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Corporate Capitalism Works … For Some!

Photograph by Nathaniel St. Clair

Perhaps one of the more recent forms of capitalism is Corporate Capitalism. In corporate capitalism, corporations dominate a capitalist and oligopoly-like market economy. These large multi-national and hierarchically organized corporations operate with a substantial managerialist administration (hence: MBA). These corporate apparatchiks control production, global supply chains and the amount of profits these corporations generate for shareholders.

Today, profit making is conveniently framed as shareholder value. In any case, such corporations are either owned by an individual (rare) or by a group of people known as shareholders (common). Corporations are not democratic institutions. Neither corporate apparatchiks inside corporations nor corporate capitalism itself need democracy. There simply is no democracy in corporations.

Corporate capitalism, corporate apparatchiks, shareholders and top-dollar receiving CEO like to see the role of a democratic government being dedicated to helping the rich to get even richer, so that the poor and increasingly the middle-class can benefit from the always illusive trickle down effect.

Business-school based henchmen and apostles of corporate capitalism – usually called neoliberal economists – never grow tired advocating the trickling down effect. Yet, it is a very inefficient or next to non-existent way of helping people at the bottom of capitalism's pyramid. It is simply hard to see how another Lamborghini, another private jet, another super yacht and another private island in the Caribbean will benefit the not so super rich.

What corporate capitalism has achieved is that today – profits are at an all time high. In what economists call a zero-sum game, therefore, wages are at an all time low when measured as a proportion of the GDP. GDP is commonly defined as the sum total of all payments for goods and services in an economy. The system of corporate capitalism has assured that those at the lower end of the wage scale have received wage stagnation and wage suppression during the last 40 years.

Roughly speaking, GDP has two parts: labor costs (wages) and the return of investment (profits). Traditionally, the split between both was seven-to-three. This means that the total value of all wages in an economy was about 70% (everyone who works in an economy), while profits for a small group of shareholders and corporations were about 30%. Since the 1980s, corporate capitalism has made sure that the share of labor has constantly and consistently declined – while profits have gone up. This makes the rich richer and the rest of us comparably poorer.

If one looks at wages between 1979 and 2007, the bottom 20% of the workforce experienced a decline in wage of about 59.2% when set against all other wages. This is the underclass of working poor, the ever-increasing precariat, those who are fired as production is moved overseas and those who lost their jobs because of automation and robotics. These are the former car and steel workers on union wages that now have jobs as underpaid delivery drivers, Amazon workers, cleaners, security guards, etc. During the same time, the top -1% has increased its take-home pay by a whopping 309.3%.

Yet, not all at the top got rich. Some have fallen victim to Ponzi schemes. It is an older trick that still works today. Over one hundred years ago, Charles Ponzi found the Security

Exchange Company promising a 50% return on any investment in 45 days and 100% return in 90 days.

Only seven months into it, Ponzi was arrested having defrauded 40,000 people of $140 million. Corporate capitalism has learned from this. Today, it operates legally – most of the time (!). The way corporate capitalism is legally set up allows for sufficient profits.

Yet at times, corporate capitalism needs a bit of a leg up by the otherwise much despised state. This happened, for example, during the Global Financial Crisis of 2008. At that time, the US government gave corporate capitalism what it called a Troubled Asset Relief Program containing $800 billion of goodies. In those years, several US congressmen were led to believe that the money would be used to help homeowners. Bad luck, baby!

The money went to bail out banks and firms that had caused the problem in the first place. They were framed as Too Big to Fail. Heretics called them Too Big To Jail. Very serious money went to AIG itself ($185 billion), and GM Capital ($130 billion) turning General Motors into Government Motors. It was a time when CEOs were forced to fly with their private jets to beg the despised state for money temporarily weakening their preferred anti-state ideology.

Thanks to corporate capitalism's casino-like gambling, in 2008, one of their very own Ponzi-like scheme had collapsed. As a consequence, house prices were dropping. The value of some houses fell below what people had paid. It wiped out about 45% of the home equity of middle-class wealth – the value of a house or an apartment. Many Americans found themselves in debt or without a home – thanks to the financial jingoism of a few corporations and their corporate apparatchiks.

Some suggest this was a Black Swan Event – which is an event that is very unlikely to be seen. Just as unlikely as it is to see a black swan. It assumes that conditions have not changed and that certain events are anomalies, just like the black swan. Rather mistakenly, people tend to apply this not only to the financial crisis, but also to global warming and the Coronavirus pandemic.

Worse, investors tend to follow the market like a herd. Such a herd mentality was once described by German philosopher Nietzsche. The failed wisdom of the crowd only got worse when ultra-fast computers began to be used in finance. They turbo-charged high frequency trading (HFT). Combine HFT with mathematical algorithms and it becomes even more powerful. Today, about 80% of all HFT is run that way. With such automated disaster is literally programmed. This occurs, for example, when very suddenly plenty of shares are sold by machines that detect a certain number, for example, a share price reaching a specific level.

This is in fact bad news for those who believed in the ideology of the mum and dad investors. They can no longer compete with the big boys with their algorithmically super-charged big toys. Conveniently, the ideology of corporate capitalism offers you to take part in share trading in the knowledge that middle-class investors have next to no chance of winning the gamble.

Many have argued that the reason why there is a middle-class has something to do with Henry Ford who paid workers well above the national average – the five-dollar day. To the annoyance of liberal capitalism, Ford's long-term plan was to turn workers into mass customers – first, consuming his cars and eventually consuming all things mass manufactured.

Economic and wages' growth during the 1950s and 1960s supported this shift inside capitalism. It created an American middle-class as the trade union strike of 1936/37 increased workers' wages. At the same time, it maintained capitalism's overall balance by splitting productivity gains between capital and labor a bit more fairly.

All of this worked reasonably well until the advent of neoliberalism brought about by Reagan and Thatcher. Under neoliberalism, corporate capitalism separated productivity growth from wage gains. Today, the monetary benefits of productivity increases are going to corporate owners and shareholders and top executives.

In this zero-sum game, almost nothing goes to employees as corporate capitalism makes the rich richer and the poor poorer. Corporate capitalism in conjunction with its ideological twin evil of neoliberalism has assured that Ford's original idea of turning workers into middle-class customers has been destroyed on the altar of shareholder value maximization.

Much of this has a long history. It started when the free trade ideology won over protectionism in 1846, which was, in part, inspired by the Irish potato famine (1845–49). With that, England became the global champion of the free trade ideology – until Brexit separated the UK from Europe's largest trading bloc – the EU – at 11pm on 31st January 2020. Brexit might have marked a shift on a century old ideology. Long before Brexit, the neoliberal, free-market and pro-EU *The Economist* magazine was founded in 1843 to promote the ideology of free trade.

Supporting the ideological belief of free trade, corporate globalization did indeed create employment in a few low-wage countries. Wages in China are already pushing upward.

Since the 1950s and 1960s, almost all TVs, bicycles, motorbikes, wrist-watches, sewing-machines, much of the machine tool and a substantial level of the car industry have moved out of several OECD countries, foremost the USA.

Virtually the same goes for computer hardware, microchip production and consumer electronics. Much of the latter is made in South Korea, Taiwan, Thailand, China and Malaysia and imported into the USA by one single corporation – Walmart.

One is tempted to call this development the Walmartifiction of the USA. Walmart remains a key corporation that buys Chinese products importing them to the USA. It also runs poverty wages while making billions for the owners of Walmart. Here is how Walmartification works. It has six simple but effective components:

cheap land: Walmart builds its large stores on cheap – and often subsidized – land usually located outside a city or town center;

local shops: Walmart drives hundreds of thousands of small business owners out of business while extracting money out of local communities – the overwhelming monopoly power of Walmart that destroys locally owned stores is called the free market;

low wages: Walmart pays a near and oftentimes below minimum wage to its workers creating an underclass. Walmart's size allows it to do this almost single-handedly. Walmart is almost pathologically anti-union;

cheap imports: Walmart imports a massive amount of goods from low-wage countries (e.g. China) contributing significantly to the trade imbalance between China and the USA;

customer: Walmart attracts a certain group of customers who tend to shop away from downtown stores as Walmart offers low prices.

profits: Walmart owners – the Walton family – accumulate stratospheric wealth: $246bn or $247,000,000,000. By comparison, the average house price in the USA was roughly $350.000 (Q1/2021). In other words, the Waltons can buy more than 700,000 houses while many Americans are struggling to buy even one house.

The overall benefits of such a predatory corporate behavior are increasingly captured by an ever smaller business elite. Meanwhile, those who contribute to the economic success of companies and corporations and ultimately corporate capitalism (workers) are getting virtually zero. They get next to nothing.

The profits these corporations make neither goes into investments nor into paying decent wages to workers (e.g. Amazon). Instead of going to workers, profits go into consumption (more super yachts, private jets, etc.) and speculation – which is a decorative term for gambling on the casino table of corporate capitalism.

Worse than that are corporate raiders like Texan oilman, T. Boone Pickens who bought companies, flocked off so-called non-productive assets like office buildings and land. Next, he slashed health coverage, reduced retirement benefits and shrank R&D. This increased the value of a company or a corporation, which is sold quickly. Yet the question is: did Boone (as he was called) do anything to deserve his wealth? Did he increase the real value of the companies whose shares he bought? No, he did nothing like that. Boone did nothing to make a company more profitable – rather the opposite.

Yet what Boone did was inspiring a new class of corporate raiders (KKR, Carl Icahn, Nelson Pelz, Bill Ackman, Daniel Loeb, Phillip Goldstein, Ivan Boesky, etc.). They converted a substantial part of the US economy from an efficient machine for production and job creation into objects for casino capitalism. It resulted in even larger profits for those at the top. But, was highly detrimental for workers, consumers, the environment and entire communities as the middle class began to shrink. They did the exact opposite to what Henry Ford and the car workers' union had achieved: creating a viable middle-class.

Quite rare in today's corporate capitalism but once IBM's management principles (1968) were: respect for employees; commitment to customer service; and finally, achieving excellence in business. This is utterly atypical for today's CEOs and adjacent business school gurus. These are called "gurus" because they cannot even spell the word "charlatan", as Drucker once noted. In IBM's management principles – shareholders were not even mentioned. Today, shareholder value (profits) is the all-domineering management ideology.

This all-guiding principle of corporate capitalism was expressed to perfection by none other than one of the Godfathers' of neoliberalism – Milton Friedman – who once said, "there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits." To camouflage the truth about corporate capitalism, companies and corporations, business schools have invented fitting ideologies like business ethics, corporate social responsibility, corporate citizenship, etc.

Worse was to come. Between 2003 and 2012, the CEO Pay Machine assured that the average CEO payout was $168 million. The level down – the level of the top corporate apparatchiks – got $77 million each. 58% of CEO pay was based on stock performance based on stock prices. That is not all. From neoliberal politicians came more good news for the top-dollar getting CEOs, the super rich, and corporations.

The Republican Tax Cuts Act of 2017 reduced the corporate tax rate to 21% from the previously 35% – a $1.5 trillion gift to corporations. Best of all, about 60% of the tax cut went to shareholders (a small group). The substantially larger group of workers got just 15%. This is how the rich are made richer and the rest is made poorer.

In other words, those who own shares gain and those who live on wages do not. This is the real beauty of corporate capitalism. The richest 10% of Americans own 80% of all traded shares and get richer. The bottom 80% of earners own just 8% of shares – they get next to nothing. This is also good news for those with the money (the rich and corporations) that buy back shares.

The economist William Lazonick noted in 2018 that, in recent years, such buybacks have been a prime mode of both concentrating income among the richest households and eroding middle-class employment opportunities. In addition to tax cuts for rich, buybacks have made the rich even more rich.

More than the buyback-get-rich-quick scam of corporations and the super rich is the impact of tax cuts on a society. Combine this with the success of the neoliberal ideology of deregulation (read: pro-business regulation), privatization, rampant anti-unionism, punishing labor laws and reduces the state, and a clear picture starts to emerge on corporate capitalism.

The prevailing hegemony of neoliberalism's anti-state obsession postulates that private enterprise and corporate capitalism are good and government is bad. Some neoliberalists like the UK's let-the-bodies-pile-up-high BoJo and USA's Republican Party sees tax cuts as an instrument to shrink government revenues.

This is ideologically wanted because neoliberalism believes that reducing taxes is one of the best ways to *starve the beast*. The inefficiency of the state and the superiority of the free market and corporate capitalism has been shown in the final story told by the economist Robert U. Ayres in his eye-opening book On Capitalism and Inequality:

The Panama Canal is one of the great engineering feats of all time. A private enterprise was set to build the canal run by Ferdinand de Lesseps. It failed utterly in 1887. It destroyed the savings of many middle-class French investors and cost 6,000 lives of workers who were building the canal.

Thirteen years later and thanks to President Theodore (Teddy) Roosevelt, the Panama Canal project was taken over by the US government. The canal was built by the US Army Engineers – a government organization. It was completed below cost and in less time than expected. Best of all, the canal was finished with far fewer deaths. So much for the government-is-bad-vs.-private-is-good ideology of neoliberalism.

What we see from all this is that, corporate capitalism does work. It works very well for a very small group of rich shareholders and corporations. It does not work well for the rest of us. The neoliberal mantra of private enterprise and less state is even more dangerous. Applied to the Coronavirus pandemic, the neoliberal anti-state ideology would have killed us all – one by one.

To win against the Covid-19 virus, the world needs a well-functioning public health system, it needs a dedicated government with a strong state apparatus behind it, it needs the WHO, and it needs an equal distribution of Covid-19 vaccines to all of us. Globally, we are not safe until all of us are safe.

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