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Studies in Marxism and Social Theory

Capitalist Collective Action

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Studies in Marxism and Social Theory

Edited by G. A. COHEN, JON ELSTER, AND JOHN ROEMER

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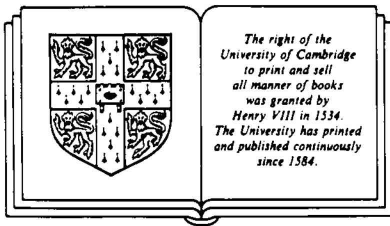

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To Esther C. Bowman
and in memory of John R. Bowman, Sr.

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Preface

This book is about the problems of collective action and market organization that are generated by economic competition among capitalist firms. I first became interested in this subject several years ago when, in the course of doing some research on the response of American capitalists to the New Deal, I discovered that capitalists were using the language of collective action theory to describe their economic relations with one another and to justify their requests for government intervention. Capitalists clearly understood economic competition to be a collective action problem in which cooperation meant the maintenance of prices and the dominant defection strategy was embodied in price cutting. In several industries, the failure of voluntary efforts to maintain price stability led some firms to solicit state intervention in order to prevent "chiselers" from "selfishly" cutting prices. Two aspects of this sequence of events interested me particularly. First, I began to see that the organization of stable, predictable markets was a problem for capitalists. In an economic setting in which oligopolies predominate, it is easy to forget that markets are patterns of social interaction that must continually be produced and reproduced. Given the importance of markets in capitalist political economies, I was struck by how little scholarly attention the problem of market organization had received. The language used by capitalists during the economic crisis of the 1930s led me to conclude that the problem of market organization was a collective action problem for capitalists (perhaps *the* capitalist collective action problem) and that a collective action framework was the most appropriate way to address it. Second, it was clear that the efforts of capitalist firms to organize their markets generated serious political conflicts among capitalists and led some of them to seek support and intervention from outside actors, including other capitalists, workers, and the state. As a political scientist who had been accustomed to viewing capitalists as a relatively cohesive group, and as a Marxist who attached particular importance to the role of property relations in structuring political conflict, I found the virulence of the competitive conflicts among individual cap-

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italists, along with their propensity to spill over into the arenas of political conflict and industrial relations, intriguing, to say the least.

The basic argument of this book can be stated very simply in the language of conventional Marxist analysis: Capitalist relations of production structure political conflict. What I mean by this, however, is quite different from the standard argument that capitalist property relations define a basic conflict between workers and capitalists. Rather, the relations of production on which I focus are the competitive relations among capitalists and the distinct collective action problems that they produce. Competition places capitalists in various collective action/gaming situations. By analyzing the ways rational firms behave within these games and the ways they try to transform them we not only can gain new insight into the question of how markets are reproduced, but we also can achieve a richer understanding of a political reality that includes cleavages among capitalists, and alliances between workers and capitalists, as well as conflict between workers and capitalists.

The book is organized into three parts. In the first, which consists of the first two chapters, I present the theory of capitalist collective action. In Chapter 1, I argue that capitalist relations of production generate conflict among capitalists as well as conflict between workers and capitalists. Capitalists must compete with one another, not only in order to win high profits but also to secure their position in the market. Paradoxically, this economic competition among capitalists takes the form of a series of collective action problems. In most cases, the interests of individual firms in high profits and economic survival can best be achieved if they cooperate with their competitors and act in concert, but each individual firm has an incentive to "free-ride" on the cooperation of other firms. The question that occupies most of the chapter is: Under what conditions will competing firms be able voluntarily to cooperate with one another? I answer this question by depicting capitalist competition as a series of mixed-motive games among firms and by identifying a set of variables that affect the capacity of a group of firms to achieve a cooperative outcome. The variable with the most far-reaching consequences is the presence or absence of cost differentials. In industries where firms differ greatly in their production costs, common interests may not exist and the collective action problem faced by firms may take on the form of a zero-sum conflict. I demonstrate in this chapter that, under certain conditions, voluntary cooperation is likely, but that there are a wide range of markets in which rational capitalist firms will

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not choose to cooperate with one another, in spite of the fact that they can improve their profits by doing so.

What happens when a group of firms would be better off cooperating but is incapable of achieving the cooperative outcome through the independent rational action of its members? All things being equal, we would expect these firms to organize themselves so that cooperative behavior is forthcoming. This involves a transformation of their competitive game – usually through the addition of sanctions punishing noncooperative behavior – that makes cooperation the most attractive strategy. The problem is that all things are not equal. Such reorganizations of markets usually involve costs as well as benefits to individual firms. In Chapter 2, I analyze these costs and try to identify the factors that enter into a firm's decision to seek to reorganize its market to achieve a cooperative outcome or, alternatively, to maintain the competitive status quo. I then examine the various forms that capitalist collective action / market organization can take. I demonstrate that the solution of the capitalist collective action problems faced by a group of competing firms may involve intervention by firms in another industry, by workers, or by the state. The dilemma faced by capitalists is that the forms of collective action that are the most effective in delivering the benefits of cooperation – those that are enforced by the state – are also the most costly.

The theory presented in the first two chapters generates predictions about how individual firms will behave within a particular competitive situation and how firms will respond to particular competitive outcomes. These predictions are tested in the detailed empirical study of competition and collective action in the pre–World War II American bituminous coal industry contained in the five chapters of Part II. A second purpose of the case study is to extend the model presented in Part I by exposing it to the richness of historical reality. The theory of capitalist collective action elaborated in Chapters 1 and 2 is not determinate; it does not encompass every variable that could affect a firm's competitive behavior. Rather, it identifies a set of tendencies that "push" capitalist firms in one direction or another. These tendencies are powerful, but not omnipotent. The case study allows us both to test for the presence of these tendencies and to investigate the way they are reinforced, weakened, deflated, or, possibly, completely tamed by events and tendencies external to them. Besides testing the deductive aspects of the model, then, the case study is also intended to provide an empirical basis for extending and enriching it. As with other social phenomena, capitalist collective

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action will eventually be completely understood only through a combination of deductive reasoning and the inductive reasoning that proceeds from detailed empirical research.

Both economically and politically, the bituminous coal industry was one of the most important industries in the U.S. economy during the sixty-year period covered by this study. Coal was essential to the operation of railroads, manufacturing industries, and households. The coal industry provided employment to a very large number of workers whose unions played a central role in the American labor movement. Bituminous coal can claim the first modern labor union in the United States, the American Miners' Association, as well as the largest and most powerful single labor union during much of the first half of the century, the United Mine Workers of America.[1] The coal industry also contained the capitalists who were perhaps most averse to the unionization of their workers, or at least who were able to go to the greatest lengths to prevent it. As a result, the bituminous coal industry has a history of class conflict that is bloodier than that of any other American industry. Even during relatively normal periods, bituminous coal labor relations were marked by semiregular strikes that at times rocked the nation's economy. The bituminous coal industry also has a long history of involvement with the state. Coal operators not only solicited state intervention to correct their notoriously "disorganized" and "sick" condition, but also resisted a whole series of proposals, including the nationalization of the mines, designed to eliminate profiteering and other alleged abuses. Coal was distinguished by being the object of two pieces of special regulatory legislation in the 1930s, the latter of which, the Guffey–Vinson Act, made it one of the most regulated industries in American history. Certainly, if our main object is to understand the politics of market organization and to explain the complex and seemingly contradictory attitude of capitalist firms with respect to outside intervention in their markets, the coal industry provides at least as challenging a starting point as any other industry.

In Chapter 3, I employ the model of competition developed in Chapter 1 to identify the competitive games played by coal operators and to predict the competitive strategies that operators will select in these games. The principal game played by coal operators was a Prisoner's Dilemma in which the defection strategy was a combination of price and

[1]Edward Wieck writes that the American Miners' Association "may justly claim to have initiated the modern labor movement." (Edward A. Wieck, *The American Miners' Association* [New York: Russell Sage Foundation, 1940], p. 21.)

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wage cutting. I demonstrate in Chapter 1 that, under some conditions, cooperation may be a rational strategy in the iterated pricing Prisoner's Dilemma. Much of Chapter 3 is devoted to showing that these conditions were not present in the pre–World War II bituminous coal industry. Sellers were numerous, buyers were powerful, the product was unstandardized, entry was easy, exit was difficult, and the presence of chronic excess capacity placed great pressure on firms to cut wages and prices. I then refine our picture of coal competition by examining cost differences among firms. In the coal industry, differences in freight costs, wage rates, and the quality of coal combined to produce conflicts of interest among operators as to whether and in what direction the universal defection outcome produced by unorganized coal competition should be transformed. Finally, I examine the effect of unionization on the structure of the competitive games played by operators. Because wage cutting was a principal element of the dominant defection strategy, unionized firms lacked the capacity to defect that their nonunion competitors enjoyed. This created another basis for conflict among operators over the degree and form of market organization.

In the next four chapters I turn my attention to the behavior of operators, arguing in general that both their behavior within their competitive games and their responses to the outcomes of these games can be predicted from the model of capitalist collective action developed in Chapters 1 and 2. Chapter 4 focuses on the pre–World War I period, in which several competitive games can be identified. Most of my attention is devoted to the new market organization problems caused by two major geographical shifts in the coal industry – the movement of eastern operators into traditional midwestern markets in the 1880s and the emergence in the early twentieth century of West Virginia and Kentucky as major centers of coal production. Both of these developments created new collective action problems for operators. The East–West competition of the 1880s led operators first to seek to organize themselves through internal means; then, when these efforts failed, to turn to the union of miners to organize competition among capitalists by helping them to prevent competitive wage cutting. Workers organized capitalists. When nonunion production in West Virginia threatened this arrangement, a worker–capitalist alliance sought to impose higher costs on southern operators, both through unionization and through other means. Thus our framework helps to make sense of a distinctive pattern of class struggle, one that appears to be driven by the competitive relations among capitalists and the "logic of collective action" that it generates.

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I also briefly consider two other competitive games in this chapter. One involves operators competing in the Atlantic Coast market, who eventually turned to the coal-carrying railroads to organize their competition. The other involves midwestern operators who, in the years immediately prior to World War I, were led by the failure of alternative forms of market organization to solicit state intervention to enforce collective action in their markets.

By 1920, the attitude of coal operators toward state intervention in their markets had undergone a complete reversal, as operators became fierce opponents of even the mildest forms of state intervention. In Chapter 5 I argue that this change in operator attitudes was the product of a change in the structure of their competitive game. On the one hand, the sharp increase in the demand for coal, produced by World War I and the postwar industrial boom, placed operators in the novel position of being able to sell as much coal as they could produce, almost regardless of price. The pricing Prisoner's Dilemma was eliminated, along with the need for state intervention. On the other hand, the experience of operators with state regulation during the war increased the perceived costs of state intervention. During this period, the common interest of operators was not to prevent price cutting, but to maintain prices at a level *low* enough to forestall hostile maximum-price legislation.

In the late 1920s, the coal operators who had in previous decades defended collective bargaining as a necessary stabilizing influence in the coal market abrogated their agreements with the union. In Chapter 6, I examine the breakdown of collective bargaining, arguing that this process, like that which led to the institution of collective bargaining during the nineteenth century, can best be understood as a response by individual capitalist firms to their competitive games. In the earlier period, coal operators had sought to enforce cooperation among themselves through collective bargaining agreements that would prevent competitive wage cutting. Cooperation was a sensible strategy in this context only as long as a sizable majority of other firms cooperated. This condition ceased to hold in the years after World War I, when southern Appalachian, nonunion coal came to dominate the market. Unable to "beat" the nonunion firms by forcing them to cooperate, unionized firms had little alternative but to "join" them and defect. In order to do so, however, they had to free themselves from the constraints of their contracts with the union. They did so reluctantly, in the knowledge that the eventual result of their defection would be the disorganization of the market – a universal defection outcome that would benefit no one.

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Just as the labor–capital alliance of the turn of the century was in part a product of the logic of competitive relations among capitalists, so was the capital–labor conflict of the 1920s largely structured by capital–capital competition.

In Chapter 7, I analyze the response of coal operators to the various competitive games that they faced during the period of the Great Depression. Having undermined the only mechanism that was exerting any constraints on their competitive behavior – interstate collective bargaining – bituminous coal operators entered the decade of the 1930s facing the same price- and wage-cutting game that they had first tried to escape forty years earlier. As in the nineteenth century, this game generated suboptimal outcomes that elicited efforts by operators to act collectively to organize their competition. By the time that the National Industrial Recovery Act (NIRA), which authorized industry "codes of fair competition," was passed in 1933, the failure of operators to organize themselves voluntarily had led many of them to espouse external intervention – either from workers or from the state. However, the code that operators finally agreed to did not institute centralized administration of prices but, instead, replaced the price and wage competition of thousands of individual operators with price competition among twenty-two regional code authorities. These code authorities felt the same pressure to reduce prices that formerly had been experienced by individual operators. To the extent that the industry was organized during the period of the code, and price-cutting pressure was suppressed, this was again the achievement of the United Mine Workers, who were able to prevent competitive wage cutting and, in some cases, competitive price cutting as well. When the NIRA was found to be unconstitutional, many coal operators responded to the prospect of a reimposition of self-destructive price competition by turning again to the state to organize them. As was the case during previous conflicts over market organization, the attitude of operators toward post-NIRA state regulation was largely determined by their competitive positions.

In Chapter 8, I return to the principal propositions of the first two chapters in an effort to reexamine them in the light of the empirical material presented in Chapters 3 through 7 and to explore briefly some of the theoretical implications of the study.

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