

# Unfettered capitalism

## On rackets, cronies and *mafiosi*

Stefan Klein\* e Ricardo Pagliuso Regatieri\*\*

### Introduction

This article looks into contemporary developments of capitalism, aiming to specifically address the phenomenon that critical theory of the early 1940s called *racketeering* and that has recently reemerged in discussions about *cronyism* and the *mafioso state*. We understand this phenomenon to be a central element that depicts how capitalism has developed under the most recent neoliberal turn in various parts of the world.

Our paper proceeds in three main steps. First, we review discussions of critical theory that serve as the starting point of our interpretation. We then move onto the discussions about the Welfare State formulated by Jürgen Habermas and Claus Offe, aiming to understand changes in capitalism that occurred during the second half of the 20<sup>th</sup> century. We conclude by referencing a number of contemporary critical analyses concerning crony capitalism. Our main argument is that capitalism cannot be understood without taking into account rackets and how they have developed since the early 20<sup>th</sup> century.

\*Universidade de Brasília, Distrito Federal, Brasil.

\*\*Universidade Federal da Bahia, Salvador, Brasil.

## Critical theory and the unfettered capitalism

In exile since the early 1930s, due to Hitler's rise to power in Germany, the Institute of Social Research found itself in the United States in the early 1940s. Since the beginning of his period as its director, Max Horkheimer had sustained that the task of the Institute was to analyze and critique the historical present (Horkheimer, [1931] 1988; [1937] 1988). The rise of National Socialism in Germany and the beginning of the Second World War some years later turned the understanding of the historical present into an issue that proved to be more pressing than ever. Aiming to produce an account of their political period – marked not only by Fascism in Europe, but also by Stalinism in the Soviet Union and the New Deal in the United States – the Institute organized a debate at Columbia University in November and December of 1941, which was attended by Friedrich Pollock, Franz Neumann, Otto Kirchheimer, Arcadius R. L. Gurland and Herbert Marcuse<sup>1</sup>. The positions taken up within the Columbia debate can roughly be divided in two major groups. One concluded that capitalism had undergone major transformations, leading to a new order that was called State Capitalism, the interpretation defended by Pollock. The other depicted the National Socialist regime as an authoritarian monopoly economy, a view represented by Franz Neumann and others, despite differences among them.

According to Pollock, the monopoly economy that followed the free market system of the 19<sup>th</sup> century was gradually transforming into State capitalism, conceived as a fusion of private monopolies and government intervention. In the words of Pollock, State capitalism meant “the transition from a predominantly economic to an essentially political era” (Pollock, 1941a, p. 207). Its central feature was the introduction of the planning principle into the economic process. Pollock argues that the planned economy lessened the risk of economic crises and increased social domination. Neumann, Gurland and Kirchheimer developed their analyses in a closely bound way that deviated from Pollock's interpretation, considering National Socialism to be a totalitarian system. Nevertheless, they insisted that it entailed a private monopoly economy, and not a State capitalist regime: even though the State had assumed authoritarian features, it continued to be capitalist. All the basic capitalist drives, such as the profit motive, were at work in Germany and capitalist contradictions were increasing rather than being dealt with. Cartelization and monopolization were not to be seen as a denial of competition, but rather as another form of it. According to these three and to Marcuse, National Socialism facilitated

1. See Pollock (1941a; 1941b), Kirchheimer (1941a; 1941b), Gurland (1941) and Marcuse (1941; [1942] 2004). For Neumann's position, see Neumann ([1944] 2009).

accumulation for big capital and acted as an intensifier of social contradictions. Concerning the forging of a new order, the opinions held by Neumann, Kirchheimer, Gurland and Marcuse were quite opposed to those supported by Pollock.

At that time, Horkheimer and Theodor W. Adorno, who did not take part in the debate as lecturers, were starting their collaboration that resulted in the *Dialectic of Enlightenment*, concluded in 1944. This book can, to a large extent, be seen as a response to the Columbia debate. But shortly before as well as in the years following the 1941 conferences, texts authored by both of them began considering the authoritarian changeover in capitalism as representing the system freeing itself of its fetters or inhibitions<sup>2</sup>. In his 1939 article, “The Jews and Europe”, Horkheimer approaches Fascism as an unfolding of free trade liberal society, as capitalism that has overcome its political constraints and made use of direct forms of control and violence over the ruled. He claims that “the totalitarian order is nothing else than its predecessor that has lost its inhibitions [*Hemmungen*]” (Horkheimer, [1939] 1988, p. 116). German imperialism under Wilhelm II led to the First World War and was followed by the unstable period of Social-Democratic conciliation during the Weimar Republic. This conciliation between labor and capital came to an end by the time Hitler became chancellor in 1933. Inspired by Benjamin’s theses on history (Benjamin, [1940] 1974), Horkheimer and Adorno argued that nazism was not to be seen as a historical detour but rather as a consequence of capitalist drives. They understand fascism as a form of capitalism extended to its ultimate limits, as a return to practices of violence and oppression at the very roots of this system – a parallel can be made here with Marx’s primitive accumulation<sup>3</sup>. This was followed by an attempt at ‘humanization’ through liberalism and social-democracy.

One important element in this interpretation of the unfettering of domination is Horkheimer and Adorno’s sketch of the racket theory<sup>4</sup>. In American sociology, policy-making and the press of the 1920s, petty organized crime, which flourished in cities like Chicago, was referred to as racket<sup>5</sup>. Horkheimer, who was aware of such discussions about the rackets, wrote a fragment, likely in the year 1942 (the same year he published his essay “Authoritarian State”), entitled “The rackets and the mind” ([~1940] 1985b), borrowing the term from the urban crime underworld and applying it for his own interpretative purposes. In the hands of Horkheimer,

2. In this regard, their interpretation was closer to that of Neumann, Kirchheimer, Gurland and Marcuse rather than Pollock. In any case, Horkheimer and Adorno’s conclusions should be regarded as a third position that moves beyond the Columbia debate.

3. See Marx ([1867] 1968, pp. 741 ff.).

4. For a full-length account of the Columbia debate and the racket theory see Regatieri (forth.).

5. See Hostetter and Beesley (1929; 1933).

rackets refer to closed groups that could be found throughout human history. “History = a struggle of rackets” wrote Horkheimer in one of his notebooks<sup>6</sup>. Rackets distinguish between those who are within and those who are outside of their group, recognizing and protecting the insiders. In essence, rackets pursue particularistic goals. Even though Horkheimer thought that the racket pattern could have an extended historical background, the approach was conceived in order to depict the mechanisms of monopoly capitalist society constituted by groups possessing economic and political power, immersed in constant disputes and agreement-making. Horkheimer’s racket theory claims that monopoly capitalism is regulated in a mafia-like fashion. Moreover, Horkheimer and Adorno saw the rackets as a subdivision (*Untergliederung*) of social classes<sup>7</sup>, since each social class is itself composed of ruling and weaker groups. Class division and opposition as proposed by Marx – bourgeoisie versus proletariat – must be reconceived in the monopoly period so as to recognize that, within the bourgeoisie, there exists a ruling elite that not only opposes the proletariat but also the weaker members of the class. For its part, the proletariat contains an upper echelon that negotiates with the elite connected to the monopoly, and whose interests oppose those of the rest of the proletariat. The concept of class, writes Adorno ([1942] 1972, p. 379), is as real and, at the same time, as fictitious as liberalism itself.

Though Marx’s theory of pauperization corresponded to liberal capitalism, it does not explain monopoly capitalism, as the latter brings better life standards to the working class. According to Adorno, this is due to the fact that the new ruling class is not the “anonymous and unconscious bourgeois class” (*Idem*, p. 385) described by Marx in his analysis of liberalism: the dominant class is now “not only ruled by the system, it also rules through the system and ultimately ends up ruling the system” (*Idem, ibidem*). Left to its own dynamics, capitalism tends, in its blindness, to accumulate poverty and misery; but the dynamics set in motion by monopoly capitalism engenders self-preservation of the system and avoids pauperization. Put in terms of the racket theory, “rackets run the social whole in a more or less planned way”<sup>8</sup>, even though oppositions and antagonisms do not vanish as a constant struggle for controlling profits, surplus value and salaries remains in force.

Racket theory highlights the “self-consciousness of the system in regard to its own perpetuation” (*Idem*, p. 386) as opposed to Marx’s automatic subject. In key positions

6. Archivzentrum der Universitätsbibliothek, Goethe-Universität Frankfurt, Signatur XXIV 7.59, not dated but probably from the early 1940s.

7. Horkheimer’s letter to Grossmann, Jan. 20, 1943. In: Horkheimer, *Gesammelte Schriften, Band 17: Briefwechsel 1941-1948*, p. 398 ff.; Greven (1994, p. 162).

8. Horkheimer, “Zur Kritik der politischen Ökonomie”, p. 410.

of this self-preserving system, one finds groups that hold power: the rackets of capital and labor. The improved conditions of the working class represent a concession from the monopolies – Adorno calls it “a bonus [*Zugabe*], a tip [*Trinkgeld*] from the point of view of the rulers” (*Idem, ibidem*). As a result, according to Adorno, the monopoly period intensifies the contrast between power, on the one hand, and social and political powerlessness, on the other. The latter does not express itself as pauperization, but rather in the fact that everyone becomes “mere objects managed by the monopolies and their states” (*Idem, ibidem*).

Furthermore, racket theory highlights the undemocratic character of narrowing and limiting the decision-making processes, which take place within increasingly exclusive groups<sup>9</sup>. Economic and political concentration, which is a result of liberalism itself, unfolds as monopolization, and the rackets run the resulting social whole. Horkheimer and Adorno see the liberal period as one in which more direct and immediate forms of domination represented in the racket pattern weaken and a more ‘humanized’ capitalist rule prevails. Yet, the mafia-like form of rule under the rackets accords to the process of economic and political concentration that takes place in monopoly capitalism. Liberalism, according to Horkheimer ([1942] 1987, p. 332), was an “episode” in the history of domination. The liberal episode “lies between two periods of more open oppression” (Fetscher, 1986, p. 298). Horkheimer correlates the new order of monopoly capitalism with past historical constellations in terms of their immediacy and violence. Monopoly capitalism represents “a leap transforming bourgeois rule into non-mediated domination, and it carries the bourgeois order forward” ([1942] 1987, p. 332).

“The realization that the economy of many capitalist countries was in the hands of 200, 60 or even less families shed light on this situation and removed the veil over free competition”, wrote Horkheimer in “Sociology of class relations” (1985b, p. 80). Capitalism does not equal free competition. In a broader sense, Horkheimer and Adorno’s outlook is multifarious in that, besides economic forces in a more immediate concept of the term, they are concerned with social relations and a way of life: critical theory called this constellation *organized capitalism* or *advanced industrial society*. In fact, capitalism in its organized form became so driven towards the formation of dominant classes that the labor movement itself also started to reproduce this logic<sup>10</sup>. As such, the authors anticipated tendencies that would exist in ‘later’ forms

9. See Horkheimer (1985b, p. 103; 1985a, p. 291).

10. “The difference between the racket of capital and the racket of labor is that, in the case of the capitalist racket, the entire class profits, while the labor racket functions as a monopoly only for its leaders and the labor aristocracy. The working masses are the objects of both forms; but they have to pay for everything” (Horkheimer, 1985b, p. 101).

of capitalist modernization in the world periphery<sup>11</sup>. Critical theory – especially that of Horkheimer and Adorno<sup>12</sup> – emphasized how individuality was increasingly receding, threatening one of the core traits of liberalism.

### Welfare State, catch-up regimes and neoliberalism

Following the defeat of Nazi Germany in the Second World War, the core countries of the capitalist world system – i.e. Western Europe, North America and Japan – experienced three decades of economic growth and increasing social welfare extended to the whole of their populations – the so-called Glorious Thirty. As Jürgen Habermas pointed out, the welfare state is based on the presupposition that “peaceful coexistence between democracy and capitalism can be ensured through state intervention” (Habermas, 1991, p. 55). Monopoly capitalism did not vanish after the war; on the contrary, it flourished under the welfare state. Yet, what is distinctive about the welfare state is its attempt to regulate economic power through state power, with the aim of “protecting capitalist growth, smoothing out crises, and safeguarding simultaneously both jobs and the competitiveness of business in the international marketplace, so that increases are generated from which redistribution can be made without discouraging private investors” (*Idem, ibidem*). In a nutshell, “the Welfare State compromise and the pacification of class antagonisms are to be achieved by using democratically legitimated state power to protect and restrain the quasi-natural process of capitalist growth” (*Idem, ibidem*). Horkheimer claims that nineteenth-century competitive capitalism had provided protection against crude violence to some extent, but this had been overturned by monopoly capitalism. It would seem to be the case that fetters had once more been placed on the system through the postwar reconstruction – evidently not to dismantle but rather to perpetuate it.

The impossibility of completely separating economic and political realities is a structural element of capitalism. This trait remains in place even though capitalism changes form, as the free market moves towards organized and non-competitive capitalist relations. Inspired by Marx’s interpretation in his *18<sup>th</sup> Brumaire*, Habermas writes: “In regard to its non-capitalist means, the state *limits* capitalist production; in regard to its function, it *serves* its maintenance – only in so far as the state *completes* the economy can it be *instrumental* to it” (Habermas, 1973, p. 74, italics J. H.). These

11. Horkheimer, “Zur Soziologie der Klassenverhältnisse”, pp. 96 ff. For an account of how the leaders of the labor movement tallied alliances with capital in Brazil, see Oliveira (2003).

12. It should be noted that other approaches from the same period arrived at similar conclusions, as can be seen in the work of Joseph Schumpeter (2003, p. 133): “Thus, economic progress tends to become depersonalized and automatized. Bureau and committee work tends to replace individual action”.

reflections concerning problems of legitimation cannot be completely understood without the contributions of Max Weber, addressing the different types of domination as well as the specificity of capitalist planning. The main dilemma is how antagonistic conditions combined with certain contexts of crisis can be dealt with through a capitalist *rationale* and “the means of global control [*Globalsteuerung*]” (*Idem*, p. 95).

The development and growth of the state under capitalism occurs in a complementary manner: state functions are nothing more than a means of guaranteeing the maintenance and preservation of capitalist production while, at the same time, some of its arrangements – e. g. the welfare system – contribute to limiting capitalist production. This is what Habermas refers to as power constellations (*Machtkonstellationen*). Certain conflicts which may have originated in the economic sphere more often than not express themselves in the political sphere. As such, it is crucial to emphasize the intertwined existence of a state (political sphere) and of capitalist relations of production (economic sphere).

In his work about the contradictions of the welfare state, Claus Offe formulates the interaction of the latter with capitalism by saying: “In the absence of large-scale state-subsidized housing, public education and health services, as well as extensive compulsory social security schemes, the working of an industrial economy would be simply inconceivable. [...] The contradiction is that while capitalism cannot coexist *with*, neither can it exist *without*, the welfare state” (Offe, [1981] 1984, p. 153). He calls attention to the fact that, in a relatively short period of time, the welfare state came to be seen as an obstacle to capitalist development. Offe identifies two chief lines of reasoning that contributed to sustaining attacks on the welfare state from the right: “First, the Welfare State apparatus imposes a burden of taxation and regulation upon capital which amounts to a *disincentive to investment*. Second, at the same time, the Welfare State grants claims, entitlements and collective power positions to workers and unions which amount to a *disincentive to work*, or at least to work as hard and productively as they would be forced to under the reign of unfettered market forces” (*Idem*, p. 149).

The largely stable period of the welfare state in the core countries lasted from postwar reconstruction until the 1970s, when it was struck by crises and a reorganization of political and economic power relations<sup>13</sup>: neoliberalism. In his well-known article about the crisis of the welfare state – which is based on a talk he gave in 1984 and was first published in 1985 –, Habermas draws attention to the fact that “neoconservatism” had been on the rise (1991, p. 60) at a time when he had the governments of Thatcher and Reagan before his eyes. Habermas speaks of three

13. This is how Foucault approaches the rise of neoliberalism in the 1980s. See Lemke (2002).

basic characteristics of neoconservatism (or neoliberalism). First, “a supply-side economic policy is supposed to improve conditions for the valorization of capital and set the process of capital accumulation back in motion” (Habermas, 1991, pp. 60-61). A relatively high unemployment rate is expected and accepted, the income of poorer groups is more negatively affected than that of the wealthier ones, and this comes hand in hand with a stark reduction in social welfare services. Second, a “greater detachment of administration from public will-formation” takes place by means of “an activation of the nongovernmental steering potential of large-scale organizations, primarily business organizations and labor unions”, turning “the state into one partner among others in negotiation” (*Idem*, p. 61). Third, there is a twofold movement in the cultural realm. On the one hand, intellectuals are discredited and the universalistic views of the Enlightenment are seen “as a threat to the motivational bases of a functioning society of social labor and a depoliticized public sphere” (*Idem, ibidem*). Yet, at the same time, “traditional culture and the stabilizing forces of conventional morality, patriotism, bourgeois religion, and folk culture are to be cultivated” in order to “compensate the private lifeworld for personal burdens and to cushion it against the pressures of a competitive society and accelerated modernization” (*Idem, ibidem*). In neoliberalism, as Habermas argues, the “pattern of relations between the metropolises and the underdeveloped peripheral areas that has increasingly become established in the international arena seems to be repeating itself within the developed capitalist societies: the established powers are less and less dependent for their own reproduction on the labor and willingness to cooperate of those who are impoverished and disenfranchised” (*Idem*, p. 62). He claims that a complete dismantlement of the welfare state compromise “would necessarily leave gaps in functioning that could be closed only through repression or demoralization” (*Idem, ibidem*).

Many peripheral countries went through different paths of state-led catch-up modernization, be it in the socialist fashion or in more clearly market forms<sup>14</sup>, which produced mixed social results. Hirano and Estenssoro compare the results of what they characterize as being two different patterns of market-based catch-up development during the twentieth century. According to the authors, these patterns cannot be fully understood if one does not refer to the position of the countries or regions within the world system. On the one hand, East Asian countries such as South Korea have put into practice authoritarian developmental state capitalism

14. See, for example, Kurz (1991) and Chang (2017). In his aforementioned book, Kurz argues that Soviet socialism was a specific form of catch-up modernization based on the production of value, and hence a capitalist one.

(Hirano and Estenssoro, 2006, pp. 111 ff) – or what has also been called, applied to the Korean case, guided capitalism (Robinson, 2007, pp. 132 ff). It resulted in broad social integration by setting up a system of social and economic opportunities. On the other hand, Latin American countries such as Brazil have developed a regime of exclusionary accumulation – or what has also been called, applied to the Brazilian case, conservative modernization (Domingues, 2002). Despite a temporary alleviation of impoverishment, it resulted in deepening social inequality and no decrease in extreme poverty. From the mid-1980s on, peripheral countries in Latin America, Asia and Eastern Europe also moved towards political democracy following the end of military dictatorships and the collapse of Soviet-style socialism. This shift towards democracy in the periphery coincided with the dismantlement of the welfare state through neoliberalism in the core. Neoliberalism also struck the periphery starting in the 1980s, but especially in the 1990s, with the neoliberal prescriptions of privatization, market deregulation, and the dismantlement of social services being applied in different countries – such as in Argentina, where neoliberalism led to the massive crisis of 2001, as well as in Bolivia, Brazil and Peru. In the early 2000s, following the Argentinean crisis, Latin America experienced the outbreak of the so-called “pink tide”<sup>15</sup>, which represented a very fragile and short (lasting for about ten years) attempt to once again ‘tame’ capitalism through a compromise of delivering growth and prosperity to all social classes. However, the tide has run out and now many countries in the region are facing a more ferocious version of neoliberalism that makes use of political chicanery – the most pronounced case being the impeachment of Brazilian president Dilma Rousseff from the Workers’ Party in 2016<sup>16</sup>.

Capitalism today: cronyism, *mafioso* State, rackets

Following the 1997 Asian financial crisis, Western scholars and market actors disseminated the term crony capitalism, referring to the fact that the crisis “brought opaque business transactions to the forefront” (Khatri *et al.*, 2006, p. 61). According

15. This expression, which would later become popular, was apparently coined by Larry Rohter, a reporter for *The New York Times*, in an article from 2005. Commenting on the ascent to power by Tabaré Vázquez, he wrote: “Three-quarters of the region’s 355 million people are now governed by left-leaning leaders, all of whom have emerged in the past six years to redefine what the left means today. They are not so much a red tide as a pink one” (retrieved on February 20, 2018 from Rohter, 2005).

16. A precedent for this kind of political maneuver, which aims at replacing pink tide elected leaders by agents representing vested interests, was the impeachment of Paraguayan president Fernando Lugo in 2012. In both cases, though there was no formal rupture of democracy, the righteousness and legitimacy of the procedures have been sharply contested.

to the advocates of the crony capitalism approach, a “purported primary contributor to the crisis was the reportedly widespread practice whereby executives in Asian financial institutions funded questionable business transactions by family and friends” (*Idem*). Crony capitalism, as magazines such as *The Economist* and *Asiaweek* claimed, had “subverted economic competitiveness” (*Idem, ibidem*). Naresh Khatri et al. define crony capitalism as “a reciprocal exchange transaction where party A shows favor to party B based on shared membership in a social network at the expense of party C’s equal or superior claim to the valued resource” (*Idem*, p. 62).

In the same line, Oh and Varcin proposed the notion of mafioso state in an article from the early 2000s that compared business practices and their relation to the state in South Korea and Turkey. According to the authors, the term “developmental state” obfuscates the relations between the market and the state (Oh and Varcin, 2002, p. 711). Through the notion of mafioso state, they intended to more precisely address this relationship. When market actors seek political solutions to market issues, they may hire a lobbyist, a transaction that is unstable and runs the risk of going awry. A mafioso state exists when the state itself assumes the role of this third party. The lobbyist or hit man, as Oh and Varcin call him, is regarded as an agent who acts in a mafia-like fashion (*Idem*, pp. 713-714)<sup>17</sup>. In order to avoid utilizing these agents, the state itself becomes a powerful mafioso operating alongside the monopolist mafia (*Idem*, p. 717).

Crony capitalism and the mafioso state clearly address late twentieth-century and contemporary developments in peripheral countries. In these countries, the condemnable intertwining of business and the state is regarded as an imperfection in legal-rational domination and as a gap that is filled by other forms of rationality connected with traditional rule. And it is precisely for this reason that Weber’s discussion about patrimonialism is revived time and again to analyze these imperfections<sup>18</sup>. These analyses assume that capitalism in the core countries is actually impersonal, anonymous and strictly bound to legality<sup>19</sup>. But this assumption has been put into question. As Khatri *et al.* (2006, p. 61) write: “The practice of cronyism in Western countries has drawn relatively little attention. However, the recent corporate governance crisis in the United States has arisen from a mag-

17. “The mafioso state is a stable alliance between enemies in the marketplace. The mafia analogy works like this. The state bureaucrats act as hostile mafia members against street merchants, demanding illegal fees for protection. Simultaneously, without such an alliance in the marketplace, street vendors would not be able to continue their business, unless they defied the mafia in a unified manner” (Oh and Varcin, 2002, p. 713).

18. For Weber’s discussion on rational-legal and traditional domination, see Weber (1980, especially pp. 122-140 and 541-654).

19. This topic has been discussed by Jessé Souza (2000), and more recently in Souza (2015; 2017).

nitude of corporate malfeasance that suggests a need for in-depth examination of systemic features”. They quote Davis’ work on cronyism in the United States, according to which

[...] the American economic system has evolved its own brand of crony capitalism: “Far from being a system characterized by impersonal, calculative relationships, the American corporate system is thick with social connections among the most important decision-makers. Corporate directors and the executives they oversee, financial analysts, investment bankers, and state legislators responsible for creating corporate law, are tied together in a dense network that contrasts sharply with the theory of an anonymous market policed by independent analysts, auditors, and legislators” (Davis, 2003, p. 40) (*Idem, ibidem*).

Moreover, mainstream economist Paul Krugman has concluded that cronyism is an accurate notion to account for American capitalism. In his article “Crony capitalism, USA” (2002) he discusses the issue in view of the administration of George W. Bush and, in “How Republics end” (2016), he does so regarding the administration of Donald Trump.

Discussing what he calls “American style” crony capitalism, Malcolm Salter emphasizes that, frequently, cronyism does not necessarily manifest itself illegally:

[...] business-friendly legislation and regulatory rule-making result from three potentially perverse relationships between business and government. Although these relationships may be perfectly legal, they compose the crony capitalism toolkit: (1) campaign contributions to elected officials, (2) heavy lobbying of Congress and rule-writing agencies, and (3) a revolving door between government service and the private sector. I discuss each of these in more depth as potential corruptions of democratic capitalism – where business-friendly public policy results from non-representative forces, leading to a diminution of public trust in our leading institutions of business and government (Salter, 2014, pp. 11-12).

One of the difficulties in considering cronyism as an aspect of capitalism relates to its ambiguous existence in terms of economic efficiency<sup>20</sup>. Even though it does not receive public approval, it is often taken to be a necessary evil for guaranteeing

20. “Although money politics – corruption and cronyism – is generally seen as inhibiting economic growth, there are certain conditions in which it can actually be beneficial. Developing countries typically have weak institutional structures. In that case, *if there is a balance of power among a small and stable set of government and business elites, money politics can actually reduce transaction costs* and make long-term agreements and investments more efficient, even while enriching those fortunate few who collude together” (Kang, 2004, p. 3, italics Kang).

that certain transformations or investments take place. The “revolving door”, as Salter calls it, is among the core aspects that mark the entanglements and the possibilities of crony relations. A number of almost incestuous relationships have been established, such as those between lobbyists and government in the United States or also in Brazil, where the concept of lobbying is not as enshrined as in the North and so-called ‘cooling-off periods’ are not in place, i. e., there is no established amount of time before those who exit or enter a government post can assume a position within certain private enterprises or trusts.

Current events, such as the presidency of Donald Trump in the United States and the post-impeachment government of Michel Temer in Brazil, have led us to reread Horkheimer and Adorno’s racket theory along with more recent discussions on crony capitalism and the mafioso state. In the light of these two extreme cases, we believe that contemporary capitalism has entered a new phase, which may be described as a higher stage of neoliberalism combined with more direct violence; and not only in these two countries, as right-wing authoritarian solutions to real or perceived crises are on the rise worldwide<sup>21</sup>. The racket pattern of closed groups competing for the booty (Adorno, [1942] 1972, p. 378) and using the state as a platform for facilitating or fulfilling their private goals is very discernible in the present day. As such, it is no coincidence that approaches such as crony capitalism and mafioso state have been recently proposed.

In a recent article, Puzone makes a provocative attempt to interpret the current Brazilian situation using the racket pattern. As he stresses, the main concern of any critical theory today should be to identify the fact that right-wing political parties are not entirely responsible for such a turn: cronyism and some type of subordination to capitalism were also shared by the left-wing government, which was in power for over 12 years (three consecutive presidential terms since the election of Lula, in 2002). Cronyism may have turned from a functional to a structural part of (contemporary) capitalism. Puzone argues that the Brazilian post-impeachment government is composed of “a gang whose primary interest is the appropriation of a larger share of funds controlled by the state, the clearest example of this being the reform proposals for social security and labor laws” (2017, p. 98). In regard to direct violence, the central government has already made clear, through the use of selective repression, that it will not tolerate critiques in the form of street protests (*Idem*, p. 100). Critical scholars have been harassed when they address the 2016 impeachment as a coup d’état. Corruption is being ‘fought’ to the extent that the actors involved

21. For an account of what this phenomenon means in terms of the preservation of democratic regimes, see Foa and Mounk (2016).

belong to the opposition. The military intervention by the federal government in the state of Rio de Janeiro in 2018, officially aimed at ‘fighting violence’ coming from the leaders of drug trafficking, is another facet of the violent means the Brazilian racketeers are willing to deploy<sup>22</sup>.

### Concluding remarks

Horkheimer saw monopoly capitalism of his time as ruled by rackets; it represented capitalism that had shed the fetters placed upon it by liberalism through the granting of rights, a respect for differences and the abdication of the use of violence. It is possible that following the “episode” of the post-war welfare state, capitalism is once again ridding itself of the fetters imposed by that regulatory system<sup>23</sup>. This movement, which started with neoliberal rule in the last decades of the twentieth century, may now be entering a new phase of sheer appropriation of resources, disregarding that which has thus far been seen as civilizational advances.

Numerous diagnoses for this have recently been presented, many of which consider the (re)production of various forms of inequality and the reconfigurations of capitalism. Although they stress multiple viewpoints – when looking at the Global North and thus advanced or monopoly capitalism – and while most take into account the changes of the welfare state in Europe and elsewhere, as well as the rising instability, flexibility and uncertainty in labor relations, these authors have generally not incorporated racket theory, which certainly would have benefitted their analysis<sup>24</sup>.

Yet, what has been central in a number of contemporary perspectives is the increase in noting that capitalism does not necessarily demand a democratic political system. This view, an important trait of critical theory, is particularly evident in Horkheimer’s racket theory. “In the true idea of democracy, which leads a repressed and subterranean existence among the masses, the notion of a racket-free society never completely died out” (Horkheimer, 1985b, p. 291).

Our effort in this paper has been to build on the interpretation brought forward by critical theory for analyzing contemporary capitalism. Critical theory analyses are strictly bound to a given temporal framework and do not lend themselves to

22. “Rio de Janeiro is a test laboratory for Brazil”, said the federal intervener in charge of Rio, General Walter Souza Braga Netto (see Kawaguti and Lang, 2018).

23. For an assessment of the combination of democratic capitalism and crisis, see Wolfgang Streeck (2012).

24. See, for example, Boltanski and Chiapello ([1998] 2011), Rehbein and Souza (2014) and Streeck (2016). Even Nachtwey (2017), explicitly dialoguing with the approach of Horkheimer and Adorno and having coined the concept of *regressive modernization*, does not attribute relevance to the racket theory, while recognizing: “According to its claim, neoliberalism is totalitarian, although it continuously promises liberty” (Nachtwey, 2017, p. 81).

replication. However, we believe that racket theory can inspire analyses of contemporary capitalism, and we present two current interpretations that we relate to it. The unfolding of capitalism since Horkheimer and Adorno's writings from the 1940s seems to reinforce rather than discredit interpretations that approach it as a system that functions with a logic in line with mafias or cronies.

In the eighth thesis from *On the concept of history*, Walter Benjamin refers to the *Ausnahmezustand* (state of exception or state of emergency) as not actually being exceptional but rather the rule to the extent that class domination, exploitation and oppression are intrinsic to capitalism. As Benjamin states: "The astonishment that the things we are experiencing in the 20<sup>th</sup> century are 'still' possible is by no means philosophical. It is not the beginning of knowledge, unless it would be the knowledge that the conception of history on which it rests is untenable" (Benjamin, [1940] 1974, p. 697).

Although we may not be facing Fascism, such as that experienced by the first generation of critical theory, a feeling of astonishment still persists when dealing with many contemporary social changes, first and foremost the multifarious (re) emergence of authoritarian tendencies. Yet this alone hardly warrants the analogy and the reflexive movement we propose here. Far more pertinent is the idea that the present context is repeatedly being characterized as an exceptional situation, and that, soon or later, provided that the proper measures are taken, 'normality' shall be restored. The diagnoses we drew upon, stemming from different empirical examples, lead us to consider that crony capitalism is increasingly becoming a structural element, spreading and upholding different nuances of capitalism.

By revisiting contributions offered by critical theory, we also highlight an aspect that has predominantly been associated with 'third-world' or peripheral countries, while its role in central and so-called developed economies has been down played or ignored. It also helps to shed light on the participation of individuals and social groups in the system, moving beyond the concept of capital as an automatic subject: though it continues to play a relevant role, it always reasserts itself.

Last, but not least, we reassert another chief aspect of critical theory: an interest in providing counter-hegemonic interpretations. In its beginnings, the Institute of Social Research was preoccupied with advancing knowledge about China and the Soviet Union. We believe that a critical viewpoint can be fostered by bearing in mind the relevance of a comparative look at different contexts, avoiding a one-size-fits-all metaphor when considering the transformations of capitalism. As such, by shedding light on the increasingly perceived mafia-like nature of capitalism, our aim is to encourage a productive dialogue concerning the recent social, economic and political transformations taking place in the world system.

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### Abstract

*Unfettered capitalism: on rackets, cronies and mafiosi*

In the early 1940s, critical theory borrowed the term racket from the urban crime underworld and applied it to criticize monopoly capitalism, which was regarded as a constellation ruled in a mafia-like manner. Decades later, after the experiences of the welfare state in the core counties and catch-up modernizations in the periphery, concepts such as cronyism and mafioso state were proposed. What these three approaches have in common is the fact that they highlight the mafia-like nature of capitalism and do so for different social and historical contexts. This article suggests that rackets, cronies or mafias have more recently, and increasingly, become structural elements of capitalism, as was first envisaged by critical theory during World War II. We combine theoretical critique and insights with references to empirical expressions of this phenomenon to shed light on this development.

Keywords: Capitalism; Rackets; Cronyism; Mafioso State; Critical theory of society.

### Resumo

*Capitalismo desenfreado: sobre rackets, cronies e mafiosos*

No início dos anos de 1940, a teoria crítica tomou emprestado o termo *racket* do submundo do crime urbano e o utilizou para a crítica do capitalismo monopolista, o qual era visto como uma constelação governada de modo semelhante ao das máfias. Décadas mais tarde, após as experiências do Estado de bem-estar social nos países centrais e as modernizações retardatárias na periferia, propôs-se conceitos tais como os de *cronyism* e *mafioso State*. O que essas três abordagens têm em comum é o fato de destacarem a natureza mafiosa do capitalismo, fazendo-o para distintos contextos históricos e sociais. Este artigo sugere que, mais recentemente, e de modo crescente, os *rackets*, *cronies* ou máfias se tornaram elementos estruturais do capitalismo, como havia sido observado primeiramente pela teoria crítica durante a Segunda Guerra Mundial. A fim de lançar luz sobre esse desenvolvimento, combinamos a crítica teórica e algumas visadas a respeito da fase atual do capitalismo com referências a expressões empíricas desse fenômeno.

Palavras-chave: Capitalismo; *Rackets*; *Cronyism*; Mafioso Estado; Teoria crítica da sociedade.

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STEFAN KLEIN é professor do Departamento de Sociologia da Universidade de Brasília (UNB).

E-mail: [sfk@unb.br](mailto:sfk@unb.br).

RICARDO PAGLIUSO REGATIERI é professor do Departamento de Sociologia da Universidade Federal da Bahia (UFBA). E-mail: [ricardo.pagliuso@ufba.br](mailto:ricardo.pagliuso@ufba.br).

