Tripartism, American Style: The Past and Future of Sectoral Policy

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Guess which president made the following remarks:

> There are two sides to every bargain. It is not only human nature, but necessary to progress, that each side should desire to secure a good trade. This is the case in contracts for employment. In order to give wage earners reasonable advantages, their right has been established to organize, to bargain collectively, and to negotiate through their own chosen agents. The principle also of voluntary arbitration has come to exist almost as a right. Compulsory arbitration has sometimes been proposed, but to my mind it cannot be reconciled with the right of individual freedom. Along with the right to organize goes the right to strike, which is recognized in all private employment. The establishment of all these principles has no doubt been productive of industrial peace, which we are at the present time enjoying to a most unusual degree. This has been brought about by the general recognition that on the whole labor leaders are square, and on the whole employers intend to be fair. When this is the case, mutual conference is the best method of adjusting differences in private industry.[1]

If you guessed that the president who spoke those words was Franklin Delano Roosevelt or Lyndon Johnson—or one of the more recent Democratic presidents, Bill Clinton or Barack Obama—you are mistaken.

The speaker was Calvin Coolidge, then governor of Massachusetts, on Labor Day, September 1, 1919.

Ever since the libertarian movement, funded by a tiny number of rich donors, captured the machinery of the Republican Party and the conservative intellectual movement in the post-Reagan era, it has been taboo for any Republican politician to suggest that unions play a legitimate role in America's economy and society. For three decades, what has passed for American conservatism could better be described as "stealth libertarianism"—the free-market, open-borders ideology of the Cato Institute and the Libertarian Party, camouflaged in flags and Bibles to make it more appealing to working-class Republican voters.

The libertarians who hijacked the Right have tried to rewrite history to make it a Manichaean struggle of statists versus libertarians, demonizing Franklin Roosevelt and idealizing Calvin Coolidge. But the real Calvin Coolidge was not a libertarian. Like most Republicans of his era, he was an economic nationalist who believed that American industries and workers should be protected from low-wage foreign competition. And like every Republican president from McKinley to Nixon, he thought that the government should sometimes act as an honest broker in disputes between companies and organized labor that affected the national interest. The secretary of labor for the Harding, Coolidge, and Hoover administrations was James J. Davis, a Welsh immigrant who had begun his career as a steelworker and a union member and who played a role in brokering an end to a coal strike and a railroad strike in 1922.

At the same time, Coolidge was no leftist. He became a celebrity in politics in 1919 when, as mayor of Boston, he defeated a strike by the Boston police by calling out the National Guard. In his 1919 Labor Day speech, he warned: "Of course employment affecting public safety or public necessity is not private employment, and requires somewhat different treatment."

Now guess which president rejected the legitimacy of collective bargaining by public sector employees in this statement:

> All Government employees should realize that the process of collective bargaining, as usually understood, cannot be transplanted into the public service. It has its distinct and insurmountable limitations when applied to public personnel management. The very nature and purposes of Government make it impossible for administrative officials to represent fully or to bind the employer in mutual discussions with Government employee organizations. The employer is the whole people, who speak by means of laws enacted by their representatives in Congress.

The answer is President Franklin Delano Roosevelt, in a letter of August 16, 1937, to Luther C. Steward, the president of the National Federation of Federal Employees. Roosevelt, then in his second term, said that public employee unions were legitimate for some purposes, but that collective bargaining among the government and public employees was "impossible."

Furthermore, like his Republican predecessor Calvin Coolidge, Franklin Roosevelt declared that strikes by public sector workers were illegitimate:

> Particularly, I want to emphasize my conviction that militant tactics have no place in the functions of any organization of Government employees. Upon employees in the Federal service rests the obligation to serve the whole people, whose interests and welfare require orderliness and continuity in the conduct of Government activities. This obligation is paramount. Since their own services have to do with the functioning of Government, a strike of public employees manifests nothing less than an intent on their part to prevent or obstruct the operations of Government until their demands are satisfied. Such action, looking toward the paralysis of Government by those who have sworn to support it, is unthinkable and intolerable.[2]

In reality, Coolidge Republicans and Roosevelt Democrats were not that far apart, agreeing that collective bargaining was legitimate in the private sector but not in the public sector. Before the late twentieth century, mainstream Republicans and Democrats alike agreed with the sentiment expressed by Coolidge in his speech to union officials in 1924: "We have yet a long way to go, but progress has begun and the way lies open to a more complete understanding that will mark the end of industrial strife."[3]

Tripartism, American Style

Tripartism is another word for economic corporatism—the collaboration of labor, business, and government in the national interest. The tripartite approach to what used to be called "industrial relations" has old and deep roots in American politics and policy. In the late nineteenth century, labor conflicts between workers and industrial, railroad, and mining companies often led to violence on both sides, with local police, state national guards, or the U.S. Army sometimes sent to impose order. Disruptive labor violence, combined with the appeal of radical ideologies, including Marxist socialism, anarchism, and syndicalism, led business leaders and anti-revolutionary labor leaders to collaborate in seeking alternative ways to settle industrial disputes. For their attempts to work out a modus vivendi, both the moderate business elites and the moderate union officials have been vilified by generations of unworldly American academic historians, who praise revolutionary radicalism from their university perches.

In 1900, Ralph Easley, a Republican journalist and activist, founded the National Civic Federation (NCF). The organization embodied the tripartite ideal by drawing its members from business, labor, and the larger public. The first president of the NCF was Senator Mark Hanna of Ohio, a wealthy businessman and Republican political leader, and its first vice president was Samuel Gompers, the president of the American Federation of Labor. Other founders included the steel magnate Andrew Carnegie and John Mitchell of the United Mine Workers. The NCF used its influence to urge negotiations in labor disputes and promote laws providing for arbitration in railroad strikes and for workmen's compensation. Dominated by large firms and skilled craft unions, the NCF was opposed by the National Association of Manufacturers (NAM), which represented the owners of small, labor-intensive businesses who tended to be hostile to organized labor in any form.

During World War I, the Wilson administration incorporated tripartism into its economic mobilization strategy, in order to prevent clashes between business and labor from impairing war production. AFL president Samuel Gompers served on the Council of National Defense as chair of the Labor

Advisory Board. Another AFL official, Hugh Frayne, was chairman of the Labor Division of the War Industries Board, an agency which organized industrial sectors into "commodity sections" and carried out industrial policy by means of standardization and price-fixing. The War Labor Policies Board, headed by Felix Frankfurter, with Assistant Secretary of the Navy Franklin Roosevelt representing the navy, was charged with formulating labor policies in war industries.

Following the war in October 1919, President Woodrow Wilson convened a National Industrial Conference that brought together representatives of capital and labor in the hope of continuing wartime cooperation. John D. Rockefeller Jr. argued that businesses should recognize and cooperate with unions: "On the battle fields of France this Nation poured out its blood freely in order that democracy might be maintained at home and that its beneficent institutions might become available in other lands as well. Surely it is not consistent for us as Americans to demand democracy in government and practice autocracy in industry."[4]

Many of the gains of the U.S. labor movement were reversed, however, by a postwar employer counteroffensive amid a wave of strikes and a climate of Red Scare hysteria. But the Republican presidential administrations of the 1920s were by no means as hostile to organized labor as many today assume they were. As we have already seen, Vice President Calvin Coolidge, who became president when Harding died of a heart attack in 1923, was not opposed in principle to trade unions or collective bargaining in the private sector. And during the Great Railroad Strike of 1922, the anti-union injunction obtained by President Harding's attorney general, Harry Daugherty, was so unfair that two members of Harding's cabinet, Commerce Secretary Herbert Hoover and Secretary of State Charles Evans Hughes, considered resigning in protest.[5]

Coolidge's successor in the White House, Herbert Hoover, maligned by today's liberals as a heartless reactionary and idolized by many of today's libertarians as a free market hero, was neither. An engineer by background, Hoover became a hero for his role in organizing food relief in Europe during and after World War I, and both Democrats and Republicans sought to enlist him as a presidential candidate. As secretary of commerce under presidents Harding and Coolidge, and then as president in his own right, Hoover promoted a version of tripartism known as "associationalism," which tiptoed to the very edge of formalized corporatism without crossing it. Under associationalism, self-governing trade associations—the successors to the commodity sections of World War I economic mobilization—would set common standards and best practices for all of their members. Hoover also acknowledged the legitimacy of trade unions while insisting on nonviolent dispute resolution.

Nor did Hoover respond passively to the Great Depression that followed the crash of 1929. He rejected the callous advice of "liquidationists" like Treasury Secretary Andrew Mellon, who thought the crisis should be allowed to run its course. To prevent aggregate demand from shrinking further, Hoover urged businesses to maintain wages and employment. He set up many of the agencies that would later be used by his successor Franklin Roosevelt to combat the Depression during the New Deal. Raymond Moley, a member of Roosevelt's "Brains Trust," wrote:

> When we all burst into Washington . . . we found every essential idea [of the New Deal] enacted in the 100-day Congress in the Hoover administration itself. The essentials of the NRA [National Recovery Administration], the PWA [Public Works Administration], the emergency relief setup were all there. Even the AAA [Agricultural Adjustment Act] was known to the Department of Agriculture. Only the TVA [Tennessee Valley Authority] and the Securities Act was [*sic*] drawn from other sources. The RFC [Reconstruction Finance Corporation], probably the greatest recovery agency, was of course a Hoover measure, passed long before the inauguration.[6]

Another member of the Brains Trust, Rexford Tugwell, agreed with Moley: "The New Deal owed much to what he [Hoover] had begun," with many New Deal programs and agencies "begun during Hoover's years as secretary of commerce and then as president."[7]

Although Hoover turned bitterly against Roosevelt, the two men had been on friendly terms when both served in the Wilson administration. In 1922 Hoover, then secretary of commerce, appointed Roosevelt as his successor as chairman of the American Construction Council, a peak association which sought to promote progress and standardization in the construction industry in the service of the associationalist vision which Hoover and Roosevelt shared.

Who's Afraid of the Blue Eagle?

Following his election in 1932, Franklin Roosevelt, who had been assistant secretary of the navy under Woodrow Wilson, sought to revive the U.S.

economy by means of a peacetime version of wartime mobilization. The Reconstruction Finance Corporation (RFC), created under Hoover and expanded under Roosevelt, was a reincarnation of the War Finance Corporation of World War I, just as the Securities and Exchange Commission (SEC) was inspired by the wartime Capital Issues Committee.[8]

The most important federal agency inspired by earlier wartime corporatism was the National Industrial Recovery Administration, later renamed the National Recovery Administration (NRA), created by the National Industrial Recovery Act (NIRA) in 1933. Not only was the NRA modeled on the War Industries Board of World War I, but it was also led by General Hugh Johnson, who had worked for the financier Bernard Baruch, the head of the WIB. Under NRA supervision, industries were organized into government-supervised, self-regulating sectors similar to the commodity sections of World War I. With government approval, in return for partial exemption from antitrust laws to permit firms to cooperate, businesses in each sector were to draw up industry-wide codes of conduct which included sectoral minimum wages. Under section 7(a) of the NIRA, inspired by the wartime model of the National War Labor Board, each industry code had to guarantee labor's "right to organize and bargain collectively through representatives of their own choosing."[9]

As a program for creating a form of sector-specific, flexible tripartism which would incorporate collective bargaining and employer benefits and which would serve as an alternative both to the arbitrary despotism of employers and to more rigid, direct, centralized, and uniform government regulation, the NIRA legislation made sense. Unfortunately, succumbing to the tendency of politicians to try to solve multiple problems with a single reform, the Roosevelt administration sought to combine long-term reform with short-term economic recovery, which would be driven, it was hoped, by higher sectoral minimum wages. Along with other design defects, including the vagueness of the concept of "fair competition," an excess of narrowly defined industry classifications, and poor leadership by Hugh Johnson, this confusion of purposes ensured that the rollout of the NRA would be rather shambolic.

In 1935, the NRA was abolished when the Supreme Court struck down its enabling legislation, on the narrow technical grounds that Congress had delegated too much authority to the president. But the wreckage of the NRA was plundered to construct a sort of virtual corporatism that structured the U.S. economy from the 1930s to the 1970s. Some NRA industry codes were reborn as regulations in commission-governed industries like aviation, trucking, and coal that were treated as public utilities, while the oil industry in the United States remained cartelized and regulated in practice until the 1970s. Instead of the sector-specific laws regulating minimum wages, hours, and pensions—which were to have been negotiated and agreed on by firms and unions in each industry sector and then ratified by the NRA—the federal government directly imposed a one-size-fits-all national minimum wage and eight-hour workday in 1938, in addition to the federal Social Security program that had been enacted earlier in 1935. The Wagner Act of 1935 turned section 7(a) of the NIRA into the statute which, as subsequently amended, governs collective bargaining in the United States to this day, albeit rigidly and imperfectly.

A compelling case can be made that the Second New Deal that produced today's U.S. labor law regime was inferior to the First New Deal that produced the NRA. Something like the NRA system of sector-specific tripartism was adopted in Germany, the Nordic countries, Britain, and many other democracies. Both employers and unions in those nations have tended to prefer negotiating their own deals among themselves to a single set of fixed rules imposed by the central government on all sectors of the economy. Because pay levels were set in sectoral negotiations between employer associations and unions, neither Germany nor Britain had a single economy-wide minimum wage until recently, when the growth of a low-wage "precariat" as a toxic by-product of neoliberal labor market deregulation made a national minimum wage an unfortunate necessity in those countries. Had it survived in the United States, the NRA system would have been more resilient, more business-friendly, and more union-friendly than the rigid federal legal regime that replaced it.

With the regularity of a cuckoo clock, however, the sectaries of economic libertarianism like Kevin Williamson, author of the immortal treatise *The End Is Near and It's Going to Be Awesome: How Going Broke Will Leave America Richer, Happier, and More Secure* (2013) and Jonah Goldberg, author of another classic, *Liberal Fascism: The Secret History of the American Left, from Mussolini to the Politics of Change* (2009), pop out of the woodwork to chirp that Fascist Italy was the model for the New Deal in America. In reality, the New Deal was an outgrowth of the native American traditions of tripartism in the 1900s, World War I corporatism, and the associationalism of the 1920s. The Blue Eagle symbol of the NRA for cooperating firms was no more a totalitarian flag than the Good Housekeeping Seal of Approval for home appliances or LEED certification for environmentally sustainable buildings.

It is true that Franklin Roosevelt spoke of "that admirable Italian gentleman," and General Hugh Johnson, the NRA director whose bumbling and bombast led FDR to fire him, invoked "the shining name" of Mussolini.[10] But already in 1927, Winston Churchill had called Mussolini "the Roman genius" and said: "What a man! I have lost my heart! . . . He is one of the most wonderful men of our time."[11] A few years later, in 1933, Churchill described Mussolini as "the greatest lawgiver among men."[12]

It is difficult to imagine now, but in the 1920s and early 1930s, before the horrors of Stalinism and the eclipse of Italian Fascism by German National Socialism, Lenin and Mussolini were seen by many in the West as bold modernizers who could be admired without much regard for their ideologies. But most of those in democratic nations who praised Mussolini for making the trains run on time did not endorse the fascist police state any more than modern Westerners who view the high-speed rail investments of China as a model for infrastructure policy favor one-party Communist dictatorship. Sometimes a train is just a train.

Anti–New Deal libertarians have embarrassing intellectual ancestors of their own. One of the heroes of American libertarianism, Ludwig von Mises, wrote in 1927: "It cannot be denied that [Italian] Fascism and similar movements aiming at the establishment of dictatorships are full of the best intentions and that their intervention has, for the moment, saved European civilization. The merit that Fascism has thereby won for itself will live on eternally in history."[13]

Half a century later, other libertarian gurus, including Milton Friedman and Friedrich von Hayek, defended the dictatorship of Augusto Pinochet in

Chile because the regime, while censoring, torturing, and murdering its political opponents, carried out free-market reforms they favored, like privatizing retirement policy and cracking down on trade unions. In 1977, after meeting with Pinochet, Hayek told journalists that he had informed the tyrant that his writings proved that unlimited democracy does not work, and he boasted proudly that Pinochet had asked him for what he had written on that issue. According to Hayek, on another occasion, sometimes "it is necessary for a country to have, for a time, some form or other of dictatorial power. As you will understand, it is possible for a dictator to govern in a liberal way. And it is also possible for a democracy to govern with a total lack of liberalism. Personally, I prefer a liberal dictator to democratic government lacking in liberalism." When Hayek wrote to British prime minister Margaret Thatcher, commending Pinochet's dictatorship as a model of pro-market government, Thatcher rebuked him, writing that because Britain had "democratic institutions and the need for a high degree of consent, some of the measures adopted in Chile are quite unacceptable. Our reform must be in line with our traditions and our Constitution."[14]

Yet at least libertarian conservatives like Williamson and Goldberg keep the memory of the NRA alive in their unpopular but lavishly funded little sect, if only for purposes of ritual denunciation. The First New Deal has been erased from the consciousness of American progressives altogether. The typical educated center-left American thinks of the New Deal entirely in terms of "Keynesian" countercyclical spending to preserve aggregate demand.

But there was much more to the thought of Keynes than deficit spending in downturns. Keynes had a vision of the future of the industrial economy that can be described as corporatist. In his 1926 essay "The End of Laissez-Faire," Keynes wrote:

> I believe that in many cases the ideal size for the unit of control and organisation lies somewhere between the individual and the modern State. I suggest, therefore, that progress lies in the growth and the recognition of semi-autonomous bodies within the State . . . bodies which in the ordinary course of affairs are mainly autonomous within their prescribed limitations, but are subject in the last resort to Parliament.
>
> I propose a return, it might be said, towards medieval conceptions of separate autonomies. But, in England at any rate, corporations are a mode of government which has never ceased to be important and is sympathetic to our institutions.[15]

Tripartism in America from the New Deal Era to the Age of Neoliberalism

In World War II, as in World War I, the United States and its allies adopted versions of tripartite corporatism to ensure that conflict among employers and workers would not disrupt wartime mobilization. Using the leverage of defense spending, the National War Labor Board enacted a "maintenance of membership" rule mandating that all new employees in a unionized plant belonged to the union. By 1944, membership in the United Steelworkers had grown from 225,000 to 708,000, while membership in the United Auto Workers ballooned from 165,000 to more than a million.[16] More than 35 percent of the nonagricultural labor force was unionized by 1945.

To one degree or another, every economy in Western Europe and North America after 1945 was based on corporatism—that is, tripartism or social corporatism, compatible with representative democracy, not the authoritarian state corporatism adopted by interwar fascist regimes and by postwar dictatorships in Spain, Portugal, and Latin America. Elaborate forms of national sectoral bargaining were created in postwar Sweden and Austria. In the Federal Republic of Germany, collective bargaining was supplemented by codetermination, the practice of having union representatives on the boards of large corporations. In France union membership has always been relatively low, but the results of employer-union bargaining have covered great numbers of workers.

Far from being neofascists, postwar democrats feared that the exclusion of the working class from any influence on corporate decision-making might lead them to turn to radical ideologies like fascism and communism. One study notes, "The shadows of Fascism and/or foreign threat were decisive or at least significant in all the most successful and enduring peace settlements."[17]

The labor historian Nelson Lichtenstein points out: "Building upon the framework established by the National War Labor Board, the big industrial unions settled into a postwar collective-bargaining routine that increased real weekly wages some 50% in the next two decades and greatly expanded their fringe benefit welfare packages."[18] Following the Treaty of Detroit in 1950—a five-year contract negotiated by the United Auto Workers (UAW) with General Motors—and similar deals, the United States had a de facto system of corporatism in its concentrated manufacturing sector, which influenced standards for wages and benefits in many nonunionized sectors.

Union membership in the United States peaked in the 1950s at around a third of the workforce. Meanwhile, the long-struggling farm sector was stabilized and integrated with government by means of a system of price supports and subsidies.

While many business executives continued to grumble, the legitimacy of labor-capital bargaining was accepted by mainstream Republicans as well as Democrats in the postwar era. Soon after World War II ended, in November 1945, the Truman administration sponsored a National Labor-Management Conference. In a speech delivered at this conference, Eric Johnston, the president of the U.S. Chamber of Commerce, declared, "Labor unions are woven into our economic pattern of American life, and collective bargaining is a part of the democratic process. I say recognize this fact not only with our lips but with our hearts."[19] In a letter to his brother Edgar in 1954, President Eisenhower wrote:

> Should any political party attempt to abolish social security, unemployment insurance, and eliminate labor laws and farm programs, you would not hear of that party again in our political history. There is a tiny splinter group, of course, that believes you can do these things. Among them are H. L. Hunt (you possibly know his background), a few other Texas oil millionaires, and an occasional politician or business man from other areas. Their number is negligible and they are stupid.[20]

The historian Robert Griffith described Dwight Eisenhower's vision as a "corporate commonwealth": "Common to all of these activities was an attempt to fashion a new corporative economy that would avoid both the destructive disorder of unregulated capitalism and the threat to business autonomy posed by socialism."[21] In his 1952 reelection campaign, President Eisenhower told the national convention of the American Federation of Labor: "I have no use for those—regardless of their political party—who hold some foolish dream of spinning the clock back to days when unorganized labor was a huddled, almost helpless mass."[22] Presidents Kennedy and Johnson likewise continued the tradition, dating back to William McKinley and Theodore Roosevelt, of the president serving as an honest broker in private sector labor disputes that affected the national economy. In 1972 Nixon was the only modern Republican president to receive a majority of the union vote.[23]

President Ronald Reagan's decision to fire eleven thousand striking air traffic controllers on August 5, 1981, was interpreted both by liberal opponents and by libertarian conservatives as a salvo in the war against all organized labor, public and private. But Reagan's approach to this strike did not differ significantly from precedents set by earlier presidents who are typically thought of as friendly to labor. As we have seen, Franklin Roosevelt had agreed with Calvin Coolidge that strikes by public sector workers could not be tolerated. And in 1952, during the Korean War, President Harry Truman sought to avert a disruptive steelworkers' strike by preemptively nationalizing the American steel industry, a policy struck down by the Supreme Court on the narrow, technical grounds that the president lacked the statutory authority which would have permitted him to do so.[24]

Reagan, who had been a union official himself as the elected head of the Screen Actors Guild, never denied the legitimacy of unions in the private sector. In a televised address to the American people on October 9, 1982, Reagan denounced the Soviet-backed Communist regime of Poland for its crackdown on Lech Wałęsa's dissident Solidarity union and other Polish labor unions:

> Ever since martial law was brutally imposed last December, Polish authorities have been assuring the world that they're interested in a genuine reconciliation with the Polish people. But the Polish regime's action yesterday reveals the hollowness of its promises. By outlawing Solidarity, a free trade organization to which an overwhelming majority of Polish workers and farmers belong, they have made it clear that they never had any intention of restoring one of the most elemental human rights—the right to belong to a free trade union.

For Ronald Reagan, if not for the libertarian pseudo-conservatives today who call themselves Reaganites, the right to join a labor union was "one of the most elemental human rights."[25]

Reagan depended for his victory in part on the same sort of culturally conservative but economically progressive voters who would later win the White House for Trump. To avoid alienating these blue-collar "Reagan Democrats," he discarded the libertarian Right's proposed reforms to privatize or downsize FDR's Social Security and LBJ's Medicare, the two biggest government programs. Pragmatic in economics and cautious in military affairs, Reagan talked like Goldwater but governed like Eisenhower and Nixon. Only under the two Bushes did the influence of economic libertarians who promoted free trade, mass immigration, and cuts to entitlements peak in the GOP.

Meanwhile, the Democratic party has exchanged its blue collar, private sector union base for more upscale constituencies. Beginning in the 1970s, politicians like Bill Clinton and Al Gore, many of them from the low-wage, anti-union South, sought to replace the working-class, unionized, midwestern, and northeastern base of the New Deal Democrats, who were mocked as "Old Democrats," with Wall Street bankers and Silicon Valley tycoons. As president, Clinton pushed nafta through Congress and secured the admission of China to the WTO, licensing U.S. multinationals to replace American factories with new ones in countries with cheap and repressed labor. Many U.S. corporations and financial interests, sacrificing the U.S. economy to corporate and personal profit, transferred or ceded much of America's industrial base to authoritarian China, America's greatest potential military and commercial rival. For most Americans, the well-paying "knowledge sector" jobs promised by neoliberal Democrats never appeared; instead there were mostly a lot of low-wage, non-union jobs in health care, retail, and hospitality—and, for those not lucky enough to hold steady work, precarious contract labor like that of exploited Uber and Lyft drivers.

Bernie Sanders and Donald Trump in 2016 represented the revenge of the repressed against the bipartisan neoliberal managerial elite that had misgoverned the United States for a generation. In different ways, Sanders—by supporting organized labor and social insurance expansion—and Trump—by emphasizing manufacturing jobs—promised to create a modern version of the mid-century American social contract, which had been underpinned by tripartite labor-business-government collaboration.

The Case for Sectoral Policies

Does tripartism have a future in the United States? Although the United States can and should onshore some lost industrial supply chains, most old-fashioned manufacturing jobs are not going to return and private sector trade unions in their twentieth-century form probably have no future. Nevertheless, as Republican thinkers like Oren Cass have argued, a program of national economic development which incorporates novel forms of "alt labor" has the potential to organize alienated segments of the American working class, while boosting the productivity and growth of the American economy.[26]

The centerpiece of a post-neoliberal program to address the double crisis of the American economy and the American social contract should be sectoral policy, combining industrial policy with business-labor-government tripartism. In spirit it would be a return to the vision of the National Civic Federation, the associationalism of Herbert Hoover, the First New Deal corporatism of Franklin Roosevelt, and the corporate commonwealth of Dwight Eisenhower. It would build on their insights—and also learn from their mistakes.

In retrospect, the biggest failure of earlier American versions of tripartism was the failure to distinguish among different broad economic sectors with different dynamics. Already by the 1900s, economists recognized that in certain industries characterized by network effects, like railroads, there was a tendency toward natural monopoly, and a resulting threat of predatory pricing by the monopolies. The use of antitrust law to break up these networks would reduce their efficiency, so for more than a century the preferred policies have been either public ownership of enterprises in these industries or their conversion into privately owned but publicly regulated utilities.

By the 1930s, in another development moving beyond crude nineteenth-century free market liberalism, Joan Robinson, Edward Chamberlin, and other economists developed the theory of imperfect markets. Earlier economists (and many laypersons to this day) have mistakenly treated oligopoly as simply an intermediate phase on the road from free competition to monopoly. By the mid-twentieth century, economists recognized that oligopolistic competition in imperfect markets was distinct in kind both from monopoly and from competition in highly competitive markets. Joseph Schumpeter spoke of "corespective" competition among oligopolistic firms and emphasized that dynamic oligopolies compete not on the basis of price-cutting but on the basis of innovation that leads to new products, a process that he called "creative destruction" or "industrial mutation." An example would be Apple, originally a personal computer company, and Google, originally a search engine, competing with each other in the new wireless phone market.

In the 1960s, John Kenneth Galbraith divided the economies of the United States and similar advanced industrial nations into the "planning system" dominated by a small number of large, high-tech corporations, which have the power to substitute private planning for market forces in many areas, and "the market system," a more competitive realm composed mostly of small businesses. A little later, the business historian Alfred Chandler identified two sectors of the economy—the oligopolistic "core," which contains capital-intensive manufacturing firms and others which benefit from increasing returns to scale and scope and from network effects, and the "periphery," the equivalent of Galbraith's "market system."

Building on the insights of Schumpeter and John Kenneth Galbraith, the late William Baumol observed that technological innovation is driven today not by individual inventors or small startups but chiefly by competition among dynamic oligopolistic firms with deep R&D budgets. Baumol's book *The Free Market Innovation Machine*, in which he set forth this argument, would have been more accurately titled *The Imperfect Market Innovation Machine.*

On the basis of a century of sophisticated economic thought based on observation rather than axioms, then, we can distinguish among three sectors of a modern technological economy: the natural monopoly sector, the dynamic oligopoly sector, and the traditional market sector.

This analysis of the three major sectors of a modern economy allows us to better understand the flaws in the design of the National Industrial Recovery Act in the First New Deal. While there was opposition from business in all sectors, supporters of the NIRA tended to be found among the leaders of large corporations. These big, advanced firms already paid well, so they were not threatened by the prospect of sector-wide minimum wages, and many of them already paid generous benefits, so the mandating of minimum employee benefits by NRA sectoral codes was not a threat either. In contrast, industry-wide minimum wages and benefits threatened to drive many small firms out of business in the low-tech, labor-intensive traditional market sector. And it was easier for a few big firms in a capital-intensive, technology-based sector to arrive at a consensus than it was for many tiny firms in a decentralized industry.

From all of this it follows that sectoral policies based on tripartite corporatism are more suited to large firms in the dynamic oligopoly sector than to the many small firms of the traditional market sector. Indeed, something like this emerged naturally in the United States in the aftermath of the collapse of the First New Deal, by the 1940s and 1950s. In the concentrated manufacturing sector, collective bargaining was institutionalized; in the dispersed traditional market sector, the federal minimum wage, supplemented by state and local minimum wages and by government safety nets, provided basic protection for nonunion workers. A similar two-tier pattern can be seen in the democracies of Western Europe.

In retrospect it was folly for the Roosevelt administration, under the auspices of the NRA, to try to convene businesses to draft codes in hundreds of narrowly defined industries all at once. It would have been far better to limit the tripartite system to a small number of industries in the dynamic oligopoly sector, like automobile manufacturing and steel.

Sectoral Policy for Natural Monopolies and Traditional Markets

Each of the three major sectors in a modern technology-based economy, then, requires different and appropriate industrial policies and labor policies. The natural monopoly sector includes traditional grids like road and rail systems and electric, water, and sewage utilities. Whether search engines like

Google and social media like Facebook and Twitter, which exploit network effects, can be viewed as natural monopolies as well is debatable.

The interest of the public in these natural monopolies is not limited to uninterrupted service and low costs for individual citizens and firms. In the case of infrastructure and energy utilities in particular, the national government has an interest in making them resilient against terrorism and sabotage and ensuring that they are innovative rather than technologically stagnant. As for workers, the insulation of public utilities from the rigors of markets can make long-term careers at decent if not exorbitant wages possible in the natural monopoly sector.

In many other democracies, industries that are considered to be public utilities have been socialized. In the United States, the alternative to direct socialization has typically been the combination of private ownership with rate setting and oversight by public utility commissions.

At the other extreme, in terms of market concentration, is what I am calling the traditional market sector—Galbraith's "market system" and Chandler's "periphery." This is the realm of industries in highly competitive markets in which there are no increasing returns to scale or scope and no network effects. A giant automobile factory is more efficient than a tiny mom-and-pop car factory, if such a thing can be imagined, but a chain of restaurants does not necessarily produce better food at much lower prices than a single family-owned restaurant.

The traditional market sector is where low-tech, low-profit small businesses tend to be found, as well as labor-intensive occupations like nursing, in which mechanization or automation is difficult or impossible at present. This sector is currently generating most of the new jobs in the United States, many of which are poorly paid and come with few or no benefits. In the traditional sector, high levels of competition drive down the overall profits to be distributed to workers, managers, and owners alike. Unable to pay generous wages or provide generous benefits, many of the low-profit firms in the traditional market sector are also unable to invest in innovation.

The limits imposed by competition on firms in the traditional market sector suggest that raising sector-wide innovation and increasing the overall incomes (though not necessarily the market wages) of the workers in this sector should be in part the responsibility of government. In industries within the traditional market sector, government agencies, working with research universities, nonprofits, and trade associations, can engage in R&D to benefit the industry as a whole and disseminate innovations to firms by means of technology extension programs. Agricultural extension programs and agricultural and mechanical colleges (A&Ms) provide a successful historic model for state-led innovation in highly decentralized industries with many small, low-profit entities.

In the traditional sector, the government can also directly create or help firms organize to create purchasing cooperatives, insurance cooperatives, and export marketing boards. This will enable small businesses, in groups, to enjoy the economies of scale or monopsony bargaining power possessed by many large corporations on their own. Needless to say, antitrust law would have to recognize exemptions to allow these cooperative enterprises.

In each of these cases, the government is solving a problem of collective action by providing, directly or indirectly, as a public good or service, something that small- and medium-sized firms are unlikely or unable to pay for on their own. This kind of government support for mostly small firms has nothing whatever to do with the misguided contemporary U.S. practice of showering tax favors and exemptions from regulations on individual small businesses only because of their size, a practice that should be eliminated in favor of size neutrality in tax and regulatory policy.[27]

What about the workers in the traditional market sector? A century ago, reformers recognized that what were called "the sweated trades"—occupations like piecework done by largely female workers, often in their own homes—could not be easily unionized for purposes of collective bargaining. An alternative to trade unions in these occupations was found in wage boards—government commissions with members representing business, workers, and sometimes consumers, who would reach a consensus and set common wage scales and work rules for the occupation as a whole. Recently, Governor Andrew Cuomo of New York used a long-moribund wage board statute to raise wages for fast-food workers in the state, and proposals for reviving this approach have been made.

Raising wages—by higher statutory minimum wages, wage boards, collective bargaining, tight labor markets created by immigration restriction, shorter workweeks, or other means—need not always increase unemployment, because better-paid workers add to aggregate demand. But at some point increasing wages may indeed have the dire effects predicted by employer lobbies and libertarian ideologues.

An alternative is to raise the incomes of low-wage workers without raising the wages paid to them by employers. This can be done either by wage subsidies or by decommodification. Wage subsidies "top up" wages too low for an individual, much less a family, to live on. Decommodification refers to providing necessities in the form of free or publicly subsidized goods or services, allowing workers with low wages to have more discretionary income.

Wage subsidies in general are a bad idea. By lowering the cost of labor, they reduce the incentive of employers to invest in labor-saving, innovative technology, which could boost the productivity of the industry and the nation as a whole. Even in low-wage industries, the wages should be high enough to spur some productivity growth. Even worse, if low market wages are supplemented by government wage subsidies with no regard for particular occupations, the result can be "induced demand" by consumers for frivolous or exploitative jobs: dog walkers, nail salon workers, gardeners, and so on. Combined with an immense pool of cheap labor in the form of low-wage immigrants, both authorized and unauthorized, the result in the United States has been an incipient caste system, with a steadily growing underclass, often foreign-born, in menial, dead-end personal service jobs.

Decommodification is a better approach to helping lower-wage workers, native and immigrant alike, in a democratic society that does not want a permanent servant class. Economists define "merit goods" as goods or services like health care to which all citizens should have access, whether they can afford them or not. By lowering the cost of essential merit goods, or making them free through vouchers or through public or nonprofit provision, decommodification increases the standard of living of low-wage workers, who have more discretionary income when basic necessities are paid for directly or indirectly by the state. What is more, decommodification can help to raise wages in the low-wage sector, even in the absence of unions and collective bargaining, by letting individual workers "hold out" longer before being forced to accept jobs. Worker bargaining power is weakened by wage subsidies that require workers to take any job available, and strengthened by decommodification, which forces employers to attract workers who are not desperate.

To be sure, high market wages could make some important labor-intensive services like elder care or home health care unaffordable for members of the working class and middle class. In such cases, wage subsidies should be considered. But as Lauren Damme and I have suggested in *Democracy Journal*, it is better to provide necessary services like housework for low-income, homebound elderly people in the form of the service vouchers pioneered in a number of European countries, allocated to eligible consumers and restricted to particular kinds of jobs, rather than in the form of wage subsidies that are showered on all low-income workers regardless of their occupations. It is one thing for taxpayers to specifically subsidize the wages of house cleaners for elderly shut-ins and quite another to indiscriminately subsidize the wages of pool cleaners, gardeners, and maids for rich Hollywood actors.[28]

As paradoxical as it seems, then, the case for direct government industrial policy and direct state provision of benefits is strongest in the competitive market sector with its many small, low-margin firms. The situation is different in the dynamic oligopoly sector, to which I now turn.

The Dynamic Oligopoly Sector: A New Tripartism

Firms in the dynamic oligopoly sector perform a disproportionate amount of private sector R&D and tend to pay better and provide more generous employer benefits than firms in the traditional market sector. Imperfect markets in this sector and the absence of intense price competition allow a small number of big firms to exercise market power—to be "price makers," not "price takers," in the jargon of economics.

From the point of view of old-fashioned Jeffersonian/Brandeisian producerists who hate bigness in any form, the market power of oligopolies, as well as monopolies, is intolerable. Oligopolistic firms should be broken up by antitrust authorities. But this naïve view is a relic of preindustrial economics, when the only sector was the traditional market sector in which firms compete chiefly on the basis of price, including low labor costs, not on the basis of technology-driven product and service innovation.

A more realistic response to the market power of oligopolistic firms is to treat the higher prices their market power allows them to charge as a kind of government-approved private tax on consumers. If the tax is recycled into R&D, producing innovative products that improve the lives of consumers for generations to come, it is well spent. The private tax is also well spent if it goes to higher wages and benefits for the workers in that sector, who then spend money on goods and services provided by firms and workers in the traditional market sector. The classic example is provided by the well-paid, unionized auto workers of yesteryear, who spent their paychecks partly on local haircuts, restaurants, and bowling alleys.

As we have seen, the lack of market power on the part of low-profit firms in the highly competitive traditional market sector makes it necessary for the government to directly provide services like technological innovation and worker benefits which those firms themselves find it difficult or impossible to provide. But in the concentrated dynamic oligopoly sector, the government can save the taxpayers some money by a kind of indirect rule, commanding or incentivizing the firms themselves to pay for research and employer-provided benefits.

A twenty-first-century version of tripartism in America would focus chiefly on the dynamic oligopoly sector. It should begin with the federal government's existing sector-specific policies in the defense industrial base, overseen by the Department of Defense. Even in the absence of immediate threats, the possibility that other great powers could, in the future, threaten the United States militarily or seek to drive it out of global markets and strategic industries would justify a permanent industrial policy designed, in the words of Alexander Hamilton's "Report on Manufactures" (1791), to render the United States "independent on foreign nations for military and other essential supplies."[29]

The defense industrial base of the United States should be defined much more broadly than defense contractors supplying weapons, vehicles, and materiel to the armed services. To prevent the emergence of two separate industrial sectors, one military and one civilian, the "strategic industrial base" should include all dual-use industries which, if necessary, could be converted to wartime production. In these industries, national security requires supply chains to be diverse and located either in the United States itself or in close allies who cannot be threatened by blockades—Canada and Mexico, for instance, rather than Japan or South Korea or Europe.

In the dynamic oligopoly sector, including national manufacturing, unlike in the traditional market sector, the government can achieve many of its policy goals indirectly, by backing collaboration among firms and also between management and organized labor within firms. To promote interfirm collaboration under government oversight in the strategic industries, strict antitrust enforcement should be relaxed in particular areas. In the traditional market sector, it makes sense for government-funded labs to fund industry-wide innovation, given the inability of most small firms to do so. But the government can relax antitrust laws to allow major industrial firms to pool their resources in R&D and share the results—including patents—among all of the members of a research consortium.

Joint efforts by firms in the dynamic oligopoly sector also make sense in the case of training. In a free market, firms will have a reduced incentive to train workers, for fear that the workers will then quit and use their skills at a rival firm. One way around this dilemma of collective action is for the government to mandate sectoral training programs for all of an industry's workers, funded by contributions from all of the firms that could benefit.

Labor policy, like R&D and worker training, should be made at the sectoral level, not the firm level, with government oversight and approval. Wages, hours, and benefits should be negotiated between representatives of all of an industry's employers and all of an industry's workers. While employer-controlled "company unions" should be avoided, the representatives of workers need not be old-fashioned closed-shop unions. Elected workers councils might send representatives to sectoral bargaining negotiations. Brishen Rogers has suggested that, in return for mandatory bargaining at the occupational or sectoral level, workers could be given unfettered freedom to vote for their labor representatives.[30]

In the strategic industrial sector, the government has not only the right but the duty to limit offshoring by firms. Local content requirements in strategic industrial sectors are appropriate, not only for the value added by firms but also for some of the inputs that they use in production.

A new U.S. industrial policy should also encourage the immigration and naturalization of talented and skilled immigrants from all over the world. But corporations should not be allowed to use immigrants with inferior rights to undercut U.S. citizen workers and permanent legal residents. To that end, legal arrangements like H-1B visas, which bind indentured workers to specific employers, should be banned in designated strategic industrial sectors, in which only citizens and legal permanent residents with green cards, who possess full economic and legal rights, should be employed. A points system like the ones used in Canada and Australia would ensure that the future population of the U.S. is chosen by the U.S. government, on the basis of transparent criteria, not by corporations interested only in short-term profit. And all of these reforms should be accompanied by programs to boost the ability of disadvantaged Americans of all races and regions to join the industrial workforce.

The objective of these sectoral policies in the dynamic oligopoly sector is not to "pick winners" or bestow subsidies on politically favored national champions. Rather, the goal should be to preserve, expand, and upgrade a permanent U.S.-based “industrial commons” in traditional industries like steel and aerospace and automobiles and new industries like robotics and biotech, while providing good jobs for upwardly mobile U.S. citizens and naturalized immigrants. Well-designed sectoral policies can promote national security, national productivity growth, and inclusive national prosperity all at once.

Sectoral Policy after Neoliberalism

Sectoral policy makes sense. Natural monopolies should be assigned to the oversight of public utility commissions representing major interest groups and viewpoints. At the same time, federal, state, and local governments should play a large role in R&D, technology extension, and public benefits in the low-productivity, low-profit traditional market sector. And within the dynamic oligopoly sector, where manufacturing is found, a new tripartism should be pioneered in strategic industries of military as well as commercial importance, in the emerging global environment of U.S. rivalry with China and other great powers. In both the traditional market sector and the dynamic oligopoly sector, there is ample scope for the relaxation of antitrust laws to permit multiemployer industrial policy and sector-wide collective bargaining among representatives of employers and labor.

Notwithstanding the importance of grassroots labor activism, in mid-twentieth-century America unionization flourished chiefly as a side effect of top-down national industrial policy pursued for other means, including war and recovery from the Great Depression. Tripartite labor-business-government collaboration during World War I and World War II made possible the massive expansion of organized labor and collective bargaining in the mid-twentieth century and the subsequent social peace and widespread prosperity. If working-class Americans are ever again to enjoy the benefits of mass membership labor organizations of some kind, it will probably not be as a response to grassroots mobilization from below, employer by employer, state by state. More likely, any revival of worker empowerment in the United States will result from a much larger and more comprehensive program of national development carried out by the federal government in the service of military strength and economic growth, a national industrial policy of which institutionalized employer-worker bargaining would be only one of several elements.

A bipartisan consensus along these lines can coalesce only if economic neoliberalism is defeated within the Democratic Party and if the Republican Party ends its fling with radical free market libertarianism. In 1906, a young Winston Churchill described the end of laissez-faire liberalism's hegemony in Britain, which had found its most ardent supporters among the business elite and the professional class. His words are just as relevant to the United States in the third decade of the twenty-first century:

> The great victories had been won. All sorts of lumbering tyrannies had been toppled over. Authority was everywhere broken. Slaves were free. Conscience was free. Trade was free. But hunger and squalor and cold were also free and the people demanded something more than liberty.[31]

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[3] Coolidge, 83.

[4] U.S. Department of Labor, *Proceedings of the First Industrial Conference (Called by the President), October 6 to 23, 1919* (Washington, D.C.: Government Printing Office, 1920), 144, quoted in Larry G. Gerber, "Corporatism in Comparative Perspective: The Impact of the First World War on American and British Labor Relations," *Business History Review* 62, no. 1 (Spring 1988): 119.

[5] Richard Gid Powers, *Not Without Honor: The History of American Anticommunism* (New York: Free Press, 1995), 70.

[6] Raymond Moley, "Reappraising Hoover," *Newsweek*, June 14, 1948, 100, quoted in Steven Horwitz, "Hoover's Economic Policies," Library of Economics and Liberty.

[7] Amity Shlaes, *The Forgotten Man: A New History of the Great Depression* (New York: HarperCollins, 2007), 149, quoted in Horwitz.

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[9] Marc Allen Eisner, *From Warfare State to Welfare State: World War I, Compensatory State Building, and the Limits of the Modern Order* (University Park: Pennsylvania State University Press, 2000), 309.

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[11] Mark Simpson, "You're the Top! You're Mussolini!," *Independent on Sunday*, June 29, 2003.

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[14] Andrew Farrant, Edward McPhail, and Sebastian Berger, "Preventing the 'Abuses' of Democracy: Hayek, the 'Military Usurper,' and Transitional Dictatorship in Chile?," *American Journal of Economics and Sociology* 71, no. 3 (July 2012): 513–38.

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[21] Robert Griffith, "Dwight D. Eisenhower and the Corporate Commonwealth," *American Historical Review* 87, no. 1 (February 1982): 87–122.

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[31] Winston Churchill, *Lord Randolph Churchill* (New York: Macmillan 1906), 1:268–69.

misinformation, Outline empowers readers to verify the facts.