The lasting effect of chattel slavery on the characteristics of American capitalism

The United States is a liberal market economy. Other countries such Great Britain, New Zealand, and Australia, are similarly structured, however the United States is consistently more extreme even compared to its peers of political economy. Of course, it stands in even starker contrast with coordinated market economies such as Germany or Sweden. In the developed world, it has among the lowest levels of worker protections, high unemployment rates with fewer protections, higher engagement in paid employment, higher levels of income inequality, and lower social protections. Many scholars from many disciplines work to understand why American capitalism is as particularly brutal as it is, yet none to a satisfactory level.

Literature Review

In their framework on the varieties of capitalism, Peter Hall and David Soskice elaborate a framework under which they examine the differences between *liberal market economies* (LMEs), characterized by hierarchies and reliance on market forces, and *coordinated market economies* (CMEs), characterized by higher reliance on collaborative and strategic interactions among firms and other actors. Hall & Soskice identify five 'spheres' where firms are said to resolve coordination problems: industrial relations, vocational training and education, corporate governance, inter-firm relations, and employees.

However, while this frameworks provides us a basis for which we can attempt to understand the United States and its unique features, their volume does not attempt to definitively trace its origins. In fact, few works give due emphasis on the legacy of institutionalized racism that persists within the country or analyze it for the how it impacted the birth of American capitalism. After all, there are few better masters of institutional racism than America.

In the Oxford Handbook of the Welfare State, racism's role in the definition of a welfare state is scarcely analyzed. In a chapter that is partly devoted to the prejudiced faced by immigrants, Stephen Castles and Carl-Ulrik Schierup cover the topic in only 13 pages. They acknowledge diversity could affect welfare policy by creating public hostility to welfare transfers and by the growth of the extreme-right racist parties.

But, following this, Castles and Schierup cite two distinct studies that reach opposite conclusions on the matter of ethnic minorities and their effect on welfare policies; Alesina et al's 2001 paper which finds that Americans are against redistributive policies because it would transfer resources to black people; and Crepaz's 2006 study finding that Europeans' response to immigration is benign and that there is no definitive connection between multicultural policies and support for redistributive wealth (Castles & Schierup, 2010).

There then exists a gap in our understanding of how the historical legacy of institutionalized racism may have influenced the particular type of capitalism the United States exhibits. It is well worth a look. After all, this is a unique aspect of American history.[1]

Methodology and Approach

But why should we look at slavery and the origin of the political economy when examining American capitalism? Why is it not sufficient to simply understand the way firms and labor coordinate today to understand the political economy?

Hall & Soskice provide us with good reason. Their approach departs from others in that it accepts the role of culture, informal rules, and history in their attempt to understand political economy. Firms in an economy cannot operate in isolation. They face a set of choices set by their context of which they can be expected to follow the optimum route. This provides an entry point to considering history and culture to examine how repeated interactions lead to "*shared understandings* about what other actors are likely to do" and therefore influence what route a firm will take given what is appropriate (Hall & Soskice, 2001).

In that light, I argue that the occurrence of institutional racism is a cornerstone for which we should examine and interpret American capitalism. To do this analysis, I will use the framework set by Hall & Soskice, as their focus on the coordination of firms is especially relevant when we consider the nature of coordination between slave owners and enslaved people.

How, then, did the culture of institutionalized racism define American capitalism and how does its legacy continue to separate it from the capitalist models of other peer nations?

The nature of political economies

There are two types of political economy: *liberal market economies* (LMEs) and *coordinated market economies* (CMEs). The defining characteristics of each is the method through which they resolve the coordination problems between firms and the labor they require.

In liberal market economies, coordination is resolved by heavy reliance on neo-classical market forces and hierarchical structures. This is accomplished mainly through competition and formal contracts (Hall & Soskice, 2001).

In contrast, coordinated market economies rely heavily on other relationships and institutions to resolve arrangements. This normally involves extensive relationships, fewer reliance on contracts, network-based monitoring, the exchange of information and reliance on collaboration (Hall & Soskice, 2001).

[1] Other countries, of course, have exhibited patterns of racism via colonization, extermination and subjugation of native peoples, participation in the Transatlantic Slave Trade, and financial participation in the profits of American agriculture that utilized slave labor. However, other nations banned the trade and owning of slaves much earlier and do not have the same relation with the descendants of these slaves as does the United States.

To better understand the differences between each approach, I will consider three of the five spheres of the political economy: industrial relations, corporate governance and inter-firm relations, as they are the three most clearly defined by American chattel slavery. I will describe their characteristics in the modern American economy and subsequently identify its roots in early American history.

The formation of the American political economy

Before I delve into the framework analysis, it is necessary to understand the cultural and political landscape of the United States. In this time, the institution of slavery was integral to the formation of *shared expectations* that defined the political economy.

The political landscape of early American history

Slavery is well regarded to have an important effect on American government. Under fear of a central power that would threaten the independent choices each colony, the Articles of Confederation laid the framework of independent colonies only loosely united. It was soon recognized to be insufficient and a central government was formed under the Constitution (History.com Editors, 2019).

It is here that several famous compromises were made to convince Southern slaveholders to join the union.[2] These compromises were built to protect Southern interests to both own slaves and to deny them political representation. Without these provisions, the Union would never have gained a central government. Even still, states' rights were and still are highly contested in American government. No coordination was possible in this cultural setting, leaving the market to coordinate individual firms and industries which were loosely aligned by common interests of craft or trade (Kreitner, 2017).

But why were slaveholders so powerful to be able to command these provisions? Southern agriculture by this time — fueled by free labor and fertile earth— was a source of phenomenal wealth. Cotton was the nation's most valuable export. The value of enslaved people at this time "exceeded that of all the railroads and factories" in the nation and the South contained more "concentration of banking capital than New York City" (Desmond, 2019). This made the plantation central to the formation of American capitalism.

This opportunity for agricultural and financial might was abetted by the Industrial Revolution. Shortly after the American Revolution, the cotton gin was invented which eliminated a bottleneck to its production.[3] This boom "hastened the invention of the factory"[4] in an effort to process the massive amount of cotton and sell it on the world market. Around the same time, the New York Stock Exchange was established. Bankers

[2] The Great Compromise provided that two bodies, the Senate and the House of Representatives, would approach representation in Congress differently; the Senate would have equal representation for all states and the House of Representatives would have representation proportional to state populations. The Three-Fifths Compromise, detailing that each black person counted as three-fifths of a white person (Khan Academy, n.d.).
[3] Prior to the invention of the cotton gin, enslaved persons picked more cotton than could be cleaned. The cotton gin sped up the process.
[4] Prior to the invention of the factory, more cotton was produced than could be manufactured and sold. The industrial revolution removed that bottleneck.

eager to partake in the wealth of big cotton emerged. A new form of economy was being invented (Desmond, 2019).

It was during this time that industry was born. Foundations of American capitalism are most commonly attributed to policies in the 20th century but this is not where American capitalism began. Labor, management and investment banking as we know them today, were born earlier when the systems of coordination were being defined, the "beating heart" of which, was [was slavery (Desmond, 2019).

Early American problems of coordination and their solutions

Next I will look at how early American conditions defined each of the three spheres of coordination.

Industrial relations

In political economies, firms need a way to coordinate the inevitable bargaining over wages and working conditions with the relevant labor force, the organizations that represent labor and other competing firms (Hall & Soskice, 2001).

In firms of a coordinated market economy there is a high reliance on knowledge sharing among laborers to improve production. Poaching of talent and adverse employer relationship are prevented by wider coordination, often through industry-wide bargains with trade unions and through intra-firm councils with considerable authority to protect workers. Without this coordination, information cannot be shared without fear of exploitation.

In a liberal market economy, by contrast, there is no such coordination to guarantee protections for firms and workers. What follows instead is the free flow of labor from firm to firm. Workers' rights are negotiated on an individual or firm-based level far more often than they are organized by industry.

Without intra-firm work councils and strong industry labor unions, top management in American firms have unilateral power over labor decisions with the ability to hire and fire in accordance with their interests alone.

This is directly traceable to the power slave owners could exert on their slaves. The first titans of industry in American capitalism were plantation owners. They exercised complete control over their laborers — enslaved black men, women, and children. There were, of course, no workers' rights because slaves were not human. Firms accomplished this control partly through political processes as detailed earlier, but they also relied heavily by repressing organization. Efforts to squash rebellion were top priorities for slave owners.

The intense control over workers' right to organize, the unilateral ability to make decisions without regard to laborers' interests, and the multipurpose use of slaves for physical as well as financial are still hallmarks of American industrial relations today. With these conditions in their favor, plantations were eager and willing to let the market do their bidding in

matters of coordination. The method greatly favored them financially, a topic I will explore in the next section.

Corporate governance

In this sphere, we explore corporate governance or the development of a financial system as the economy defines where firms can turn to for access to finance and what investors seek for assurance on their investments (Hall & Soskice, 2001).

In coordinated market economies, finance is typically provided to firms on a basis that less dependent on current performance or publicly traded information. This type of coordination allows firms to retain employees in times of poor economic performance and operate on long term goals. Financial investors are more dependent on 'inside' information of the company and reliant on intricate networks to seek assurances on investment (Hall & Soskice, 2001).

In contrast, firms in LMEs are concerned almost entirely by current financial health. Decisions are made to improve the short term progress of the company, usually the length of the tenure of the CEO or the present quarter. Evaluations of performance are heavily reliant on the performance of the company in the stock market, where the information is publicly traded. Firms do not have access to inside information and must rely on public information to measure their success.

These characteristics are certainly true in the case of the American economy and is strongly tied the industrial relations mentioned previously where firms have the right to fire and hire in accordance with their financial performance.

Many in pursuit of the reason for American obsession with financial performance often point to the 20th century such as the wild speculation that lead to the Great Depression or the 1980 repeal of the Glass-Steagall Act which allowed for the mergers of banks and for higher interest rates to their customers. However, as the sociologist Matthew Desmond argues, the true origins can be traced back to early slavery.

Long before subprime lending in mortgages lead to the 2008 crash, enslaved people served as the first collateral for a mortgage. Mortgage-backed securities first thrived in the late 1700s in America, but enslavers used them to a breath-taking scale. Securities in the 1820s and 1830s were based on the inflated value of enslaved people. The risk exposure of such speculation and inflated value represents, as historian Edward Baptist put it, "a new moment in international capitalism" and the "development of a globalized financial market" (Desmond, 2019). Bankers from the American North and Europe eagerly joined in on what they viewed as a market that could only continue to grow. They had no reason to believe cotton would ever be less profitable. But, as basic economics would indicate, the overcrowded supply of cotton caused the price to plummet, causing the Panic of 1837 (Desmond, 2019).

The American culture of wild speculation and pursuit of fabulous wealth through the profit of global production can be chased back to this time in American history. This hallmark of American capitalism that has allowed American firms to chase higher profits at the expense

of long term planning and against the interest of the general health of the economy is directly linked to the feverishness with which early Americans viewed the wonder of the cotton industry and the free labor that made it possible. By controlling entirely their labor force, they were able to move their production in any way they saw fit. This was abetted by the absence of coordination as states fought for more individual rights to feed the global production machine that brought them immense wealth.

Indeed this method lives on; many scholars have linked characteristics of the Panic of 1837 with the 2008 financial crisis. Not much has changed. This rashness of American capitalism is not so much a side note of the system, but rather a defining factor.

Inter-firm relations

Finally, we look at the relationships between firms in political economy. Firms must form relationships with other enterprises, such as suppliers or clients, in order to secure supplies, access to technology of production and demand for its products. This can take the form of standard setting, technology transfer, and collaborative research (Hall & Soskice, 2001).

In CMEs, this exchange of information and technology cannot rely on the free flow of labor between firms, as they often rely on long-term contracts and are beholden to unions and work councils. Instead a number of institutions (business associations, jointly funded research, coordination from government) are responsible for this trade of information.

In the LME, the market forces makes this flow of information easier with firms and laborers more incentivized to have short tenures. Where they suffer, however, is in standard setting. In CME's the coordinated efforts of associations, unions, and governments can easily define an industry standard. In LMEs, competition is the deciding body; firms compete for the best model. The most successful model ultimately is adopted by the other firms as consumers prefer it. This necessitates firms' attention to tight control of production in order to compete in a highly competitive market.

Unfortunately, there is no better example of strict American standard setting than the plantation. Much of what we associate with modern day management and monitoring of employees can be traced back to the strict management of enslaved peoples and their the tracking of their daily production. "Historians [tend] to connect the development of modern business practices to the 19th century railroad industry," says Desmond, "but management techniques used by 19th century corporations were implemented during the previous century by plantation owners" (Desmond, 2019).

Plantation owners tracked with alarming precision the progress of their workers and wrote volumes in advice to one another about how to extract the maximum production of each enslaved person. This included plantation spreadsheets, as found in Thomas Affleck's "Plantation Record and Account Book" and described as extremely advanced for its time (Desmond, 2019). Accounting of a slaves' progress took place not only at the end of the day, but were tracked in detail throughout the day. The legacy of this system of intense monitoring is evident, not only in 19th century railroad production, but to today as well.

Modern American warehouses, such as those owned by the e-commerce giant, Amazon, are a prime example of how modern companies rigorously monitor their employees. Top down incentives lead to incredibly brutal working conditions, including monitoring of employees' time down to the seconds. (Warehouses: Last Week Tonight with John Oliver, 2019). Again, this is against the interest of longevity; these businesses experience high incidence of personnel accidents and high employee turnover, abetted by the conditions of the other spheres earlier discussed.

Conclusion

The United States' failure to engage in coordinated approaches to relations between firms and laborers is directly traced back to the unwillingness of Southern states to engage in a strong central government. Though it was the establishment of a central government that allowed for the country to prosper, the states were, and remain, resistant to centralization to this day. This is directly due slaveholders exercising their power to maintain a system that served them. Were this interest not present, the landscape of American capitalism might have been significantly different.

So much of modern capitalism, wealth, and productivity was defined by this era of American history. Aided by the industrial revolution, the development of clever financial instruments, and, somewhat ironically, the pursuit of dignity for (white) Americans to be free from yearning and poverty, American industry was a pioneer of sky-breaking capitalism that paved the way for a new standard of living for millions of people. While this ingenuity is most frequently celebrated, it is too rarely attributed to those who made it possible. Our history books are lined with the names of famous inventors, innovators, policymakers and businessmen: from Henry Ford to Lewis Ranieri[5]. But progress is not about the ingenuity of one or a select few men. Many inventions are the product of their time — not of the (wo)man who seized the opportunity. Instead, the real people responsible for this success are the ones who had no choice in the matter.

To the particular brutality of American capitalism, W.E.B. Du Bois, the first black American to earn a doctorate, said:

> *'the mere fact that a man could be, under the law, the actual master of the mind and body of human beings had to have disastrous effects. It tended to inflate the ego of most planters beyond all reason; they became arrogant, strutting, quarrelsome kinglets.'* (Desmond, 2019)

While examining how slaveowners influenced American capitalism, as they undeniably did, we mustn't forget the arrogance with which they founded it. They saw themselves as masters. They enriched themselves without regard to the lives they destroyed. This ethos has defined American capitalism and remains in it to this day.

Word Count: 3,275

[5] Credited as the father of the father of mortgage-backed securities (Podkul, 2018)

References

Castles, S., & Schierup, C.-U. (2010). Migration and Ethnic Minorities. In S. L. Francis G. Castles (Ed.), *The Oxford Handbook of the Welfare State* (pp. 278-291). Oxford, United Kingdom: Oxford University Press.

Desmond, M. (2019, August 24). *In order to understand the brutality of American capitalism, you have to start on the plantation.* Retrieved from The New York Times Magazine: https://www.nytimes.com/interactive/2019/08/14/magazine/slavery-capitalism.html

Hall, P. A., & Soskice, D. (2001). An Introduction to Varieties of Capitalism. In D. S. Peter A. Hall (Ed.), *Varieties of Capitalism* (pp. 1-70). Oxford, United Kingdom: Oxford University Press.

History.com Editors. (2019, September 27). *Articles of Confederation*. Retrieved from History.com: https://www.history.com/topics/early-us/articles-of-confederation

Khan Academy. (n.d.). *Ratification of the US Constitution: lesson overview*. Retrieved December 2019, from khanacademy.org: https://www.khanacademy.org/humanities/us-government-and-civics/us-gov-foundations/us-gov-ratification-of-the-us-constitution/a/ratification-of-the-us-constitution-lesson-overview

Kreitner, R. (2017, October 23). *'We Have Not a Government': The US Before the Constitution*. Retrieved from The Nation: https://www.thenation.com/article/we-have-not-a-government-the-us-before-the-constitution/

Mares, I. (2001). Firms and the Welfare: When, Why, and How Does Social Policy Matter to Employers? In D. S. Peter A Hall (Ed.), *The Varieties of Capitalism* (pp. 184-212). Oxford, United Kingdom: Oxford University Press.

Podkul, C. (2018, September 6). *The Regrets of Lewis Ranieri*. Retrieved from The Wall Street Journal: https://www.wsj.com/articles/the-regrets-of-lewis-ranieri-1536240610

Sorkin, A. R. (2017, August 28). *Apple's Tim Cook Barnstorms for 'Moral Responsibility'*. Retrieved from nytimes.com: https://www.nytimes.com/2017/08/28/business/dealbook/tim-cook-apple-moral-responsibility.html

Warehouses: Last Week Tonight with John Oliver (2019). [Motion Picture].

Waxman, O. B. (2019, August 20). *The First Africans in Virginia Landed in 1619. It Was a Turning Point for Slavery in American History—But Not the Beginning*. Retrieved from Time.com: https://time.com/5653369/august-1619-jamestown-history/