Selected aspects of competition and competitiveness in economy

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GROWING TREND OF CORPORATE POWER AT THE END OF THE 20TH CENTURY

Introduction:

One cannot discuss the world economy today without objectively noting the overwhelming influence corporations and big business have regarding the shaping and creation of consumer attitudes to the very nature of economic performance itself. It's equally true that labors' historic influence with government may have been perceived as controversial or even contradictory at times, nevertheless, it was widely assumed that throughout much of European and North American history, labor and its great numbers naturally had to play a role in terms of shaping government policy, whether or not they intended to. Although government historically may have always sided with business interests and wanted to avoid as much as possible any sharing of influence with labor, government knew they had to respect in some measure the sheer numbers of both organized and unorganized labor, if only to achieve some kind of political stability.

Once corporations achieved personhood in the 1880's in the United States, however, their direct impact on all aspects of government policy making grew tremendously. This great and unparalleled growth in corporate business power would eventually come to impact several other areas of government responsibility as well. In other words, corporate power would come to a point whereby government could begin to ignore and completely accept the idea that other "interests", such as labor, should not be considered, much less listened to, concerning actual creation and implementation of government policy. This is the situation we currently have at present, primarily as it emanates or originates from the United States, but increasingly so in Europe and worldwide as well.

Corporate Power and their Growth in Influence

Before corporations, there were partnerships in which business partners both managed and owned the corporation. This seemed to be a reasonable fit, as both liability and performance for the company would be assigned to the small group of actual investors. Then something new happened:

"The genius of the corporation as a business form, and the reason for its remarkable rise over the last three centuries, was-and is-its capacity to combine the capital, and thus the economic power, of unlimited numbers of people. Joint-stock companies emerged in the sixteenth century, by which time it was clear that partnerships, limited to drawing capital from the relatively few people who could practicably run a business together, were inadequate for financing the new, though still rare, large-scale enterprises of nascent industrialization (Bakan, 2004, p. 8)."

In other words, corporate design and performance were always suspicious in the minds of those like government who had to regulate it, yet every so often the actual "genius" of the corporation, as an idea, proved too strong to ignore, as mentioned above. Businessmen, politicians and others were always suspicious of the actual performance of the corporation going back to the sixteenth century, and every so often would move against corporate power or actually seek its destruction, or outlaw the ability of the corporation to function. (Bakan, 2004)

For example, even Adam Smith, in his famous book, "The Wealth of Nations", which many consider the modern economic Bible regarding the acceptance of capitalism as a credible economic system, had great misgivings regarding the nature and purpose of the corporation. He honestly and openly stated in his famous book that managers could never be trusted to manage other peoples' money, and seemingly refused to budge or change regarding this issue. (Bakan, 2004)

When the idea of the partnership (mentioned earlier) concerning business ownership was giving way to more corporate kinds of thinking, the primary problem of previous times concerning corporate credibility overall was how to lower the amount of risk or personal liability for the growing numbers of people of more and more different income groups, who were choosing to participate in the new growth and risk sectors associated with stock ownership in the corporation. People wondered if it was worth continuing to invest in stock ownership if bankruptcy for the corporation meant personal financial ruin as well. Canadian legal scholar, Joel Bakan, states the problem this way (see block quote below), regarding what corporations would have to do to enhance their legitimacy in the eyes of more and more actual and, especially, potential investors who want to invest in the new stock game, but are frightened by the amount of risk inherent even in the smallest kinds of investments. According to Bakan:

"One barrier remained to broader public participation in stock markets, however: no matter how much, or how little, a person had invested in a company, he or she was *personally* liable, without limit, for the company's debts. Investors' homes, savings, and other personal assets would be exposed to claims by creditors if a company failed, meaning that a person risked financial ruin simply by owning shares in a company. Stockholding could not become a truly attractive option for the general public until that risk was removed, which it soon was. By the middle of the 19th century, business leaders and politicians broadly advocated changing the law to limit the liability of shareholders to the amounts they had invested in a company (Bakan , 2004, p. 11)."

By 1856 in England and during the remainder of the 19th century, limited or personal liability became a fact of life throughout the legal, business and commercial life of both nations and continued to spread thereafter. Some in Britain had advocated limited/personal liability as a way to teach or show the laboring, working new but small investors of Britain, the great responsibilities inherent in running any corporation. The theory was that once working class people truly understood the great pressures and stresses behind corporate ownership and management responsibilities by those very wealthy capitalists who were running these giant new companies, class conflict might diminish or disappear altogether. (Bakan, 2004, p.12)

While this would certainly be a most welcome development, in the end this has not come to be, though at times, such as in the post-World War II economic decades in North America, Europe and Japan, economic growth was creating rising living standards for most people. This fact most certainly contributed to the diminishing of class conflicts in these three regions of the world mentioned above, though only until around the mid-1970's or early 1980's at most. Since the early 1980's, there seems to be a reappearance or reemergence of class consciousness, not necessarily class conflict, caused primarily by growing wealth disparity, though the degree of this growth in class consciousness cannot be assumed to be the same or worse than that of the 19th century. In fact, in the three regions mentioned above, one can say it is most likely much less.

The Corporation From The Middle Of The 19th Century To Pre-World War II

Abraham Lincoln, whom many if not most historians consider to be the greatest President in the history of the United States thus far, stated near the end of the US Civil War (1861-65), that he feared for the future of his country because he believed corporations had been overwhelmingly strengthened both financially and legally due to the US government's dependence on government contracts with corporations to fight the Civil War. In other words, the pre-Civil War balance between government and corporate power, in Lincoln's view, had been decidedly turned in favor of corporations and their "owners" and representatives. In Lincoln's mind, this could well represent the end of the US experiment (only 80 years old at that time) as a democratic example for the rest-of-the-world. Although Lincoln did not live long after the Civil War ended, he was correct, in-so-far as his prediction regarding the tremendous increase in corporate power over government and country that would naturally ensue. This, in fact, actually came to pass.

The key force behind the new movement to give corporations rights as persons was a U.S. Supreme Court Justice named Stephen Field, who made no intention of hiding his overwhelming support for the major corporate powers of those days during the immediate post-Civil War era: the railroads, which were gradually but surely coming to dominate much of the commerce of the United States.

The Fourteenth Amendment to the US constitution, passed after the Civil War, was intended to give former slaves the same rights as all other citizens to due process under the constitution. Judge Field, at this very time, determined that the fourteenth amendment could also be used to give corporations, like former slaves, these new rights as persons and US citizens. (Nace, 2003) Eventually, a simple but crucial accident of history occurred and ended up being unnoticed for about 80 years until the early 1960's. Nevertheless, since the accident was noticed eight decades later, we must still realize that accidents can well occur due to an increasing momentum regarding growing belief in an idea or ideology, in this case the one being pushed for thirty years by Supreme Court Justice Stephen Field. It must be remembered, however, he had no intention of allowing the court to *officially change the Fourteenth Amendment*, which means he never wanted corporations to actually be given personhood or the same rights as individual citizens. (Nace, 2003)

Unfortunately, because the Chief Justice of the U.S. Surpreme Court in the 1880's, Morrison Waite, had believed some earlier comments in earlier court cases in 1882 that were found to be deliberate distortions/mis-readings of the original deliberations that created the Fourteenth Amendment to the US Constitution, we now know with certainty that this unintended crucial mistake in US judicial history was in fact caused by a deliberate misleading of Judge Waite and others by the corporate lawyers representing the largest corporations of that time: the railroads as was mentioned earlier. In other words, as was just stated a few paragraphs ago, what did the earlier mentioned comments and belief system regarding corporate rights and personhood espoused and argued by Supreme Court Justice Stephen Field do to lead to a degree of momentum, which would eventually lead The Honorable and honest Judge Waite to make such an irresponsible statement. The following comments represent some of the strongly held belief systems constantly pursued and believed by Stephen J. Field leading to the 1886 mistake:

"Surely these great constitutional provisions, which have been, not inaptly, termed a new *Magna Charta*, cannot be made to read as counsel contend, 'nor shall any state deprive any person of life, liberty, or property without due process of law, *unless he be associated with others in a corporation*, nor deny to any person within its jurisdiction the equal protection of the laws, *unless he be a member of the corporation.*' How petty and narrow would provisions thus limited appear in the fundamental law of a great people! [italics in the original] (Nace, 2003, p. 98)."

Judge Field, with such comments, is strongly trying to make the corporation appear to be perceived as a terrible instrument in the minds of the public, and though the corporation did then have a negative image with most of the public, Judge Field, by trying to make the corporate image even darker and gloomy, is hoping the public and other Supreme Court justices will come to believe that nothing can be that bad, and that in fact large corporations in the United States should have a better image, perhaps leading the justices and the public to conclude that their image of the corporation is too harsh and too negative, thus perhaps weakening democracy overall.

Such tactics, though effective at times, were not effective with the public in this case. It is true that more Supreme Court justices started to sympathize with corporate interests after hearing the same warnings from Judge Field year after year for thirty years, but the public throughout the US continued to be deeply skeptical of corporate power, its actual intentions and all that it stood for. In the end, only a small number of deeply selfish, extremely ambitious, and uncaring (for the larger public good) individual corporate lawyers, were associated with defending and expanding the interests of the large corporate railroads at that time at the expense of the public. The following quote, also from Stephen J. Field, is a good example of the kind of fanatical emotion used to support powerful lawyers who only support, in this case railroad corporations, which eventually leads to a fanatical, or should I say fundamentalist support for large corporations, like a fanatical ideology. In September of 1882, he made the following official statement as part of his legal opinion regarding a corporate legal case in California:

"As a matter of fact, nearly all enterprises in this state, requiring for their execution an expenditure of large capital, are undertaken by corporations. They engage in commerce; they build and sail ships; they cover our navigable streams with steamers; they construct houses; they bring the products of earth and sea to market; they light our streets and buildings; they open and work mines; they carry water into our cities; they build railroads, and cross mountains and deserts with them; they erect churches, colleges, lyceums, and theaters; they set up manufactories… (Nace, 2003, p. 100)".

Legal scholar Gregory Mark offers the following commentary regarding the ever-growing undemocratic controversies in the late 19th century surrounding the growing powers of corporations, following the unintended controversies of the US Supreme Court rulings of 1886, in the California case known officially as *Santa Clara County v. Southern Pacific Railroad:*

"In the publicly held industrial corporations that were created in the 1890's and after,… the shareholders were more properly viewed as creations of managements seeking capital for a variety of purposes. The reality of the corporation apart from its members was becoming clearer as the relationship of the shareholders to the operations of the business became increasingly distant. Neither the corporation nor the shareholders could be taken as agents for the other; the actions of the one only rarely put the other at legal risk. The life of the corporation could no longer be identified with that of the corporators [again, limited liability] (Nace, 2003, p. 100)".

Since limited liability indeed makes it difficult or impossible to assess the validity or credibility of community concern by the corporation, we are left wondering a simple question: since the time period that legal scholar Gregory Mark refers to above, the 1890's, we must wonder why nothing has changed regarding the massive growth in undemocratic behavior large business/corporate concerns have continued to pursue and achieve. Above all, we must examine the current implications of such unconstrained growth in corporate power in all areas of human life. To this issue we now turn.

Modern Implications of Growing Corporate Power

Probably the most serious implications for the continuing growth in corporate power and the inability or unwillingness of governments to confront these realities, occur in the all-important area of taxation. In 1922, taxes on corporations represented 19% of total tax revenue going to government. Though that does not seem like a large amount, it was the high point for that time period. After World War II, corporate taxes went up as well, but the overall trend throughout the 20th century, especially after 1981, is to watch them become greatly reduced. Over the past near-quarter century, tax rates on major corporations have dramatically come down, resembling the period of the 1920's, which eventually led to the great depression of 1929, plunging the world into global depression throughout the 1930's leading to World War II.

The following developments regarding the dramatic lowering of corporate tax obligations have occurred in the United States since 1981, and resemble much of what has been happening in Europe over the last decade, not including the post-May 1, 2004 accession of ten new European Union member states. In other words, the following negative developments have occurred in the US because of the dramatic lowering of corporate tax obligations. The consequences of the following actions occurring in the US, as was just mentioned, are now spreading even beyond Europe and to many parts of the globe:

- "Corporate taxes as a share of the nation's tax revenues plunged from 28% in 1956 to only 11.8% in 1996.

- Family income taxes rose from 17.3 percent of median income in 1955 to 37.6 percent in 1998.

- In the past 2 decades, after-tax income of the middle class, which had been rising, has collapsed to inflation-adjusted 1969 levels, and, according to statistics compiled by the AFL-CIO, "average hourly wage of production and non-supervisory workers in the US economy was $12.77 last year [2001]—down 9 percent compared with 1973."

- The share of all property taxes paid by corporations has dropped from 45 percent in 1957 to 16 percent in 1995.

- During the first year of the Reagan administration's "tax reforms," General Electric [giant corporation] actually received a tax refund—an omen of things to come.

- Austin [Texas] Chronicle columnist Jim Hightower pointed out, "Forty-one of America's largest corporations earned $25.8 billion in profits between 1996 and 1999, yet not only did they avoid paying their fair share of taxes—they got $3.2 billion in rebate checks from taxpayers. Among these tax dodgers are such brand- names as Chevron, PepsiCo, Pfizer, J.P. Morgan, Saks, Goodyear, Ryder, Enron, Colgate-Palmolive, MCI, Weyerhaeuser, GM, and Northrop Grumman."

- By setting up almost 900 subsidiaries in tax havens such as the Cayman Islands and through exploiting the tax-deductability of stock options given to senior executives, Enron Corporation was able to pay *no* federal taxes in 4 of the 5 years prior to its implosion [self-destruction] in 2002. As the *Washington Post* [newspaper] pointed out, in 2000 the corporation was successful in converting a $112 million potential tax bill into a $278 million dollar tax refund.

- According to the U.S. General Accounting Office, almost a third of all "large" corporations (assets of at least a quarter-billion dollars) in the United States paid no income tax whatsoever between 1989 and 1995 (the last year such a study was done), and more than 60 percent of such companies paid less than $1 million in taxes.

- Looking at *all* U.S. corporations, the GAO concluded, "in each year between 1989 and 1995, a majority of corporations, both foreign-and U.S.-controlled, paid not U.S. income tax."

- The wealthiest 1 percent of Americans paid $46,726 less in taxes in 1996 than they would have paid if there had been no changes in the tax laws since 1977. But among those earning less than $80,000, those "tax reductions" were worth an average of only $115.

- In 1981, the Reagan administration pushed through the Economic Recovery Tax Act, which, added to a Kennedy-era tax cut, slashed the income tax for America's top 1 percent of families by over 50 percent.

- The George W. Bush administration [current] has recently driven the top income bracket's taxes even lower—from a high averaging around 80 percent between 1935 and 1963, to a 2002 low of 33 percent (Hartmann, 2002, pp. 175-177)."

These shocking facts, occurring with the consistent growth in corporate/big business power and influence, is not financially stable, and leads to growing instability for everyone, including the wealthy. This is because of growing wealth disparity, the growing gap between rich and poor, caused by the ever reducing taxation on corporations and wealth, which are then passed on to a declining middle class and growing numbers of the poor. If we look at the 1920's, similar patterns took place there, which led to the most damaging global economic disaster in all of human history: the crash of 1929! The following facts also occurred in the 1920's:

- "The 1926 tax cut reduced income taxes for millionaires from 60 percent to 20 percent just 3 years after the minimum wage was repealed in 1923.

- America's top 1 percent of families reaped a 75 percent increase in after-tax income during the 1920's.

- From 1920 to 1929, corporate profits rose 62 percent and dividends rose 65 percent (Hartmann, 2002, p. 177)."

Clearly, an objective viewer would have to admit there is strong and growing similarity between the 1920's and 1981 to the present. The implications of all the facts just listed are quite startling, especially when we realize the forces behind this massive shifting of the tax burden from rich to poor were and are now coming completely from the corporate side of the economy. That is to say that the majority of "experts" who support such disastrous policies, mainly are employed by the major corporations in banking and related areas, insurance, education, health care, etc. We are not speaking of conspiracy, but instead are witnessing a growing pattern of thought by so-called "experts" like corporate employed economists and corporate executives who go on to become government and presidential advisors, simply reflecting the value systems they observed and learned during their entire professional careers in the very subjective atmosphere of the corporate world. One must readily wonder where this will all lead.

Conclusion

The growing trend in corporate power, at least as far as its growing ability to weaken democracy in traditional democratic countries, is evidenced easily in many places if anyone is willing to look and be objective. For example, in Britain, prominent observor and commentator, George Monbiot, in his widely acclaimed book, *Captive State: The Corporate Takeover of Britain*, argues that there really is no serious opposition to this perhaps overwhelming phenomenon. Regarding the present, he says:

"This is not the first time that corporate power has threatened democracy. Gladstone's [former British Prime Minister] efforts to regulate the rail industry, [1890's] for example, were obstructed by the 132 MPs who held directorships in railway companies. Abraham Lincoln wrote [1860's]: 'I see in the near future a crisis approaching that unnerves me and causes me to tremble for the safety of my country…corporations have been enthroned and an era of corruption in high places will follow.'

These powers have re-emerged, yet the government [British] shows few signs of trembling for the safety of its country. New Labor, its leaders often remind us, is 'the party of business', which aims to establish 'the most business friendly environment in the world'. There is, Tony Blair told the Confederation of British Industry, 'great commitment and enthusiasm, right across the government, for forging links with the business community'. 'We want a society,' the cabinet minister Peter Mandelson announced, 'that celebrates and values its business heroes as much as it does pop stars and footballers' (Monbiot, 2000, pp. 6-7)."

Britain may well be an example of what will happen to much of Europe over the coming years, concerning unrestrained corporate power. The recent historic corporate tax cut proposal by the German government, may well be nothing more than an attempt by Schroeder to get the badly needed, but corrupting financial support of business for the national elections coming up this September. What to do?

Is the answer perhaps to call for some kind of a new economic consensus to rival the so-called "Washington Consensus". Should there be some kind of "Brussels Consensus" (Sergi, 2003) originally proposed in 2003, but expanded to deal with the full implications of ever-growing corporate influence in government and everyday life? Perhaps the answer is yes, as there are some good ideas concerning how to best deal with this on-going issue and debate over how to deal with major corporate institutions and the way they choose to exercise their influence in economic and political affairs. Former Harvard University Business Professor, David C. Korten, a recognized world-renowned expert concerning corporate power and its implications, recommends the following points be instituted by government, as the most effective means for altering corporate behavior towards the path of supporting democracy overall instead of its continued non-sensitivity to democracy:

- "Public elections in all countries should be publicly funded.
- Total political campaign spending for political elections should be very limited.
- Television and radio should provide free time to political candidates for the purpose of giving candidates equal access to the public.
- No single corporation should be allowed to own more than major pubic media outlet.
- Only informative advertising should be allowed, as the role of business is to respond to market demand, not to generate more of it.
- All schools should be advertising free. Corporate supported forms of teaching should be banned through a non-advertising school ban.
- A small tax concerning purchase and sale of financial instruments would slow down the urge for very short-term speculation and arbitraging.
- A surtax on net short-term capital gains higher than regular income tax would convince several kinds of investors that several kinds of speculating are not worth the effort.
- A 100 percent reserve requirement concerning demand deposits so banks are not as free to create money overall.
- Tight regulation of financial derivatives.
- Preferential [better] treatment of Community Banks.
- Rigorous [strong enforcement] enforcement of Antitrust Laws.
- Worker and Community Buyout Options.
- Greatly Reduce Tax Shifting (Korten, 2001, pp. 268-273)"

Korten mentions other ideas as well, which are too numerous to list here. What's important to understand is that most if not all of these measures have been used before, with good effect.

The problem is that over time, corporate power eventually overwhelmed government's ability to maintain or increase these standards, thus setting the stage for major disasters such as the previously mentioned global economic collapse of 1929 and growing wealth disparity throughout society. Clearly however, history does show that trends, no matter how negative or seemingly hopeless, do reverse themselves, and not always through violence. Let us hope all parties supporting democracy, especially the many very responsible corporate leaders in the world today, come together and demand that ethics and accountability in corporate life and action be returned to its proper place in the public domain. Should this not happen, then perhaps we will continue witnessing further corrosion and corruption of the very institutions, both governmental and non-governmental, that were originally entrusted to maintain democratic accountability for the public.

For the most recent full decade we have to attempt to gauge the mentality/psychology of business leaders and participants throughout global business and stock markets, the 1990's, perhaps the alarming statements of Alan Greenspan, Chairman of the US Federal Reserve Board, will enlighten those who doubt how seriously corrupting corporate power and influence can be. Surely his following statement applies to global corporate behavior, not just US corporate behavior. On July 16, 2002, testifying before the US Senate Banking Committee, he stated the following:

"An infectious greed seemed to grip much of our business community….It is not that humans have become any more greedy than in generations past. It is that the avenues to express greed have grown so enormously (Partnoy, 2003, pre-introduction)."

Perhaps this is the most eloquent and accurate way to describe the unintended dangers that will necessarily grow should increasing corporate power not be dealt with in a rational way. Greenspan seems to be indicating that ever-growing corporate power world-wide, if not regulated properly, will always create newer, ever more complicated financial "opportunities" for the secretive and dark side of those members of humanity, who will exploit and take advantage of their ever-more powerful corporate "opportunities" to get rich, more often than not at the expense of much or most of the rest-of-society.

Global forces operating today, such as the powerful and strongly felt support for emerging political and economic democracy in eastern Europe, especially leading reformers such as Poland, can offer the world a new successful development model based on Poland's very successful post-1989 development progress. This progress was based primarily on rejecting most of the original "Washington Consensus" policies, which were overly supportive and too strongly aligned with only the interests of major West European and US corporate development models which, for all the reasons mentioned throughout this paper, have failed more and more of humanity. Poland's overall success has yet to be fully judged. Much of that final judgment however, will be based on Poland's unique success so far and its continuing ability to offer its people the much more well-balanced development model than other east Europeans have received. In other words, much of the advice Poland gave itself and accepted from others did not primarily serve the interests of the most powerful western corporations and their ever-stronger links to the "Washington Consensus.

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