trade sanctions against China and tariffs on imports such as steel, to which China responded with equivalent tariffs on American products such as soybeans and pork. But in an interdependent world, protecting national interests is not so simple. Many US manufacturers that rely on cheap steel are crying foul. Meanwhile, farmers who rely on the Chinese market to sell their soybeans are scared about retaliation. In an interdependent world, it is not so easy to predict who gains and who loses in a trade battle.

# The Reign of the Corporation

Nike, Walmart, Apple, Kraft, Microsoft. These are the engines driving our globalizing economy. Corporations are the institutions that structure economic life in every corner of the planet, displacing the roles of powerful former ruling institutions such as monarchies, religions, and perhaps even governments. As I mentioned earlier, under American law, the corporation is legally an individual. Legal scholars call it a juristic person because it has all the formalized rights, duties, and responsibilities of a person. The Latin root of the term is *corpus*, meaning "body," and a corporation is a body of people that has authority to act as an individual.

Corporate personhood came about through a series of developments starting in seventeenth-century Europe, at the beginning of the industrial age. Historically, state governments granted charters to corporations to expand trade and exploration, spawning corporate colonialism such as the massive power and spread of the Dutch and British East India companies. Under the old ways of doing things, a state provided the charter, and the corporation's duty was to carry out whatever functions the state defined. But in 1886 the US Supreme Court found that the Fourteenth Amendment, intended to protect the rights of freed slaves, also granted corporations the legal status of persons, thus establishing a distinction between corporations and their owners.

## THE CORPORATE PSYCHOPATH?

From anticorporate movements like the Seattle protests of the WTO in 2000 to everyday "culture jamming," as seen in activist media such as *Adbusters* magazine (see Chapter 3), corporations are vilified for their greed, injustices, and callous ecological devastation. In the award-winning 2003 documentary *The Corporation*, the filmmakers asked: If corporations are legal persons, what kind of personality do they have? Their answer: pathological. Corporations act like psychos, claimed Federal Bureau of Investigation consultant

An anticorporate advertisement from the critical magazine *Adbusters*. Why do activists compare global corporations to psychopaths?


Robert Hare in the film, because they show little regard, remorse, or guilt for harming others; they are unable to maintain long-term relationships; they lie all the time; and they fail to conform to social norms by obeying the law. That's because, like many psychopaths, corporations are solely self-interested—in their case, interested only in the relentless pursuit of profits for their shareholders.

However, as easy as it may be to stigmatize corporations, given the system in which corporations must operate, they're not necessarily pathological so much as rational. Forget the environment, forget workers' rights, forget morals and fairness. Unless these factors improve the bottom line—that is, "shareholder value"—they don't figure into corporate concerns. As the economist Milton Friedman (1970) remarked in a now famous *New York Times Magazine* essay, "There is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

Through the rational pursuit of profit, good people can end up doing bad things. Max Weber made this observation about modern bureaucratic organizations, of which corporations are an exemplary form (see Chapter 15). In Weber's theory, bureaucracies flourish because of their efficiency and rational means to achieve profit-driven ends. But there's a cost that comes with the increased power of the specialized bureaucracy: People become alienated from any sense of right and wrong and from a human connection, what Weber (1946) called the "parceling-out of the soul."

If profit maximization is the nature of the corporation, the problem arises when corporations turn their backs on social responsibility. This involves various types of foul play, from obstructing open competition of the free market to engaging in willful fraud and deceit. When a business is not competitive, it may take the form of a monopoly or oligopoly. A monopoly occurs when one seller of a good or service dominates the market to the exclusion of others, potentially leading to zero competition. In an oligopoly, there are only a handful of sellers. Together, these firms often have enough market power to set prices through what economists call collusion (that is, coordination), such as a cartel. Again, this means effectively zero competition, which is great for the seller firms, because they can charge whatever they like for products or services, regardless of quality. The sellers can reduce supply (including reduction of service standards) to drive up demand and/or drive down costs and reel in huge profits. But this is bad news for consumers, of course, as they will have no close substitutes and are forced to either pay high prices or forgo sometimes vital products. This is also bad news for general social welfare, because without a competitive market, vast inefficiencies arise.

MONOPOLY

the form of business that occurs when one seller of a good or service dominates the market to the exclusion of others, potentially leading to zero competition.

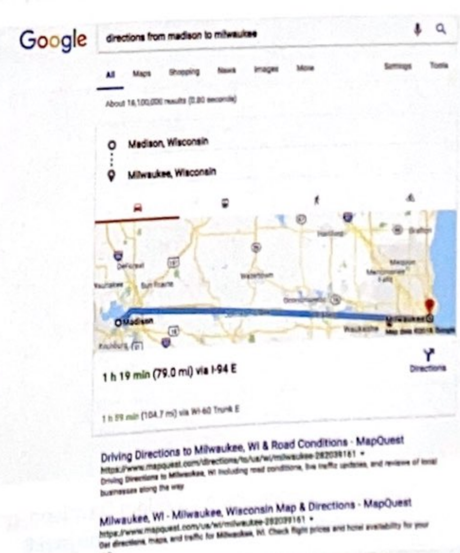
OLIGOPOLY

the economic condition that exists when a handful of firms effectively control a particular market.

Just how competitive are corporations? To do well in the game, it is in their own interests to shut out their competitors from the market. Corporations can do this in a couple of ways while skirting the line of monopoly. Take tech behemoth Google: its key product is its search engine by the same name, which works on a proprietary ranking algorithm called PageRank. When you search on Google.com for a topic or category within which Google itself has a vested interest, it turns out that the PageRank algorithm that made the search engine so successful in the first place (compared to early competitors like AltaVista or Yahoo) is ditched in favor of a listing that puts Google's interests first. For example, if you search for an address, Google Maps comes up before MapQuest. Google shopping takes over on product searches, pushing other (often better) price comparison sites like NexTag down. Some competitors have pushed back, and in 2017, the European Union found the company in violation of antitrust laws for skewing search results and fined Goggle a record $2.7 billion.

Another way to beat the competition is to slide into an industry through the government backdoor. This is the preferred method of dominance for the Carlyle Group, a multibillion-dollar equity firm that invests in industries such as defense, telecommunications, energy, and health care. How does it achieve mammoth success in these heavily regulated industries? Critics charge that the Carlyle Group's secret is political arbitrage, the use of insider political knowledge to earn profits. By hiring former secretaries of defense, former presidents, and former heads of government regulatory commissions in order to

Google's PageRank algorithm prioritizes its own products. In this search for driving directions, would you choose to get directions from Google Maps (which conveniently previews the route and driving time), or would you click on a link that's further down?



gain access to current officials, the Carlyle Group can influence government decisions on spending and policy in its own favor (Briody, 2003).

Corporations can also dominate the market by offering the lowest prices, thereby attracting the most buyers. To do this, they may lower production costs in a variety of creative ways, such as cutting environmental corners, weakening labor unions, and telling good old-fashioned lies. Of course, some have developed goods and services that broadly improve quality of life. Like most economists, Adam Davidson refers to this as productivity enhancing corporate activity. In an interview, he explained how economists draw broad divisions between companies based on how much value they add to society:

**PRODUCTIVITY ENHANCING**

economic activities that increase the total economic value available to society.

> Productivity enhancing means you come up with something cool that other people want and the thing you came up with is better, cheaper, faster; and people choose it. Google to me is clearly productivity enhancing. When I see that those guys are rich, it makes sense to me that they're rich. They came up with something that all of us use all the time and it makes all of our lives better. We're not forced to use it. We just use it because it's really good.... [T]he Google guys are worth, I don't know, twenty billion dollars, but they've brought hundreds of billions of dollars of benefit to the world. So they're taking a cut and we're all better off. (Conley, 2015c)

**RENT SEEKING**

economic activities that aim to move value from one person or company to another without increasing value.

Even economists think some transactions in the market simply move money around—usually toward people and companies who already have capital—without increasing overall value. Davidson explained that "rent seeking is that category of things where you get rich basically by taking wealth away from others ... where for every dollar you get, someone else doesn't have a dollar." For instance, he explained that he would be a rent seeker, "if I happened to own an apartment and I don't make it better, I don't improve it, I just own it, I just happened to buy it." Referring to the neighborhood where we both grew up that "was a total nightmare piece of crap neighborhood" 40 years ago, he pointed out that "if [our parents] had [bought an apartment building], now they

DIGITAL.WWNORTON.COM/YOUMAYASK6

To see my interview with Adam Davidson, go to digital.wwnorton.com/youmayask6 could charge a higher rent without actually making it better." The lazy, opportunistic landlord is the classic example of rent seeking, but the hot question about rent seeking right now is, Is Wall Street productivity enhancing or rent seeking?

To get an insider's answer to that question, I talked to Adeel Qalbani, who worked at a hedge fund before starting a private equity firm. Qalbani explained that *Wall Street* and *finance* are terms used too broadly. While *Wall Street* used to refer to a bunch of amped-up macho people screaming and flapping their hands to signal trades in stocks of publicly traded companies, commodities, and (to a lesser degree) bonds, most of that trading activity has moved off the trading floor and onto computers. Financialization has expanded dramatically over the past years and now includes commercial banks, hedge funds, high-frequency trading, private equity firms, and a range of other boutique investment classes that use clients' money. One crucial difference is between heavily regulated commercial banks and bigger, less regulated investment banking operations. The difference, Qalbani explained, is that "commercial banks [are] where you put deposits and they make loans," while investment banks are kind of the hub of the capital markets. So if a company needs to raise money, "they can go to a commercial bank and ask for a loan, or they can go to an investment bank," where they may get access to more capital or more complex terms.

Skeptical of many financial firms' ability to participate in productivity enhancing activities, Qalbani singled out firms that invest in companies that they then try to improve or grow as most likely to be productivity enhancing. He explained that private equity is "a business about buying or investing in private companies, not in traded stocks . . . that are generally priced efficiently, particularly large cap stocks. I think there's a reasonable amount of evidence that venture capital investing, or private equity investing, or investing in new companies or private companies is much more inefficient, has far fewer people focused on it, and has more of an opportunity to kind of create value in the world" than firms that trade or invest without an aim to improve the underlying asset (Conley, 2014g). If you are confused, you are not alone. Financial journalist Gillian Tett (2010) continues to remind

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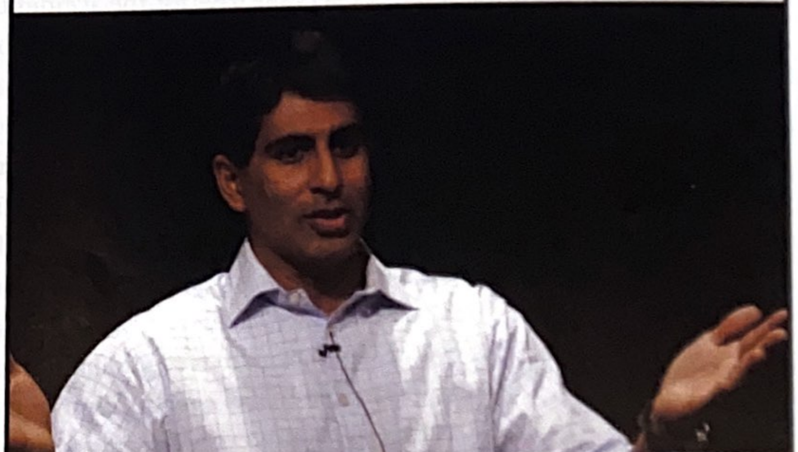


To see my interview with Adeel Qalibani, go to digital.wwnorton.com/youmayask6 readers that pre-2007 financial professionals, including "most investors, regulators, and ratings agencies," were "clueless" about everything outside the mundane savings and loan banks used by consumers. We discuss the difficulty the federal government has trying to regulate the complex financial sector in the policy section that concludes the chapter.

**The Environment** One way of keeping costs low is to maintain efficient methods of production, which often means bypassing environmental concerns. Caring about the earth's sustainability can be expensive; it requires maintaining low levels of pollution, disposing of waste in safe ways, and maybe investing in costly eco-friendly technology. But helping the environment is not always cost-prohibitive. Some companies, like Walmart, have found ways to help their bottom line and the environment by doing things like reducing packaging; Apple tries to use recyclable materials like glass and aluminum rather than nonrecyclable composites. As a general rule, though, whenever industry spreads to a developing nation, environmental damage ensues. Dumping, pollution, and toxic accidents are the costs of development when it occurs without adequate government oversight.

Even in countries with stricter environmental guidelines for industry, disasters happen. Consider the BP *Deepwater Horizon* drilling rig oil spill, the worst environmental disaster in US history. Though ostensibly caused by an accident, BP has long been known for its shoddy safety record. Meanwhile, the government agency charged with overseeing offshore oil drilling, the Minerals Management Service, was stacked with industry executives and hence approved BP's request to drill without a full environmental impact study. And when things blew up (literally and figuratively), BP (and government) officials were caught without a plan to stem the flow of oil in the Gulf of Mexico, and didn't have the resources to clean up the spill's aftermath. In the case of *Deepwater Horizon* (or the Exxon *Valdez* spill of 1989, for that matter), everyone pays for the accident (especially oil-coated sea creatures), but who is really to blame when our collective lifestyle and policy choices rely on, and facilitate reliance on, oil?

**Labor: Sweat It or Bust It** Another corporate strategy to reduce production costs is to lower labor costs. One publicly unfavorable way is offshoring labor—that is, moving all or part of a company's operations abroad, to developing nations with lower pay scales and lenient labor laws. By outsourcing production to sweatshops and call centers in the developing world, large companies can manufacture their products for a fraction of what it would cost to pay even minimum wages in the United States. In the globalized economy, offshoring gives corporations based in the developed world access to a comparatively cheap and pliable workforce, largely composed of women, youth, and uneducated rural migrants in search of a better life. This

OFFSHORING

a business decision to move all or part of a company's operations abroad to minimize costs.

strategy can, however, land companies in hot water in the form of fatal catastrophes and widespread public criticism—as did the deadly 2013 Rana Plaza factory collapse in Bangladesh. Amid heightened public awareness, businesses are sometimes held accountable for offshore human rights violations such as starvation wages, intimidation of labor organizers, use of child labor, and inhumane working conditions. In 1991, Levi Strauss was among the first companies to adopt a corporate code of conduct regarding labor. Levi Strauss holds its contractors to good labor practices and assesses a nation's human rights record before setting up shop there. Hundreds of American companies now have similar codes. In such a scenario, power is held not by the poor laborers themselves, but by the wealthy first-world consumers who sometimes decide they are willing to pay a bit more in order to consume with a clear conscience.

More than 2,500 employees work in this Haitian factory that produces Levi's jeans and Hanes clothing. Why do large corporations like Levi Strauss offshore their manufacturing facilities?

Sometimes, however, organized labor poses a threat to corporate profits. When a group of workers gets together for collective bargaining, they form a union, which makes them better able to promote and protect their collective interests than each worker would be able to alone. When a company assaults its workers' union by, for example, refusing to negotiate or renew a union contract in the hope of breaking it up, it is called union busting. Unionization in America is protected under freedom of association, a right that is generally considered implicit in the First Amendment and that was recognized as a human right by the Right to Organize and Collective Bargaining Convention in 1949. Despite legal protection, unionization has been on the decline in the United States since the 1950s, when 35 percent of workers in the private sector were covered by labor contracts compared with just 6.5 percent today (Bureau of Labor Statistics, 2018b). The result, according to experts at the Economic Policy Institute, is the toll exacted from workers in the form of increasing income inequality and decreasing health and pension benefits; workers' wages have also failed to continue rising as they did during the postwar years (Eisenbrey, 2007). However, drawing a causal link between the two trends is tricky because so many other changes are occurring at the same time. Compare this set of developments with those facing our counterparts in Europe, where strong union contracts cover the majority of workers: As of 2016, 56 percent of German workers and more than 96 percent of Belgian and French workers were covered under collective

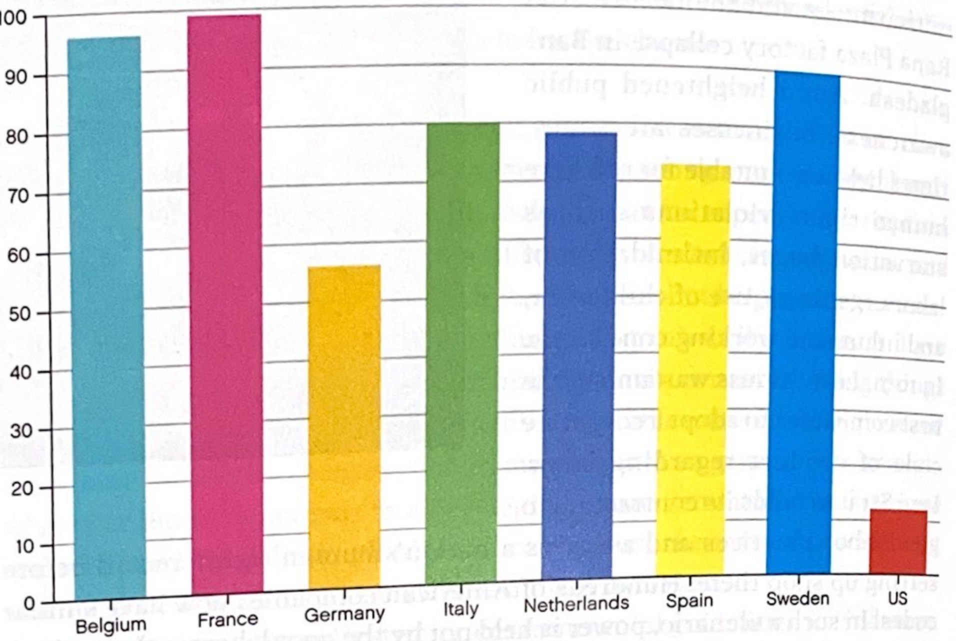
UNION

an organization of workers designed to facilitate collective bargaining with an employer.

UNION BUSTING

a company's assault on its workers' union with the hope of dissolving it.

FIGURE 14.3 Share of Workers Covered under Collective Bargaining Agreements, 2016




SOURCE: Organisation for Economic Co-operation and Development, 2018b.

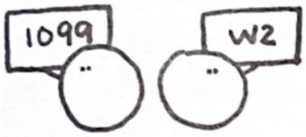
bargaining agreements (Figure 14.3). Wage growth across the Atlantic has generally been better for the bottom half of employed earners, but unemployment has also been higher.

What accounts for the decline in US unionization rates? There's a common perception, especially among political conservatives, that unions are outdated, corrupt, and a drag on business. Some complain that government is inefficient, hinting that the high rate of public-sector unionization, 35.2 percent, may be to blame. It's also a widespread notion that unions hurt productivity, in theory because they impose worker rules that obstruct the free market, thereby making employees less efficient. Although this might make theoretical sense, the evidence from industrial studies is mixed. A survey of the economics literature shows that unions are associated positively with productivity in the United States across sectors, and particularly in manufacturing (Doucouliagos & Laroche, 2003). And when you look at the countries that have high rates of unionization, they also have correspondingly high rates of productivity (Eisenbrey, 2007). This is perhaps because, with collective bargaining efforts, unionized workers receive contract benefits, and contract benefits make for productive workers. After all, the better your health coverage, working conditions, and job security, the less likely you will be to worry about those things, and the more you can concentrate on doing your job well. On the other hand, it could be that the trades with enough clout to unionize tend to be those that are highly skilled and productive, making the fact that they are unionized irrelevant to their rewards.

Unions also are widely perceived as corrupt forces that the majority of workers don't want. However, according to several studies, workers today have mixed feelings about unions. In the midst of a statewide fight over unions' rights to bargain collectively in Wisconsin, 45 percent of Americans sided with Wisconsin's unions over its governor (Public Policy Polling, 2011). In the same year, a Gallup poll showed that Americans gave unions a 52 percent approval rating. Even among workers who don't necessarily favor a union, there are a considerable number who want some kind of worker representation that meets regularly with management.

Why don't workers unite if they want collective bargaining, especially given the protections of labor laws under the principle of freedom of association? According to other surveys, workers don't unionize because they are aware of management hostility to collective action (Freeman, 2007). Whether in the form of outright (and illegal) opposition such as intimidating and firing organizers or through subtler means like anti-union presentations on company time, workers get the hint that unions are not the best way to stay on their employer's good side. In fact, in one 2003 survey, workers claimed that the biggest disadvantage of having a union was worse relations between employees and management (Freeman, 2007). It is a vicious circle. Workers might have more security to speak up for their rights if they unionize, but often they never start down that road because they fear for their livelihood if they do. With the rise in global telecommunications and transportation, and a corresponding erosion of protectionist trade policies (such as tariffs designed to make domestic goods competitive with imported ones), companies' threats to pack up and move abroad have only become more realistic since the 1970s. On the other hand, new unionization efforts have increasingly been led by industries heavily represented by immigrants to America. In Los Angeles, janitors and drywallers have recently become unionized; in North Carolina, meatpackers formed a union in the face of management opposition (Milkman, 2006). All of these struggles relied on the support of Central American first- and second-generation immigrants who, recent studies have found, are at least as likely to be in unions as whites (Rosenfeld & Kleykamp, 2009).

# POLICY



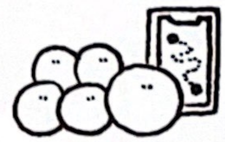

## THE GIG ECONOMY


The unemployment rate counts the number of people actively looking for work who did not work for pay in a given week. It is a useful metric, but it does not give a total picture of how the economy is doing. For example, by 2016, the unemployment rate had fallen to about half of its peak during the Great Recession; however, the labor force participation rate (the percentage of Americans over 16 years old working or looking for work) remained at near record lows. This is partly due to an aging population, and partly due to the fact that many workers had given up on the prospect of ever finding a job. And still others are on long-term disability or take early retirement. But even among the officially employed, there are many who are not working full-time but would like to. Adding these to the unemployed gives us an "underemployment rate" of about triple the raw unemployment rate.

Many of those who are underemployed are part of the growing "gig" economy. *Gig* is a term of unknown origins from the 1920s, originally applied to the jobs that jazz musicians obtained. Thus it connotes the economic uncertainty and tenuousness of the professional musician's lifestyle—along with its freedom from the traditional constraints of the rat race. The rise of web-based applications such as Uber and TaskRabbit has come to epitomize this growing sector of the labor force. Since the Great Recession, the number of 1099s (*1099* refers to the tax form that independent contractors receive as opposed to W2s that regular employees get) issued has exceeded the number of W2 forms. (We must keep in mind, however, that one person generally receives only one W2 unless they change jobs in a calendar year but can receive many 1099s from multiple payers.) Even the very use of the term *gig* has skyrocketed since 1980—in tandem with economic restructuring and the rise of the era of personal computing (Grose & Kallerman, 2015). Something is clearly afoot. But what are we to make of this 1099 economy? A new jazz-like freedom for the millennial generation? Or yet another sign of stagnant earnings, rising inequality, and a fraying social safety net? And what, if anything, can we do about it?

Let's start with an accounting of the downsides: First, while it is not clear whether the actual hourly pay that independent contractors receive is lower, it certainly is the case that their earnings are more unstable. The risk of slow times devolves from the company who might pay for idle employees during slack periods to the worker, who literally does not get any pay if there is not any work that day, week, or month. Second, employees get a lot of perks that independent contractors do not. For example, employers generally pay for a good portion of health insurance when they offer their workers a plan. Even though most economists agree that perks are not really "free" from the point of view of the worker—that is, they are largely, if not completely, taken out of would-be wages—they are tax-free in many cases. In addition to health insurance, employer contributions to retirement plans, life insurance, dental insurance,

What are the advantages of working as an independent contractor for a web-based application such as Uber as part of the gig economy? What are the downsides?



commuting expenses, and so on are all taken out as pretax income. The tax code does allow individual contractors—that is, giggers—to sock away pretax income in a self-employment IRA or to deduct certain other expenses that might have been paid by their employer if they worked as an official employee of a large organization, but the onus is on the little guy. It's easy to check a box when you get hired to have money taken out of your check before you ever see it (and matched by the employer, perhaps) to save for retirement. It's hard to squirrel away that same percentage at the end of each month or year when there are many competing bills to pay in the short run—especially for gig workers whose income is sporadic. Add in all the administrative burden of managing one's own "business" of one employee (self), and it is no surprise that Uber was the defendant in a class action suit on the part of some of its California drivers, arguing that they are employees, not independent contractors. Uber won that battle, but the company has faced ongoing legal challenges about stiffing drivers over their cut on prepriced trips as well as on tips (which it originally did not allow) (Lien, 2018).

Policy makers have to be careful how much they require of employers, however. A very large "temporary" workforce is an irony of very strong labor laws in Europe that make it very hard to fire anyone once they have passed their probationary period. One concrete example is provided by a law passed by Spain meant to be family friendly: employees with children under seven could request reduced work hours without risk of being fired. The result? Women disproportionately utilized this new option and suffered for it: In the ensuing 10 years, women of childbearing ages were hired at a rate that was 6 percent lower than comparable men, they were 37 percent less likely to be promoted, and 45 percent more likely to be dismissed (for other reasons, ostensibly) (Miller, 2015).

What this means is that the gig economy may be a consequence not just of rising inequality or a less educated workforce, but of those very policies that intend to make "real" employment nicer. Capitalism is tricky that way.

# Conclusion

This chapter has been a rapid tour of modern capitalism. We started with the enclosure movement, wherein the commons were divided up into private parcels of land, marking the beginning of the end of the feudal way of life. Soon after, improved agricultural technology supported many more people, leading to industrialization, urbanization, and monetization. Legal structures, such as the rise of limited liability and corporate personhood, evolved to accommodate the new relations of production. And voilà, there you have modern industrial capitalism. Some scholars, such as Smith and Simmel, saw these developments as important steps forward, leading to greater wealth and personal freedom for all; others, such as Weber and Marx, took a darker view of the rise of capitalism, pointing to alienation and the "parceling out" of the soul. Modern capitalism has, as we have seen, undergone a number of changes since the period in which these folks were writing. We have witnessed a new era of globalization, a workforce composition gender change, the emergence of a large service sector, and the rise and fall of trade unionism. Where we go from here is anyone's guess. But you now have the tools to make as educated a guess as anyone.