous and too uninformed in business affairs even to exercise their right of inspection. The control then of the large companies passes into the hands of a minority of the shareholders, when it is not held by the directors themselves. This minority can maintain their supremacy thanks to the pyramiding system, the mechanism of the « voting trust » and the manipulation of proxies. We are led then to this the situation, at the least a paradoxical one, where those charged with administering an industrial company, control it themselves and are in a position to maintain themselves indefinitely at the head of the enterprise. Berle and Means state that only eleven of the
two hundred biggest American corporations and six percent of their wealth were under the control of individuals holding the majority of the shares. On the other hand, forty-four percent of these same companies and fifty-eight percent of their capital were «controlled» by the directors themselves.

A great many implications could be drawn from such a situation, particularly when we consider that most frequently the interests of the minority or «Management» do not coincide with those of the enterprise. We will limit ourselves to stating that on the whole ownership no longer implies control and that, from now on, individual enterprise, having become collective, will no longer depend on the initiative of the owners but on that of directors who often manage to escape from the control and watchfulness of shareholders. Thus, in the large modern enterprise, not only have the owners less and less opportunity of exercising their right of observation, but they are more and more incapable of exercising it. Finally, in the course of this evolution, shareholders have become owners only of those pieces of paper called shares. In fact, the production goods of the enterprise no longer belong in practice to anybody in particular and they are used, by those who direct the company, very often for their personal aggrandizement.

Planned economy

It will have been surmised that this regime of the large corporation has practically made out of capitalism a system of planned economy. We have already seen that the two hundred largest corporations hold about half of the total shares of all the industrial companies of the United States. However, this is only a very incomplete measure of the importance of these enterprises in the totality of the American and even world economy. Summarizing in French the statements of Berle and Means, Gaétan Pirou writes, «By reason of the diversity of the field of action of these two hundred companies, the average American (he whom we call the «man on the street») depends on them of necessity for the satisfaction of the greater number of his activities. Whether he takes a train, or uses an automobile or consumes gas or electricity or enjoys a radio or buys groceries or footwear these are so many needs generally satisfied by some one of these two hundred companies. In every detail of his daily life the average American comes under their influence. A real influence it must be added, say our writers, which is greater than apparent influence since, of the numerous small companies there are many which possess only a fictitious independence. The two hundred large companies control the market, determine the prices, exercise real supremacy over the general economic activity. Finally, about two thousand individuals direct the half of industry and control the life and activity of a population of a hundred and twenty millions».

Such a system, where a handful of individuals determine the processes of manufacture, define the level, the quality, the diversity of production, decide the volume of employment and revenues, fix the prices, and form, with the help of publicity, even the tastes of consumers, becomes inevitably a system of planned economy. But, and this is even more serious, it is a system where the economy is directed by individuals who are not responsible with respect to the owners of the enterprise, who, in practice, need not answer for their decisions either to those who produce or those who consume or even to the State. Their lack of responsibility is almost complete.

The consequences of such a state of affairs are many. For example, it is evident that competition between a host of little enterprises ceases to be characteristic of the regime. The real market is controlled either by the monopolies, trusts and cartels or by the oligopolies where large enterprises play a predominant role. Under these conditions the Enterprise assumes a new signification which Berle and Means point out, «At the same time that the concern is enlarged in size it changes nature and character; it is no longer a purely private business; it becomes a social institution which permits our writers to call this enlarged corporation a quasi-public corporation. They mean to say by this that by reason of the very extent of the business and the importance of its management for the collectivity, it comes out of the domain of private action to merge with public activity».

There remains only to state that in such a regime the economy is not directed with regard to the common wealth but rather for the personal interests of the little group which guides its destinies. The contradiction existing between the objectives of «liberal» capitalism and the natural ends of economic activity thus appear in all the evidence.

(2) Re-translated into English.

(3) Pirou, Gaétan, Nouveaux courants de la théorie économique aux États-Unis. Tome II, p. 103.

Extract from the address presented to the Semaines sociales de France at Lille on July 19, 1949.