Selected Readings

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Cronyism: Rise of the Corporatist State, 1849-1929
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other groups' proposals, but they all agreed on government regulation and enforcement. The cartelist mindset had become fully interwoven into the production and sale of the nation's food and drugs.

Monopolizing Medical Care

In the early 1900s the American Medical Association entered the drive for pure food and drugs to reduce competition from patent medicines. It was no coincidence that the trade organization launched concurrent campaigns to hamper rival doctors and to capture research subsidies from the government. Of course, the AMA professed that its corporatist proposals, which reduced access to medical care and boosted doctor salaries, promoted the public weal. As St. Louis doctor W. G. Moore boasted, "If the American Medical Association be a trust, it . . . [is] a good trust."[59] A more caustic appraisal came from Chicago physician G. Frank Lydston: AMA officials were "impertinent porcine trust-monopolists who have besmirched the alma maters and discredited the diplomas of thousands of decent and capable physicians."[60]

The AMA had long advocated restricting the supply of doctors, including doctors practicing similar kinds of medicine at lower prices and heterodox homeopaths and eclectics. AMA doctors practiced what these competitors called allopathic medicine, which used pain-killing alcohol, morphine, cocaine, and other drugs to reduce suffering. In contrast, homeopathic doctors matched symptoms with remedies made from diluted natural substances to stimulate healing, while eclectic doctors gave patients botanical herbs to alleviate pain and improve health. Consumers judged these alternatives therapeutic, and the AMA considered this a problem. In the late nineteenth century, the trade association lobbied for medical licensing boards at the state level to curtail what the *Journal of the American Medical Association* called "unrestricted competition."[61] The

[59]"Address of Welcome on Behalf of the Medical Profession of St. Louis," *Journal of the American Medical Association* LIV (June 11, 1910): 1989, quoted in Ronald Hamowy, "The Early Development of Medical Licensing Laws in the United States, 1875–1900," *Journal of Libertarian Studies* 3, no. 1 (Spring 1979): 94.

[60]"G. Frank Lydston on 'Spinelessness,' Etc.," *Eclectic Medical Journal* 74, no. 4 (April 1914): 192. James G. Burrow, *Organized Medicine in the Progressive Era: The Move toward Monopoly* (Baltimore: Johns Hopkins University Press, 1977), 45.

[61]"Competition, Supply and Demand, and Medical Education," *Journal of the*

AMA managed to restrict the supply of allopathic doctors but, lacking the necessary political clout, had to settle for either a single board system that included homeopaths and eclectics or a system of separate boards for those groups. Both cases allowed more competition than the AMA desired. By 1901, all states and territories except Alaska and Oklahoma had instituted licensing boards that required potential doctors to pass an examination, earn a diploma in medicine, or both.

This was not enough. The supply of physicians per one hundred thousand in population barely dropped from 171 in 1880 to 166 in 1890 before climbing to 173 in 1900. Most physicians earned a middling salary of around $1,000 a year. Continued competitive pressure occurred for two reasons. First, degree-granting medical schools, which were largely allowed to form unimpeded by regulation, multiplied from 100 in 1880 to 160 in 1901. Approximately 20 percent matriculated homeopaths and eclectics. Some of the graduates included aspiring blacks, females, and Catholic and Jewish immigrants, whom the AMA found especially undesirable. Second, competing schools of medicine continued to enter the market. Osteopaths and chiropractors began treating patient pain with adjustment of the spine and joints, a remedy Dr. Morris Fishbein, longtime editor of the *Journal of the American Medical Association*, castigated as a "malignant tumor" and a "cult," one "so simple that even farm-hands can grasp it."[62] Optometrists, one of the "pretensions of quackery [that] deceive the very elect," according to the president of the Ohio State Medical Association, increasingly cut into regular physicians' eye-care revenue.[63]

American Medical Association XI (September 15, 1888): 382–83, quoted in Hamowy, "Development," 108.

[62]Morris Fishbein, *The Medical Follies* (New York: Boni and Liveright, 1925), 61.

[63]David R. Silver, "President's Address," *Ohio State Medical Journal* 5 (June 15, 1909): 343. David E. Bernstein, *Only One Place of Redress: African Americans, Labor Regulations, and the Courts from Reconstruction to the New Deal* (Durham, NC: Duke University Press, 2001), 41–44; Burrow, *Organized*, 53–56, 58, 175, 178; Hamowy, "Development," 79, 83–84, 102–3; Hamowy, *Government*, 2–5, 7–9, 21, 108–9, 428–29; Gerald E. Markowitz and David Karl Rosner, "Doctors in Crisis: A Study of the Use of Medical Education Reform to Establish Modern Professional Elitism in Medicine," *American Quarterly* 25, no. 1 (March 1973): 87; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 2, *Work and Welfare* (New York: Cambridge University Press, 2006), 541; and Howard Wolinsky and Tom Brune, *The Serpent on the Staff: The Unhealthy Politics of the American Medical Association* (New York: G. P. Putnam's Sons, 1994), 10, 45, 69, 123–25.

Instead of pulling up their bootstraps through greater efficiencies, doctors in the AMA decided in the beginning of the twentieth century to regroup and mount another lobbying assault for more crony impediments on their competitors. This cartelization paralleled other professions' efforts to forcibly cut down on rivals and restrict consumer choice: the American Pharmaceutical Association lobbied for restrictive licenses to control the pharmacy profession; the American Psychological Association advocated state subsidies for mental asylums to increase the demand for mental-health professionals and restrict alternative competition; accounting organizations sought to require increased standards for certified public accountants and degree-granting universities; the American Bar Association devised state laws restricting the legal profession and injecting lawyers' services into arbitration proceedings; the National Education Association insisted on professional training requirements for schoolteachers; and local bureaucrats overhauled school boards to kick out elected officials in favor of appointed and allegedly nonpartisan experts. "Increasingly formal entry requirements" into medicine and other professions, writes Robert Wiebe, "protected their prestige through exclusiveness."[64] That was exactly the point.[65]

The AMA commenced a thorough overhaul of its operations. In 1904 the association created the Council on Medical Education, which consisted of five medical professors from major universities, to agitate for reform. This group focused on lobbying for a doctor-controlled corporatism: strengthening licensing requirements for doctors by instituting single board systems staffed entirely by allopathic physicians; requiring harder examinations for would-be doctors; and ensuring applicants came only

[64]Robert H. Wiebe, *The Search for Order, 1877–1920* (New York: Hill and Wang, 1967), 113.

[65]Bruce L. Benson, "How to Secede in Business without Really Leaving: Evidence of the Substitution of Arbitration for Litigation," in *Secession, State and Liberty*, ed. David Gordon (New Brunswick, NJ: Transaction, 1998), 265–81; Vincent Geloso and Raymond J. March, "Rent Seeking for Madness: The Political Economy of Mental Asylums in the United States, 1870–1910," *Public Choice* 189, no. 3–4 (December 2021); Hamowy, *Government*, 429; Patrick Newman, "Taking Government Out of Politics: Murray Rothbard on Political and Local Reform during the Progressive Era," *Quarterly Journal of Austrian Economics* 22, no. 1 (Spring 2019): 161–62; Gary John Previts and Barbara Dubvis Merino, *A History of Accountancy in the United States: The Cultural Significance of Accounting* (Columbus: Ohio State University Press, 1998), 188–96, 242, 257–59, 442; Temin, *Medicine*, 22; and Wiebe, *Search*, 113–21.

from AMA-approved schools that stipulated tougher entrance exams, longer academic years, more training, and higher tuition fees.[66]

The attitude was extremely elitist. The AMA considered its preferred medical practices the only legitimate ones and wanted to force consumers to purchase the costlier services of doctors who graduated from top-tier universities. In 1903 the president of the AMA sneered at those colleges where "medical education was prostituted . . . [and] enabled the clerk, the street-car conductor, the janitor and others employed during the day to obtain a medical degree."[67] Translation: these schools produced a lower-quality but more affordable output that a sizable portion of the public preferred. One doctor teaching at such a medical school in Tennessee eloquently protested against the epithets the AMA hurled:

> True, our entrance requirements are not the same as those of the University of Pennsylvania or Harvard; nor do we pretend to turn out the same sort of finished product. Yet we prepare worthy, ambitious men who have striven hard with small opportunities and risen above their surroundings to become family doctors to the farmers of the south, and to the smaller towns of the mining districts. . . . Can the wealthy who are in a minority say to the poor majority, you shall not have a doctor?[68]

This was in fact exactly what the AMA wanted to say to the poor majority: only the best doctors could practice, and only those who could afford their fees could have access to medical care.

The Council on Medical Education achieved remarkable success, much to the enmity of homeopaths, eclectics, osteopaths, chiropractors, and less prestigious allopaths. From 1900 to 1907, under the purported justification of improving the public's well-being and the quality of health care, thirty states and territories instituted AMA-style corporatism by replacing multiple boards systems with single boards that had less representation of heterodox doctors. These cartel boards now required difficult tests in an average of nine fields and mandated that license applicants could graduate only from AMA-approved schools. Many smaller schools, facing a profit

[66]Burrow, *Organized*, 32–35, 58; Markowitz and Rosner, "Doctors," 93, 95–97; and Paul Starr, *The Social Transformation of American Medicine*, 2nd ed. (New York: Basic Books, 2017), 117–19.

[67]Frank Billings, "Medical Education in the United States," *Science* 17, no. 457 (May 15, 1903): 763.

[68]*Collier's Weekly* (June 11, 1910), quoted in Starr, *Social*, 125.

squeeze if they increased their standards for applicants, revamped curriculums, and built AMA-style laboratories, decided to close or merge with other institutions. The creation of more restrictive medical boards thus caused the number of medical colleges to decline by almost one-fifth and the number of physicians per one hundred thousand in population to fall 5 percent between 1900 and 1910.[69]

The council was not satisfied. By 1907 it had visited every medical school in the country and concluded that only half maintained tolerable standards. The rest needed to change to meet AMA guidelines or fall by the wayside. The AMA, however, withheld the publication of the council's restrictionist report because it feared that state legislatures, medical schools, and the public would view its proscription as blatantly self-serving. The AMA needed an equivalent report written by someone who lacked any connection with the association. For this reason, according to the chairman of the council, Dr. Arthur Bevan, the council moved to "obtain the publication and approval of our work by the Carnegie Foundation for the Advancement of Teaching [because it] would assist materially in securing the results we were attempting to bring about."[70] The Carnegie Foundation and similar institutions were funded with large endowments. They enabled Andrew Carnegie, John D. Rockefeller, and other elites to insulate their wealth from state and local taxes and use it to finance various causes their kin considered important. In the case of medicine, Rockefeller's son, John D. Rockefeller Jr., used the family's wealth to crush all forms of medical dissent. This was ironic considering that Rockefeller Sr. utilized homeopathic services.[71]

President Henry Pritchett of the Carnegie Foundation, a former president of the Massachusetts Institute of Technology, chose Abraham Flexner

[69]Burrow, *Organized*, 32–35, 37–42, 58–70, 84; Markowitz and Rosner, "Doctors," 93, 95–97; Starr, *Social*, 117–19; and Sutch and Carter, *Historical*, 2:541.

[70]Arthur Dean Bevan, "Cooperation in Medical Education and Medical Service," *Journal of the American Medical Association* 90, no. 15 (April 14, 1928): 1175.

[71]Thomas Neville Bonner, *Iconoclast: Abraham Flexner and a Life in Learning* (Baltimore: Johns Hopkins University Press, 2002), 73–74; Burrow, *Organized*, 34–37, 42; Peter Collier and David Horowitz, *The Rockefellers: An American Dynasty* (New York: New American Library, 1977), 60–61, 97–98; Reuben A. Kessel, "The A.M.A. and the Supply of Physicians," *Law and Contemporary Problems* 35 (Spring 1970): 269; Reuben A. Kessel, "Price Discrimination in Medicine," *Journal of Law and Economics* 1 (October 1958): 27; and Ferdinand Lundberg, *America's Sixty Families* (New York: Halcyon House, 1939), 346–56.

to spearhead the AMA's covert study. Flexner was a secondary school teacher who had little knowledge of medical matters. He was, however, the brother of Dr. Simon Flexner, a professor at the University of Pennsylvania turned director of the Rockefeller Institute for Medical Research. Simon supported the AMA model for education and was a protégé of Dr. William Welch. A close advisor to Rockefeller Jr., Welch served as the first dean of the Johns Hopkins University Medical School and would become president of the AMA in 1910. Welch firmly believed that science must begin and remain concentrated in the laboratory, in contrast to others, such as Johns Hopkins's Dr. William Osler, who argued that science should proceed from the bedside of the sick patient.

Abraham Flexner agreed with his brother, Welch, Rockefeller Jr., and the AMA. He praised the heavily subsidized educational system of Germany, where many American doctors had obtained graduate degrees because it was "on an aristocratic plane," unlike the numerous smaller, for-profit colleges in the United States.[72] He thought every American medical university needed to be patterned on Johns Hopkins and require full-time students to engage in extensive research in clinical facilities and laboratories. Moreover, Flexner believed there was no room for heterodox doctors or lower-quality traditional doctors. He opined that the "'poor boy' has no right . . . to enter upon the practice of medicine unless it is best for society that he should."[73] His overtly elitist attitude made no room for disadvantaged communities unable to afford top-tier medical practitioners.

The Carnegie Foundation worked very hard to cover up how the AMA dictated its report. When Flexner and Pritchett attended a Council on Medical Education meeting in late 1908, Pritchett, with astonishing transparency, stated that the report of "the foundation would be guided very largely by the Council's investigations" but would not mention the council, so it would "have the weight of an independent report of a disinterested body."[74] In other words, the foundation would conceal the connection to

[72]Abraham Flexner, "Aristocratic and Democratic Education," *Atlantic Monthly* (December 1911), quoted in Martin Wooster, *Great Philanthropic Mistakes*, 2nd ed. (New York: Hudson Institute, 2010), 7.

[73]Abraham Flexner, *Medical Education in the United States and Canada: A Report to the Carnegie Foundation for the Advancement of Teaching* (Boston: D. B. Updike, Merrymount Press, 1910), 42–43.

[74]"Council on Medical Education, AMA Minutes of Meeting, December 28, 1908," quoted in Howard Berliner, "New Light on the Flexner Report: Notes on the AMA-Carnegie Foundation Background," *Bulletin of the History of Medicine*

prevent the public from realizing that the AMA was behind a report that would greatly increase its doctors' incomes.

In 1909, much like the AMA had in previous years, Flexner began to visit the country's medical institutions of higher learning. Some visits lasted only a couple of hours. In one three-month span Flexner inspected sixty-nine schools in twenty-two states. The pace of Flexner's inspections did not really matter because he already had the verdict in his pocket and was simply following the council's recommendations. As Pritchett cheerfully wrote to council chairman Bevan, "We have been hand in glove with you and your committee. . . . When our report comes out, it is going to be ammunition in your hands." But Pritchett stressed that the relationship had to remain secret, for it was desirable "to maintain in the meantime a position which does not intimate an immediate connection between our two efforts."[75]

The Flexner Report of 1910 went beyond the earlier council report, recommending that only 31 of the nation's 131 medical colleges remain open. Such draconian closures would have deprived twenty states of such institutions entirely. For his good work on behalf of the AMA, the Carnegie Foundation bumped Flexner's salary from $3,000 to $5,000. He soon left to work at the Rockefellers' General Education Board, an institution that quickly channeled a $1.5 million grant to the Johns Hopkins Medical School for the establishment of endowed chairs.[76]

The homeopathic *Clinical Reporter* argued that unless "authority is to flow from an unlimited access to the pocketbook of a multimillionaire," Flexner was unqualified to review the nation's medical institutions.[77] The

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51, no. 4 (Winter 1977): 606.

[75]Henry Pritchett to Arthur Bevan, November 4, 1909, quoted in E. Richard Brown, *Rockefeller Medicine Men: Medicine and Capitalism in America* (Los Angeles: University of California Press, 1979), 152.

[76]Bonner, *Flexner*, 78, 113–14, 318; Brown, *Rockefeller*, 53, 103–8, 152; Burrow, *Organized*, 42–44, 47–48, 183; Ron Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (New York: Vintage Books, 1998), 473; Raymond B. Fosdick, *John D. Rockefeller, Jr.: A Portrait* (New York: Harper and Brothers, 1956), 112–15, 122–24; Hamowy, "Development," 94; Hamowy, *Government*, 5–6, 355–56; Starr, *Social*, 115, 118–19, 121–23; Sutch and Carter, *Historical*, 2:541; A. I. Tauber, "The Two Faces of Medical Education: Flexner and Osler Revisited," *Journal of the Royal Society of Medicine* 85 (October 1992): 599–601; and Wooster, *Philanthropic*, 3, 6–9, 12–13.

[77]Unidentified issue of the *Clinical Reporter*, quoted in "Bulletin No. IV!" *National Eclectic Medical Association Quarterly* 2, no. 1 (September 1910): 62.

Eclectic Medical Journal charged that the Rockefeller and Carnegie interests were engineering a massive restriction in the supply of doctors to benefit the AMA. Their efforts were for naught. Pritchett was right: the *Flexner Report*, skillfully camouflaged as a disinterested muckraking piece in the name of the public's health, provided much "ammunition" for the AMA's cartelization drive. By World War I single boards existed in forty-three states, with seventeen excluding alternative doctors completely. Homeopaths and eclectics suffered a sharp drop in representation. Chiropractors and osteopaths were also restricted, and where they could receive licenses, the AMA lobbied for restrictions on what services they could provide. Optometrists fared the best: they joined the medical cartel and acquired licensing laws in thirty-nine states and two territories by 1917.

The *Flexner Report* hastened the decline in medical colleges. The AMA became a de facto accreditation agency and exerted considerable influence over educational standards. The total number of institutions fell to eighty-five in 1920 and then to seventy-six by 1929. Homeopathic and eclectic schools, as well as those catering to black and female students, were hit the hardest. The total decline from 1901 to 1929 reached 52.5 percent, less than what Flexner had hoped but exactly in line with the AMA's original report.[78]

At the same time the guillotine fell on poorer schools, the nation's elite institutions received generous endowments. From 1913 to 1919, Rockefeller Sr. transferred $183 million to the Rockefeller Foundation. In 1920, Rockefeller Jr. put Flexner in charge of $50 million of this sum to plow into Johns Hopkins, the University of Chicago, and other top universities. Crucially, Flexner envisioned this money as but a fraction of the $200 million needed to overhaul the nation's medical education because "taxation will certainly supply the absolute essentials."[79] Rockefeller Jr. expected that his donations to state universities, such as the University of Iowa, would be matched by taxpayer funds. In this way, the taxpayer would subsidize the Rockefeller Foundation and the AMA's overhaul of the nation's medical industry.

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[78]Bernstein, *Redress*, 43–44; Burrow, *Organized*, 44, 59–61, 78–81, 87, 162; Hamowy, "Development," 119; Hamowy, *Government*, 61; Starr, *Social*, 120–21; and Sutch and Carter, *Historical*, 2:541–42.

[79]Abraham Flexner to John D. Rockefeller Jr., "Confidential: Memorandum Regarding Mr. Rockefeller's Gift to Be Devoted to the Improvement of Medical Education in the United States," December 1919, quoted in Wooster, *Philanthropic*, 16.

To the delight of Welch and other academic doctors, the Rockefeller and taxpayer slush fund enabled them to spend less time teaching and practicing medicine and instead to concentrate on highly specialized and technical research. This was to the detriment of the graduate student, who was deprived of hands-on experience, and the public, which lost access to academics' part-time medical services. Dissenting doctors such as Osler colorfully lamented the shift as creating "a set of clinical prigs, the boundary of whose horizon would be the laboratory, and whose only human interest was research."[80]

The tightening licensing standards and accreditation vice grip around colleges created a significant doctor shortage. The number of physicians per one hundred thousand in population decreased 24 percent, from 164 in 1910 to 125 in 1929, making the total decline since the turn of the century 28 percent. Poorer rural communities bore the brunt of the shortage. Flexner's own study at the General Education Board showed that from 1906 to 1923, the number of people per doctor in large cities increased by 9 percent while in smaller towns it skyrocketed 54 percent. It is no wonder that Bevan found the council's handiwork good: "We had anticipated this [decline] and felt that this was a desirable thing. We had an over-supply of poor mediocre practitioners."[81] The AMA raked in the cash. Physicians' average salaries soared from roughly $1,000 in 1900 to $6,354 in 1928, a 535 percent increase, well above other price rises.[82]

The burgeoning cost of medical services led many to advocate for compulsory health insurance that the federal government would partially cover. Initially, in the 1910s, the AMA supported such a bill from the American Association for Labor Legislation (AALL) because it believed that the taxpayer-funded program would increase the demand for doctors and hence their salaries. After the AMA failed to persuade the AALL to guarantee doctor representation on the administrative boards overseeing payment to

[80]William Osler to Ira Remsen, September 1, 1911, quoted in "Sir William Osler: On Full-time Clinical Teaching in Medical Schools," *Canadian Medical Association Journal* 87 (October 6, 1962): 763.

[81]Bevan, "Cooperation," 1176.

[82]Brown, *Rockefeller*, 142, 165, 176–87; Chernow, *Titan*, 566; Starr, *Social*, 125–26; Sutch and Carter, *Historical*, 2:541–42; Wolinsky and Brune, *Serpent*, 45; and Wooster, *Philanthropic*, 10–17, 20–30.

physicians, the organization changed its tune: in the 1920s it adamantly opposed and successfully defeated taxpayer-funded health insurance.[83]

Far more promising for the AMA was the drive at the end of the 1920s for a National Institute of Health, something that had been advocated since the Roosevelt administration. Such a government organization could furnish civil-service jobs for the medical profession, grant subsidies for research interests, and enforce restrictive regulations to crack down on medical competition. The AMA lobbied to make sure that its doctors would control the institute and its research funds—it fought against the American Chemical Society, which preferred to funnel research assistance to drug manufacturers and related chemists. Instead, the AMA and the Rockefeller Foundation lobbied for their preferred entity, which Congress created in May 1930. The National Institute of Health was equipped with $750,000 for a building and research fellowships for the medical profession. A far cry from the $15 million appropriation the AMA envisioned, the new institute was still a step in the desired direction.[84]

Food, drug, and medical regulation in the early twentieth century, typically advocated as promoting the nation's health, was not above the sordid interests of the day. In each case relevant groups lobbied for subsidies, restrictions on rivals, and the defeat of regulatory proposals that would harm them. Bureaucrats joined in, working with some of the groups to increase their own budgets, control, and influence. The end point was always the same—a cartel protected by the government, to the benefit of the cartelists and bureaucrats at the expense of the consumer and excluded firms.

Corporatism had arrived in food and medicine, just as it had in manufacturing and railroads. The major instigators of each lobbying drive were Wall Street bankers—with J. P. Morgan & Co. playing the lead. It was Wall Street, after all, that financed the large corporate and transport titans. Though New York City financial elites were not as prevalent in the food and drug industry, even here they managed to exercise influence through the Rockefeller Foundation and other organizations. Wall Street was the

[83]Hamowy, *Government*, 445–49, 490; and Wolinsky and Brune, *Serpent*, 18–19, 47.

[84]Hamowy, *Government*, 343–46, 355–65; and Victoria A. Harden, *Inventing the NIH: Federal Biomedical Research Policy, 1887–1937* (Baltimore: Johns Hopkins University Press, 1986), 81–82, 117, 125, 152.