

DO CORPORATIONS RULE THE WORLD? AND DOES IT MATTER?

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The real power of world rule resides with the global financial markets that dominate the decisions of both corporations and governments, demanding ever greater financial returns to shareholders regardless of the cost to society. The costly reality is masked by increases in stock market and GDP indices that create the illusion of increasing prosperity even as global capitalism destroys the real capital on which our well-being depends. The key to resolving our crisis of growing inequality, environmental devastation, and economic instability is to recognize that there are real and attractive alternatives to the new global capitalism that have nothing in common with the failed models of socialism. One of the more promising involves restoring democracy and putting in place the conditions necessary for the market's healthy function.

WHAT MATTERS MOST

In the early 1970s, I was an active member of the Academy of Management. I am delighted to be back. I am especially delighted to be meeting with the Organizations and the Environment interest group on the theme "What Matters Most." Your section name goes right to the heart of what matters most because our very survival as a species depends on finding new ways to organize ourselves to meet human needs while maintaining a sustainable relationship to a finite living planet.

Our present system makes power accountable to money rather than to life. Consequently, it is destroying life to make money. This is the bottom line, so to speak. I realize that in the eyes of some mainstream economists, life is a special interest, but in my narrow view, I believe it qualifies as a topic that matters. We must create a system that makes power accountable to life, or money will destroy us.

This means that we can no longer afford to leave the design of our economic systems to professional economists who lack both the necessary skills and interests to design an economy that serves life. It needs serious attention from talented professionals who value people, nature, and our living planet more than they value money and people who have expertise in the design of large-scale behavioral systems. It struck me as I was preparing for this presentation that a substantial portion of the professional academicians in all the world who fit this description may be gathered here in this room today. That is why it is my privilege to be speaking to you.

Given your own expertise, I am not going to spend time today documenting the seriousness of our situation. I assume you are all well aware that we are engaged in the systematic destruction of our planet's life support system, that the social fabric

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of human society is disintegrating, that the already unconscionable gap between rich and poor is growing rapidly, and that we are seeing a rapid concentration of global economic power under the control of some 200 megacorporations that operate beyond the reach of any state or other public authority.

Instead, I want to share some insights from my forthcoming book titled *The Post-Corporate World: Life After Capitalism*; three interlinked themes are important to understanding and resolving the source of our deepening social and environmental crisis.

The first theme deals with the nature of wealth—specifically, the relationship between money and wealth. With a moment's reflection, it is quite obvious that money is not wealth. It is an accounting chit, a number that by social convention we agree to accept in trade for things of real value.

However, because a lot of people who should know better—including a few business school professors—confuse the two, we have come to embrace policies and institutions that are destroying the real wealth of the planet and society—most particularly our natural, human, social, and institutional capital—to make money.

The second theme deals with the question you have been waiting breathlessly for me to answer: "Do Corporations Rule the World?" The answer is no, not really. Did I surprise you on that one? The truth is, the corporation is only an instrument of global rule. The real power resides in the global financial system that effortlessly brings economies crashing down when a government's policies give it offense and that buys and sells corporations and hires and fires their workers for quick profits with reckless abandon. It is a system that is running on autopilot, delinked from human sensibility and beyond human control.

The third theme has to do with the false assumption that the triumph of capitalism is the triumph of democracy and the market economy. The relationship of capitalism to democracy and the market is in fact nearly identical in nature to the relationship of a cancer to the body. We get cancer when some of our cells forget that they are part of our body and pursue their own unlimited growth by feeding on the body on which its own existence depends. The capitalist cancer similarly seeks unlimited growth by feeding on democracy and the market economy. One key to resolving our crisis, as I will elaborate later, is to cure the cancer so we can restore health to democracy and the market.

Those who coined the term capitalism in the mid-1850s used it to refer to an economic and social regime in which the ownership and benefits of capital are appropriated by the few to the exclusion of the many—in particular, the many whose labor makes the capital productive. It is a definition that describes perfectly what some call "the new global capitalism."

So, we have the three themes: destroying wealth to make money, rule by the global financial system, and capitalism's triumph over democracy and the market economy. There is an underlying theme that runs through all of these and that centers on the triumph of money over life.

I am sure you have all heard about finance capitalism, which is the phase of capitalism that we now experience. How many here have done any serious reflection on what finance capital is about? I want to share three quotes dealing with the subject. The first is from William Greider's (1997) book *One World, Ready or Not: The Manic Logic of Global Capitalism*. Greider said,

In the history of capitalism's long expansionary cycles, it is finance capital that usually rules in the final stage, displacing the inventors and industrialists who

launched the era, eclipsing the power of governments to manage the course of economic events. . . . Since returns on capital [finance capital] are rising faster than the productive output that must pay them, the process imposes greater and greater burdens on commerce and societies. (p. 227)

The second quote is from a published interview with Paul Hawken.

We are seeing a worldwide pattern of decapitalization. Capital, whether it be natural capital in the form of resources, or human capital in the form of low-wage workers, or local capital in the form of functional and healthy local economies, is being extracted and converted to financial capital at an increasingly accelerated rate. (cited in vanGelder, 1995, pp. 17-22)

These two quotes beautifully frame the issue. We are in an era of finance capitalism in which the big returns come not from productive activity, but rather from the depletion of natural, human, and social capital. Both take an appropriately dim view of the idea of destroying real wealth to make money.

The third quote takes the other side. It praises finance capitalism and its underlying logic as the greatest invention since King Midas got the golden touch—a nifty way to create wealth without doing anything useful. Given its deeply flawed logic, the article from which it comes probably would not be worth mention except that it is from an article published in *Foreign Policy*, a prestigious policy journal. It also happens that the article's author teaches business finance at Babson College and the Arthur D. Little School of Management.

Historically, manufacturing, exporting, and direct investment produced prosperity through income creation. Wealth was created when a portion of income was diverted from consumption into investment in buildings, machinery, and technological change. Societies accumulated wealth slowly over generations. Now many societies, and indeed the entire world, have learned how to create wealth directly. The new approach requires that a state find ways to increase the *market value* of its stock of productive assets. . . . An economic policy that aims to achieve growth by wealth creation therefore does not attempt to increase the production of goods and services, except as a secondary objective. (Edmunds, 1996, p. 119)

The argument elaborated in this article is a classic statement of the logic of finance capitalism, which is defined as follows: The key to rapidly and effortlessly increasing the wealth of a society is to convert ownership rights to its productive assets into freely traded financial securities. These securities should then be placed under the management of professional portfolio managers who have a single-minded focus on shareholder return. They will pressure the managers of the assets to squeeze every possible source of profit from the enterprise to inflate the share prices. This increases the total market value of the society's productive assets and thereby the total wealth of society. Note the logical fallacy here. The inflation of share prices puts more money in the hands of those who own the shares—more claims against society's wealth—but it does not necessarily add a thing to society's productive capacity or output.

It says nothing about—nor does it seem to care—where management gets the increased profits that the financial markets demand. This is where Paul Hawken's point comes in about the depletion of natural, human, and social capital to create financial capital. Consider what corporate managers are in fact doing in response to exactly the pressures that the *Foreign Policy* article advocates.

- They are depleting natural capital by strip-mining forests, fisheries, and mineral deposits and aggressively marketing toxic chemicals and dumping hazardous wastes that turn once productive lands and waters into zones of death.
- They are depleting human capital by maintaining substandard working conditions in places such as the Mexican maquiladoras, in which they employ once vital and productive young women for 3 to 4 years until failed eyesight, allergies, kidney problems, and repetitive stress injuries leave them permanently handicapped.
- They are depleting social capital by breaking up unions, bidding down wages, treating workers as expendable commodities, and uprooting key plants on which community economies are dependent to move to lower cost locations, leaving it to society to absorb the family and community breakdown and violence that are inevitable consequences of the resulting stress.
- They are depleting institutional capital by undermining the necessary function and credibility of governments and democratic governance as they pay out millions in campaign contributions to win public subsidies, bailouts, and tax exemptions and fight to weaken environmental, health, and labor standards that are essential to the long-term health of society.

In each instance, the corporation is depleting living capital. Even the extraction of nonliving material resources takes an enormous toll on living capital. Take the case of the Benguet Mining Company in the Philippines, documented by Robin Broad and John Cavanagh (1993) in their book titled *Plundering Paradise*. In the quest for gold, Benguet Mining cuts deep gashes into the mountains, strips away trees and top soil, and dumps enormous piles of rock into local rivers. With their soils and water sources depleted, the indigenous Igorot people who live in the area have difficulty growing their rice and bananas and have to go to the other side of the mountain for drinking water and to bathe. The cyanide used by the Benguet Mining Company to separate the gold from the rock ends up in streams that carry it into the lowlands where it destroys the livelihoods of tens of thousands of people for decades to come as it kills cattle, reduces rice yields, and flows into the ocean where it kills the coastal fish and coral reefs.

Tragically, there is nothing at all special about the Benguet case. It is much the same with Shell Oil in Nigeria, Texaco in Ecuador, Freeport-McMoRan in Indonesia, and countless other less publicized cases of corporations that profit from the destruction of natural capital while devastating the lives and habitats of people.

Behind this devastation lies the manic logic of finance capitalism. I greatly fear that the teaching of such nonsense is not confined to the Babson College business school and the Arthur D. Little School of Management.

The mistaken idea that money is wealth and that making money and creating wealth are one and the same thing brings to mind an experience that I had a few years ago when visiting Malaysia during a brief meeting with the minister responsible for Malaysia's forests. Seeing that I was Western and assuming I was probably an environmentalist, he wasted no time in pushing my buttons by explaining to me that Malaysia would be better off once its forests are cleared away and the money from the sale is stashed in banks to earn interest because the financial returns will be greater. The image flashed into my mind of a barren and lifeless Malaysian landscape populated only by branches of international banks with their computers faithfully and endlessly compounding the interest on the profits from Malaysia's timber sales. It is a metaphor that sums up all too well the future that we are creating.

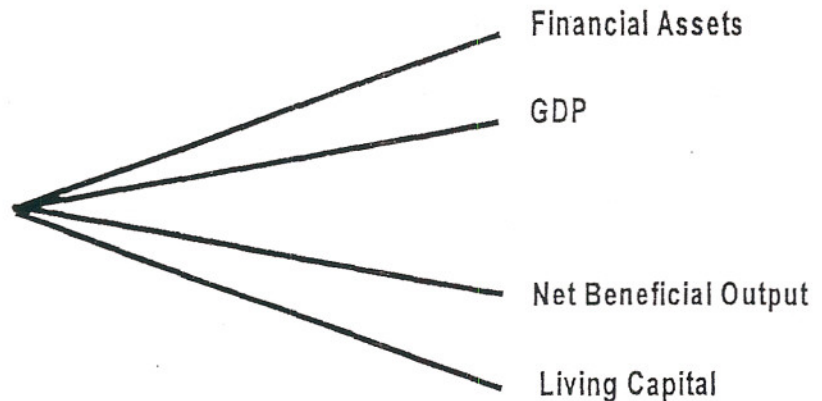


FIGURE 1: Making Money and Growing Poor

In my forthcoming book (Korten, in press), I call this passion to turn life into money the Midas curse. In the Greek myth, King Midas was offered the grant of a wish by the god Dionysus. He asked that all he touch be turned to gold. The wish was granted. Midas was elated, until his food, his drink, and even his beloved daughter turned to gold by his touch. He soon realized that his assumed blessing was, in fact, a curse. He now had gold without limit, but realized it was useless to him if he could not eat and had no one to love.

Human society now bears the Midas curse, although it seems we have yet to wake up to the reality of its consequences.

I now draw your attention to Figure 1, which summarizes in fairly stark fashion what we are doing to ourselves. A study by McKinsey and Company (cited in Greider, 1997) found that since 1980, the financial assets of the OECD countries have been growing at more than twice the rate of the GDP. This means that potential claims on economic output are growing from 2 to 3 times faster than the growth in output of the things that money used to buy.

The distortions go far deeper, however, because an important portion of the output that the GDP currently measures represents a decrease, rather than an increase, in our well-being. When children buy guns and cigarettes, the purchases contribute to the GDP—although no sane person would argue that this increases our well-being. When a married couple gets divorced, it is good for the GDP. It generates lawyers' fees and requires at least one of the parties to buy or rent and furnish a new home. Other portions of the GDP represent defensive expenditures that attempt to offset the consequences of the social and environmental breakdown caused by harmful growth. Examples include expenditures for security devices and environmental cleanup. The GDP further distorts our reality by the fact that it is a measure of gross, rather than net, domestic product. The depreciation or depletion of natural, social, human, institutional, and even human-made capital is not deducted. So, when we cut down our forests or allow our physical infrastructure to deteriorate, there is no accounting for the loss of productive function. We count only the gain.

Economists in the United States, the United Kingdom, Germany, the Netherlands, and Australia have adjusted the reported GDP for their countries to arrive at figures for net beneficial economic output. In each instance, they have concluded

that the economy's net contribution to well-being has actually been declining over the past 15 to 20 years.

Yet, even the indices of net beneficial output are misleading because they do not reveal the extent to which we are depleting the underlying base of living capital on which all future productive activity depends. I know of no systematic effort to create a unified index giving us an overall measure of the state of our living capital. Obviously, this would involve significant technical difficulties. However, what measures we do have relating to the depletion of our forests, soils, fresh water, and fisheries; the disruption of our climatic systems; the unraveling of our social fabric; the decline in educational standards; the loss of legitimacy of our major institutions; and the breakdown of family structures, give us reason to believe that the rate of depletion of our living capital is even greater than the rate of decline in net beneficial output.

The indicators of stock market performance and GDP that our leaders rely on to assess the state of the economy create the illusion that their policies are making us richer—when in fact they are making us poorer. Governments do not compile the indicators that reveal the truth of what is happening to our wealth and well-being. And the power holders, whose financial assets are growing, experience no problem. In a global economy, their money gives them ready access to the best of whatever real wealth remains. Those who experience the reality of the dark side have neither power nor voice.

We are creating growing claims on a declining base of real wealth, but those who are making the decisions do not see it because they are tracking the wrong indicators. They also do not see it because they are making so much money that they can easily buy whatever they want of the declining stock of real resources. We have created a system without a corrective feedback loop because it is designed so that the powerful reap the profits and the weak bear the costs.

One frequently hears the hopeful claim that we can get corporations to be environmentally responsible by proving to them that it is more profitable. Obviously there are examples of where this is true. But we should not kid ourselves about the reality that on the whole, corporations find environmental and social destruction to be highly profitable.

Now let's look more closely at the system of financial rule, which is working pretty much the way that advocates of finance capitalism say it should. We have created a system of planetary rule in which every human participant is a captive of the financial system and its manic logic, including the most powerful money managers and the chief executive officers of the most powerful corporations. They are well rewarded, but each serves money's quest to replicate itself or is dismissed by the system without ceremony.

Let me just briefly sketch the essential elements of the system of financial rule. Legally, corporations are accountable to those who own their shares. Ownership rights, however, are most commonly exercised by money managers who are responsible for pooled investments, such as retirement, trust, and mutual funds. The titular owners are unlikely to have any idea about what companies they "own" or what they are doing. As fiduciaries, the money managers are by law expected to define their responsibilities narrowly in terms of shareholder financial interests. In the current markets, they are also expected to show results in terms of 20% to 40% a year or to place their own well-paid jobs at risk. I held two mutual funds last year that produced 50%.

So, the money managers send a strong signal to management. Annual profits must be increased annually at a rate that is sufficient to produce at least a 20% to

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indicate
as soon
between
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40% annual increase in share price. Do it and get a multimillion dollar bonus. Fail and you will be out the door to make room for someone who can. How it's done is not the market's concern. Just do it.

The global corporation responds with every instrument of power at its command. It uses the media to reshape cultural values in support of consumerism and capitalism. It uses monopoly power to limit consumer choice and extract monopoly profits. It provides generous campaign contributions to politicians to provide subsidies, tax breaks, and regulatory relief. Indeed, it takes every opportunity to externalize costs, including the decapitalization of living capital discussed earlier.

Roughly, what do these externalized costs come to in a given year? In *Tyranny of the Bottom Line*, certified public accountant Ralph Estes (1996) compiled an inventory of those public costs of private corporations that have been documented by authoritative studies—not including direct subsidies and tax breaks—and came up with a conservative total for the United States alone of \$2.6 trillion a year in 1994 dollars. This is roughly 5 times the corporate profits reported in the United States for 1994 (\$530 billion) and the equivalent of 37% of the 1994 U.S. GDP of \$6.9 trillion. If we were to extrapolate this ratio to a global economy that had an estimated total output of \$29 trillion in 1997, it suggests that the cost to humanity of maintaining the corporate infrastructure of capitalism may be upward of \$10.73 trillion. And we talk about the efficiency of the private sector.

Do corporate managers do this because they are immoral or have no sense of right and wrong? No. They do it because it is what they are paid to do and they work in a culture of capitalist ideology that says their job is to produce returns to shareholders—governments and society will take care of the rest. Furthermore, it is what business schools train them to do.

So what of the idea that we can make corporations responsible by appealing to the conscience of their executives? I do not believe that corporate executives have any more or less moral fiber than the rest of us. The problem is that they are employed by a system that provides enormous incentives to exclude all but immediate shareholder interests.

Depressed yet? The real point here is to get clear that we are not going to fix this situation with appeals to conscience, claims that being responsible will produce even more than 20% to 40% annual increases in share price, or policy adjustments at the margin. Getting rid of the cancer is going to require major surgery.

The first thing that we need is an honest diagnosis. The next is to articulate alternatives. Indeed, my forthcoming book (Korten, in press) is mainly about alternatives. My belief that we must begin creating alternative visions is also behind my involvement in a group called The Positive Futures Network, publishers of *YES! A Journal of Positive Futures*. It deals with the deep shift toward an integral culture in which life is valued more than money. In addition, it deals with the initiatives of millions of people toward the rebuilding of their local communities and economies.

In the few remaining minutes before the chair opens the trapdoor, I want to focus on the part that is most relevant to our schools of business management. It is pretty common for folks like myself to get asked "What is your alternative to the global capitalist economy?" The answer is quite familiar to all of us—indeed, it is the answer in which most people already believe: democracy and the market economy. Perhaps it is the very fact that it is so familiar that makes it so difficult to see.

Figure 2 illustrates what happens when capitalism is allowed to take hold in a market economy through deregulation, economic globalization, and corporate concentration. The self-organizing market that is structured to respond in a highly

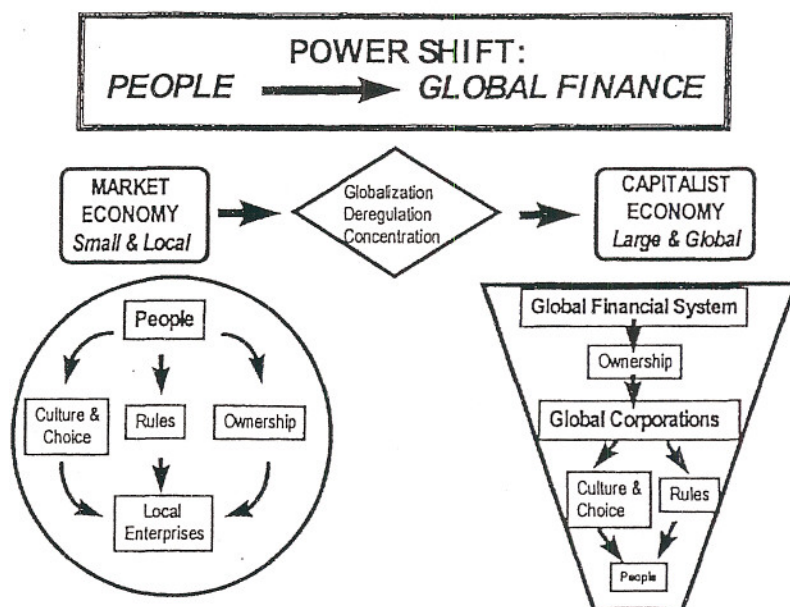


FIGURE 2: Power Shift

democratic manner to human needs and values becomes a money driven, centrally planned system for manipulating culture, consumer choice, and the rules of commerce to maximize the extraction of wealth from people and the planet. We must concentrate on creating the conditions that are necessary to healthy market function by doing exactly the opposite of what the proponents of finance capitalism recommend.

We need to eliminate absentee ownership, discourage financial speculation and the creation of financial bubbles, and eliminate the institution of the public for-profit corporation. Obviously, this is easier said than done, but it is all necessity if there is to be a human future; the sooner we get these issues on the table for serious discussion, the better.

Let me quickly lay out some of what we know about the nature and structure of a healthy market economy. Most of this comes right out of market theory.

- The market economy's purpose is to fully employ those who need work in activities that produce and distribute the things that people need for a decent life.
- The market needs rule producers to internalize their costs and pass them on to the purchaser. This requires eliminating corporate subsidies and tax breaks while implementing proper regulation and a tax shift away from taxing basic incomes and essential consumption to taxing resource extraction, pollution, and other sources of externalized costs.
- In a healthy market, firms are human scale and competition is not about destroying the weak. It is about spurring efficiency and innovation on the part of all. It is quite possible that simply eliminating the subsidies will reveal the gross inefficiency of most megacorporations and force their breakup into more efficient, self-owned firms.

- Firms are owned by real people who live in and are accountable to the community in which their firms are located and who look to the firm as their long-term source of livelihood. This requires implementing economic democracy grounded in stakeholder ownership—ownership by workers, managers, suppliers, customers, and the communities in which they are located.
- A healthy market has economic borders that allow the people of a nation or locality to manage their economic relations with others so as to maintain the health of their economy and the living capital on which it is built. To restore economic borders, we will need to nullify most existing trade agreements, such as NAFTA, GATT, and the WTO, which have been put in place to free money interests from public accountability and to kill the Multilateral Agreement on Investment initiative, which is the most evil of them all. These agreements can be replaced with an international agreement that regulates transnational capital and corporations and assures the economic sovereignty of people.
- A healthy market is built on a strong moral foundation. This realization needs to be built into our economic theory and practice. The idea that the market's invisible hand will turn unrestrained greed and violence against life into an unmitigated social good is nonsense.
- Speculation has no place in a healthy market economy and is properly discouraged through a tax on financial transactions and a substantial tax penalty on short-term capital gains.
- For the market to function democratically, basic equity must be maintained through appropriate public policies.

A properly functioning market economy provides substantial benefits that capitalism denies.

- In a market economy, workers and investors are fairly rewarded in relation to their productive contribution.
- Real markets are self-organizing. They require relatively little intervention from central governments and they are not centrally planned and managed by global corporations with internal economies larger than those of most countries.
- Competition stimulates efficiency and innovation without depriving the weak of a means of livelihood.
- Trade is fair and balanced. Each nation retains control of its own productive assets and living capital.

Where does the for-profit public corporation fit into this picture? It doesn't.

Note that our modern corporation is a descendant of the chartered corporations—such as the East India Corporation and the Hudson Bay Corporation—that were formed by the British crown as monopolies to exploit the colonial territories by extracting their labor and resources and monopolizing their markets. It is an organizational form that has proved itself highly effective at these tasks and continues to do so today. The very structure of the modern public corporation is designed to concentrate economic power while limiting its accountability to any interest other than the generation of outrageous compensation for its senior executives and outsized profits for its shareholders. It has no place in a just, sustainable, and democratic society.

Among the essential steps required to restore democracy, we will need to remove the legal fiction of corporate personhood through which corporations have acquired more rights than persons and we will need to get corporations out of politics. The corporation is a creation of the government that issues its charter; it is the corporation's appropriate role to follow whatever rules the sovereign people choose to impose on them, not to make those rules.

So this is the task before us. I do not imagine that these are points of view you hear expressed in the schools in which you teach. I once designed and taught a course at the Harvard Business School that presented a far, far less radical version of these issues. It was the last course I taught there. It seemed to be the view of the faculty that the school's role was to train executives to succeed in the world of business as it exists, not to change it.

I suspect that this is the prevailing sentiment at most of our business schools, which on the whole are highly proficient in training our best and brightest for careers in service to an economic system engaged in the systematic decapitalization of people and planet to make money for the already very rich. What we need are educational institutions that can provide our best and brightest with the vision and critical consciousness needed to transform a life that is destroying capitalist economy into a democratic, life-affirming market economy. These would be places in which the discussion and debate of such questions as "What is the difference between money and wealth, between democracy and financial rule, and between the market economy and capitalism?" are vigorously discussed and debated.

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