Democracy, Economics, and the Military

Manuel De Landa

"If we are prepared to make an unequivocal distinction between the market economy and capitalism, might this offer us a way of avoiding that ‚all or nothing' which politicians are always putting to us, as if it was impossible to retain the market economy without giving the monopolies a free hand, without nationalizing everything in sight? ... As long as the solutions put forward amount to replacing the monopoly of capital with the monopoly of the State, compounding the faults of the former with those of the latter, it is hardly surprising that the classic left-wing solutions do not arouse great electoral enthusiasm. If people set about looking for them, seriously and honestly, economic solutions could be found which would extend the area of the market and would put at its disposal the economic advantages so far kept to itself by one dominant group of society.[1] With these words, the great historian Fernand Braudel concludes his three-volume masterpiece on the economic history of the West. Clearly, he considers the thought expressed in this paragraph to be important enough to serve as a conclusion to his lifelong pursuit of charting the development of the institutions that have shaped the economic life of Europe and its colonies and ex-colonies. But what could he possibly mean by it? How can "capitalism" be unequivocally distinguished from "the market economy" if, according to most theories on the left and right of the political spectrum, the two terms are synonymous? Braudel has two things in mind here, both of which he considers to be important historical discoveries: one is that economic institutions, when examined in concrete historical detail, cannot be said to form an overall system; the other that large economic institutions, forming oligopolies or monopolies, cannot be said to have the same dynamics as networks of small market firms. Moreover, Braudel argues that small firms have always been the source of innovation in the economy, while large ones have been the locus of market power and the manipulation of market forces. I will argue in what follows that both of these ideas, the absence of overall system and the distinction between markets and capitalist corporations, are crucial for an assessment of the compatibility of economic institutions with democratic principles.

Let me first quote Braudel again on these two points. He writes that "we should not be too quick to assume that capitalism embraces the whole of western society, that it accounts for every stitch in the social fabric ... that our societies are organized from top to bottom in a ‚capitalist system.' On the contrary, ... there is a dialectic still very much alive between capitalism on one hand, and its antithesis, the ‚non-capitalism' of the lower level on the other."[2] This lower level Braudel identifies with the market and he adds that capitalism was carried upward and onward on the shoulders of small shops and "the enormous creative powers of the market, of the lower storey of exchange ... [This] lowest level, not being paralyzed by the size of its plant or organization, is the one readiest to adapt; it is the seed bed of inspiration, improvisation and even innovation, although its most brilliant discoveries sooner or later fall into the hands of the holders of capital. It was not the capitalists who brought about the first cotton revolution; all the new ideas came from enterprising small businesses."[3]

Notice that Braudel is *not* saying that at some point in the economic history of the West, large firms with monopoly power replaced competitive small firms, as if the capitalist system had gone from one stage to another of its development. He is making a much more radical claim: that as far back as the 13th century, big business has coexisted with small enterprises as two very different forms of economic institution, and that the two continue to coexist today. In this regard, and from the point of view of a progressive leftist politico-economic philosophy, the work of Braudel represents a sharp break with past assessments of the role of markets in history. His views are incompatible with those of

Marxist historians and closer to the Institutionalist school of economics, the school that began with the work of Thorstein Veblen and Wesley Mitchell, but which today is best represented by the work of John Kenneth Galbraith.

Galbraith, for example, draws a sharp distinction between the world of small businesses, which are mainly price takers and where competition is largely anonymous, from the world of oligopolies, where strategic rivalry is the rule and where prices are managed. Only the former can be said to have any degree of self-regulation, while the latter is, as Galbraith puts it, a "planning system."[4] This phrase means two things. One is that *within* large corporations decision making is not decentralized as it is in true markets, but strongly hierarchical, with decisions about production, investment, or marketing made by professional managers. The other is that *between* corporations, and despite the fact that overt cooperation is forbidden by law in many democratic countries, there are a variety of links that allow these large organizations to coordinate their activities. The most important of these indirect linkages is what Institutionalists call "interlocking directorates," that is, the practice by large banks and insurance companies to place their people on the boards of directors of rival corporations in order to reduce the chance of price wars and other forms of competition that affect profits and control[5]. In this regard, the corporate world, both in its internal as well as external organization, is closer in form to State institutions than to markets.

From the point of view of their impact on democratic principles, the main distinction between these two worlds is summarized in the phrase "market power." In economic textbooks, this phrase is associated with the ability of monopolistic firms to manipulate market forces by, for example, restricting the amount of output of a given product in order to artificially drive up its price. But as studies done by members of the Institutionalist school have clearly shown, this ability to manipulate prices is but one of the many manifestations of the market power that large scale gives to monopolies and oligopolies. A much more direct impact on democratic institutions, for instance, comes from their ability to perform "economic sabotage" of public policies. Well-studied cases include the sabotage by large automobile manufacturers of environmental policies connected with fuel-efficiency standards, using threats of factory closings and large layoffs of workers to get laws adjusted to their benefit. Another example of the degree to which gigantism itself allows some organizations to conduct economic extortion is the forced bailout of failing or mismanaged firms, such as the bailout of Chrysler in the 1980s. In this case, large scale allowed both the privatization of profits and the socialization of losses. Less dramatic examples of corporate extortion include the forceful extraction of a variety of benefits such as tax breaks, low-interest bonds, free land, and cheap electricity, or the erection of barriers to foreign competition, such as quotas, bars, and other forms of protectionism.[6]

These uses of economic power are, of course, very well known, but they have for many years been conceptualized by the Left as examples of the way in which the capitalist system subverts democratic institutions. However, within a conceptual framework in which "the capitalist system" does not exist, we need to approach these cases in a new light. One possibility is to tackle the question of market power in terms of the distinction between, on the one hand, *economies of scale*, and on the other, *economies of agglomeration*. The basic principle of economies of scale is the production of large runs of more or less homogeneous products, the cost of each replica decreasing as the scale of production increases. By standardizing production, costs can be spread across a large number of identical units and the law of diminishing returns overcome. By contrast, economies of agglomeration involve bringing together, in a particular region or city, a large number of small producers. The efficiencies of this arrangement derive from several sources. First, there are many services, such as accounting and legal services, for example, which large corporations can provide internally but which small firms cannot afford individually. Firms providing these services can move into a agglomerated region to profit from the existence of so many potential clients. Second, and despite the fact that the small firms in question compete against each other, there is a constant sharing of knowledge among them, some of it in the form of shop-talk, some due to the fact that engineers and other knowledge workers move around the region employed first by one, then by another firm.

Well-studied contemporary cases of economies of agglomeration include Silicon Valley and a region in northern Italy called Emilia-Romagna. Though in both cases we have a hybrid phenomenon, that is, they include large organizations operating on economies of scale, the main component in both regions are networks of small producers competing not so much at the level of costs, but at *the level of product design*, and growing not by vertical or horizontal integration, but by c*ontinuous splitting and specialization*. The success of these regional economies, and their proven resiliency to economic downturns, have made them alternative paradigms to corporate capitalism in the eyes of the scholars who have researched them. In particular, these researchers point out that, unlike corporations which internalize not only services but also the production of knowledge in their research and development laboratories, networks of small producers do not internalize but share services and knowledge. This means that no firm can leave the region without also surrendering access to services and to the talent pool that is tied to the region. This is in stark contrast to corporations which, having internalized these external benefits, gain locational mobility as a result. And it is precisely this self-sufficiency and mobility which allows them to close large factories in one place to open them elsewhere, and thus to be able to threaten local governments with the consequences of such a move, not only widespread unemployment but also loss of tax revenue.

Fernand Braudel has shown, with plenty of historical evidence, that these two types of economic dynamics have coexisted for centuries, a coexistence which implies that the economy is a more heterogeneous entity than we thought, and it is this intrinsic heterogeneity that leads Braudel to deny that there is such a thing as a homogeneous "capitalist system." In turn, his assertion of the creativity of the market can now be understood as the belief that economies of agglomeration, and competition in terms of design, are an important source of innovation. From the point of view that concerns us here, the absence of market power and the crucial role played by creativity implies that economies of agglomeration are more compatible with democratic principles than are economies of scale.

This conclusion may be strengthened by analyzing a different aspect of economic power, one which Braudel does not mention but which Michel Foucault has dealt with in his history of discipline and punishment. Foucault has argued for the inclusion of military institutions as part of the history of economic ones, or at least, of that aspect of economic power that involves *control of the labor process* within firms.[7] It has become routine to think of Frederick Taylor, the late 19th-century creator of so-called "scientific management," as the pioneer of labor process analysis, that is, the breaking down of a given factory practice into micro-movements and the combination of these movements into streamlined routines for greater efficiency and centralized management control. But the Dutch commander Maurice of Nassau had already applied these methods to the training of his soldiers beginning in the 1560s. Maurice analyzed the motion needed to load, aim, and fire a weapon into its micro-movements, redesigned them for maximum efficiency, and then imposed them on his soldiers via continuous drill and discipline. As Foucault argues, while the soldiers increased their efficiency tremendously as a collective whole, each individual soldier lost control over his actions in the battlefield. A similar point applies to the application of this idea to factory workers, before and after Taylorism. Collectively workers became more productive, generating the economies of scale so characteristic of 20th-century big business, while simultaneously completely losing control of their individual actions.

Indeed, the very idea of mass production and the industrial discipline it requires is not of bourgeois origin, as Marxist historians would want us to believe when they speak of Fordism, but was born in military arsenals in 18thcentury France, and institutionalized as a practice in American arsenals and armories in the early 19th century. The first mass-produced objects were fire weapons with interchangeable parts, and the first workers to bear the brunt of modern industrial discipline were the craftsmen who worked in those military factories. Recent historians have rediscovered several other cases of the military origins of what were once thought to be civilian innovations. Another important example involves the development of the modern corporation itself in the United States during the 19th century. The first American big business was the railroad industry, which developed the management techniques that many other large enterprises would later adopt. This much is well known. What is not so well known is that military engineers were deeply involved in the creation of the first railroads and that they developed many of the features of management which later came to characterize just about every large commercial enterprise in the United States, Europe, and elsewhere. In the words of historian Charles O'Connell:

> As the railroads evolved and expanded, they began to exhibit structural and procedural characteristics that bore a remarkable resemblance to those of the Army. Both organizations erected complicated management hierarchies to coordinate and control a variety of functionally diverse, geographically separated corporate activities. Both created specialized staff bureaus to provide a range of technical and logistical support services. Both divided corporate authority and responsibility between line and staff agencies and officers and then adopted elaborate written regulations that codified the relationship between them. Both established formal guidelines to govern routine activities and instituted standardized reporting and accounting procedures and forms to provide corporate headquarters with detailed financial and operational information which flowed along carefully defined lines of communication. As the railroads assumed these characteristics, they became America's first "big business."[8]

Thus, the transfer of military practices to the civilian world influenced the lives not only of workers, but of the managers themselves. And the influence did not stop with the development of railroads. The "management science" which is today taught in business schools is a development of military "operations research," a discipline created during World War II to tackle a variety of tactical, strategic, and logistical problems. And it was the combination of this "science of centralization" and the availability of large computers that, in turn, allowed the proliferation of transnational corporations and the consequent internationalization of the routinization of production processes. Much as skills were replaced by commands in the shop floor, so were prices replaced by commands at the management level. Thus, there is a different sense in which economies of scale, and their militarized production systems, are incompatible with democratic principles.

Foucault has argued that if we are to correctly conceptualize this aspect of Western history, we need to stop viewing the military exclusively in terms of the legitimacy, within democratic regimes, of the monopoly of violence by the State. In particular, the question of Taylorism *lies outside the problematic of legitimacy*. But even if we disregard economics for a moment, the very form which democratic governments adopted in the 18th and 19th centuries was influenced by the military, a fact that should make us pause before using terms like "the State" which, like the term "the Market" or "the Capitalist System," assume more homogeneity than is indeed the case. In particular, democratic institutions followed in their development two distinct projects, one which we may call "unification," the other "uniformization." On one hand, the project of nationbuilding was an integrative movement, forging bonds that went beyond the primordial ties of family and locality, linking urban and rural populations under a new social contract. On the other hand, and complementing this process of unification, there was the less conscious project of uniformization, that is, of submitting the new population of free citizens to intense and continuous training, testing, and exercise to yield a more or less uniform mass of obedient individuals. In Foucaules own words:

> Historians of ideas usually attribute the dream of a perfect society to the philosophers and jurists of the eighteenth century; but there was also a military dream of society; its fundamental reference was not to the state of nature, but to the meticulously subordinated cogs of a machine, not to the primal social contract, but to permanent coercions, not to fundamental rights, but to indefinitely progressive forms of training, not to the general will but to automatic docility … The Napoleonic regime was not far off and with it the form of state that was to survive it and, we must not forget, the foundations of which were laid not only by jurists, but also by soldiers, not only counselors of state, but also junior officers, not only the men of the courts, but also the men of the camps. The Roman reference that accompanied this formation certainly bears with it this double index: citizens and legionnaires, law and maneuvers. While jurists or philosophers were seeking in the pact a primal model for the construction or reconstruction of the social body, the soldiers and with them the technicians of discipline were elaborating procedures for the individual and collective coercion of bodies.[9]

It should be clear by now that much historical evidence exists to force us to question the assumption of more or less homogeneous societies undergoing historical change by moving from one stage to another of their development. The very idea that we can break down history into internally homogeneous periods, feudalism and capitalism, for example, or the agricultural, the industrial, and the information ages, has revealed itself to be a myth. But without these homogeneous periodizations, how can we think about history? Does it all become pure heterogeneous and contingent detail without any pattern or structure? The answer is that we do not have to fall into pure contingentism but that we do need to replace many of the ideas we take for granted in order to arrive at a more satisfactory philosophy of history. To begin with, we need to replace the idea of "society as a whole" or of "society as a systematic totality." This idea has several origins. One is the use by sociologists, from Compte and Spencer to Talcott Parsons, of the biological organism as a metaphor for society as a whole. A different source of the idea is Marxism. Karl Marx, of course, had a very different analysis of the matter, replacing the harmonious organic whole with one in which conflict is an integral part, but he retained the idea of an overall system via the notion of a dominant set of production relations. Thus, although Marxism and Functionalism are completely different, they both share what we may call a "methodological holism," that is, both take as their point of departure an assumption of overall systematicity. The danger of rejecting this holism is that we may fall into the opposite trap, the "methodological atomism" of neoclassical economics. Nothing shows this danger more clearly than Margaret Thatcher's assertion that there is no such thing as society, only individuals and their families. Clearly, rejecting holism cannot imply reducing all social processes to the level of individual persons.

An alternative to both holism and atomism is a view which includes wholes but only if it can be demonstrated that these wholes are the result of a specific historical process, or, to use a technical term, only if these wholes can be shown to be *emergent wholes*. We need a view in which, starting from a population of interacting individual persons, several layers of social entities emerge: institutional organizations, cities, nation-states. Each entity would constitute a fully historical being emerging from the interactions of a population of immediately lower-scale entities. Roughly, from the interactions among individual persons, institutional organizations emerge; from the interaction of organizations, individual urban centers emerge; and from urban interactions, nation-states emerge. What this yields is a *social ontology of individual entities each operating at different spatio-temporal scales*, in the sense that, roughly, institutional organizations are larger and last longer than human beings, and cities are larger and last longer than institutions. This implies that even the largest entities, nation-states, are considered individual entities, that is, entities *having the same ontological status* as the others and differing only in scale, so that at no point do we reach the level of a "totality" or of "society as a whole."

Given this new social ontology, human history ceases to be a "single temporal stream," the history of societies or the history of great individuals, and now becomes a *multiple stream, with separate historical processes occurring in parallel at different temporal scales*: a history of individual persons, a history of institutions, a history of cities, and so on. Each level would retain a certain autonomy and call for a different descriptive methodology. A good illustration of historical dynamics at the level of institutional organizations is Michel Foucault's description of the complex institutional ecologies in 18th-century Europe, involving the interactions between hospitals, prisons, schools, barracks, and factories, leading to the development of disciplinary techniques. The level of urban centers may be illustrated by Fernand Braudel's theory of cities as "historical actors," which emphasizes the different roles played by maritime metropolises (Venice, Lisbon, Amsterdam, New York) and landlocked capitals (Paris, Vienna, Madrid). Moreover, besides the idea of a multileveled historical process, treating each level as emerging from interacting populations at the level below allows us to include more heterogeneity in our models of social and historical phenomena. Unlike the "system" paradigm, which imposes a certain degree of artificial homogeneity at the outset, the "nested set of individual entities" paradigm does not have to assume any homogeneity at any level, except contingent uniformities for which a specific historical explanation can be given.

I take this social ontology from the work of Gilles Deleuze, whose philosophy is based on the fundamental notions of "difference" and "heterogeneity." Unlike the negative use of the concept of "difference" in Hegelian philosophy, where differences do enter into the genesis of structure but as the "negation of the negation," Deleuze creates a philosophy where differences are entirely positive. Unlike the negation of the negation which leads to the genesis of totalities, a positive use of difference leads to the quite distinct concept of an "assemblage," an articulation of heterogeneous components where there is no totalization. It is precisely this notion of assemblage that we need in order to properly conceptualize the complex institutional ecologies that Foucault analyzes, or the equally complex urban ecologies analyzed by Braudel. Once in possession of this new idea, we can more easily resist using terms like "the Market" or "the State" and move on to think about these entities as they are, complex assemblages of individual firms of many sizes and dynamics, or complex assemblages of individual governmental agencies and organizations operating with different degrees of autonomy. Given that one crucial characteristic of democratic institutions is that they must respect and articulate personal and ethnic differences, a philosophy which takes heterogeneity seriously and which makes positive differences its cornerstone may be just what we need to assess the future possibilities of democracy.

Manuel De Landa. Democracy, Economics, and the Military. In: Okwui Enwezor, Carlos Basualdo, Ute Meta Bauer, Susanne Ghez, Sarat Maharaj, Mark Nash, Octavio Zaya (ed.): Democracy Unrealized. Documenta11_Platform1. Hatje Cantz Verlag, Ostfildern-Ruit. 2002, pp. 338-346.

References

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9 Foucault, Discipline and Punish, p. 169.