Why We Need to Rethink the Idea of Corporations

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Ask anybody what a market is and they will describe a creature that is self-moving, mythic and almost machine like as its engine drives the economy to a state of equilibrium.

Often this machine-like description fosters the erroneous idea that the market is something that can be calibrated or re-calibrated with the turn of a switch.

Adam Smith referred to the *'invisible hand'* where individual agency within the market wonderfully produces a set of relations, exchanges and capacity for prosperity. Smith's *'invisible hand'* is at times interpreted as being confined to the actions of individual entrepreneurs and corporations, thus reducing the importance of economic agency that comes from the state, labor and consumers.

Neo-liberal thinkers imagined the market to be a democratic arena in which individuals acted in ways that were part of the immutable laws of nature. A market is a system aided only by prices to efficiently co-ordinate demand and supply.

But to talk of the market as a singular phenomenon is to obscure market activity that is diverse and also divided in its nature. Part of the market is the real economy related to production and building things, another is the activity of financial services and unearned income. Parts of the market are also non-monetized like voluntary labor, child rearing and so on.

Current notions of the market and economy tend to put an inconvenient cover on the market's workings, especially the role of corporations in the dynamics of the market. In a special supplement on state-corporate relations in February 2014, The Economist's observation was apt: *"Many people now suspect that the key to success in business is not necessarily to be the most competitive, but the best connected."*

David Runciman, while recently reviewing the book Behind the Mask by Tom Bower on celebrity entrepreneur Richard Branson in the London Review of Books noted that Branson prefers to avoid competition despite claims to the contrary: *"His business strategy is to get as close as possible to people with power and then exploit the connection for all it's worth".*

It would be naïve free marketism to conceive of corporations as if they were individuals, part of the citizenry and apolitical. Corporations are an agglomeration of individuals pursuing a stake or share in the economy. They seek closer relations with the state than they do with citizens.

Power in the market has also shifted. The growth in financial services, as a result of deregulation, and those who control capital marks the biggest single shift in market economies in the last thirty years. As we all know today, the 2008 financial crisis caused global systemic risk and imbalance to the detriment of the global economy.

And state-corporate relations are growing tense following the financial crisis, as governments are burdened with low tax revenues and high debt. Many of these tensions revolve around tax evasion by corporations seeking to locate in tax havens, engage in transfer pricing schemes and not doing enough to create jobs in their national economies. The leakage of tax revenue as a result of transfer pricing in developing countries is estimated to be around $365 billion per year.

The effects of the financialisation of the economy on non-financial corporations (NFCs) have also been extensively researched. An empirical study involving US firms over the 30-year period 1973-2003 found two important phenomena: 1) the managerial behaviour of NFCs changed under pressure to service financial markets through increased transfers of earnings from dividends, stock buy-backs and interest payments and 2) these obligations in turn have also 'financialised' the way earnings are generated with NFCs themselves moving into financial markets with investments in financial assets as well as offering loans and other means to improve their earnings.

The consequence has been diversion of investment away from the real economy and a far bigger focus on short-term results with a preference for rent seeking.

Weakening one countervailing force only strengthens another, which endangers balance within the system. The weakening of labour unions shifts more power and income share in favour of management and shareholders.

In this regard, the effect on U.S. workers has been so corrosive that former U.S. President Barack Obama has had to put the issue of the minimum wage back into economic policy debates. In the UK and other countries, the issue of high CEO and management salaries has come under scrutiny.

A new lens is required to unpack what corporations are, how their influence works, their tax structures and what their impact is on markets and the politics between states and citizens. We have moved far from the mundane idea that corporate success is the result of a single ingenious entrepreneur, hard work, innovation and tenacity. This is pure fiction.

The best way to talk of a market is not as a set of individuals acting freely, but a system of power relations between the state, corporations, labour and consumers that defines the degree of freedom and movement within that system.

The closed corporation is private collective power coming to bear on the market. Early economic theory did not envisage such a growth of the closed corporation as we see today. There are about 50,000 multinational or global corporations that are bound neither by national jurisdiction nor the obligation to be patriotic to any national ethos or political system. Only those who have substantial shareholding by the state have some obligation and accountability to national interests.

The sheer size of these corporations and their clout does not limit their temptation for rent seeking. They also behave in a way that influences how governance over market rules is shaped by the state.

Corporations understand more than economic theorists that shaping market rules and flows of incentives is key to everything. Having good, incestuous and even corrupt relations with the state is good for business. Globally, as in South Africa, state-corporate relations can go through promising and rough patches at different times.

South Africa is not immune to the effects of corporate power if one examines the numerous cases of anti-competitive behaviour that the Competitions Commission Tribunal has to deal with. Large corporations often seek to influence the rules of the game in their favour.

Corporations are not sitting ducks getting the raw end of policy and legislative change. If they cannot change the rules from outside they will do it from the inside. It is not uncommon to hear of staff secondments and the funding of experts to help with research, drafting new policies or legislation. For example, the UK's Guardian newspaper reported on this issue in relation to private utility companies working with their state energy regulator to draft rules and policies that influence electricity markets and pricing.

While it is not wise to always make large corporations villains, there are sober realities of corporate power that cannot be ignored. Even mainstream economists such as Daniel Alpert in his book, Age of Oversupply, concludes that the balance has tilted far too much in favor of large corporates, pointing mainly at the financial corporations. He is calling for the era of 'managed capitalism' to return.

The key to managing excesses in the market system is to strengthen the levers of the state, acting punitively against anti-competitive behavior, strengthening consumer and labor groups, discouraging conflict of interest between state and corporations when it comes to policy and the formulation of legislation, acting globally with other governments to deal with tax evasion and strategically shaping market dynamics through the use of state enterprises when there are monopolies in essential services and goods.

For the market to be democratic it can't do so by itself. It requires active agency. Active agency can only come from diverse countervailing measures and forces that have an interest in how wealth is created and how it flows in an economy. The problem with out-dated views of market theory is that it tends to obscure real power and romanticize prescriptions that have nothing to do with reality.

About the Author:

Saliem Fakir is an independent writer from Cape Town, South Africa and was previously a columnist with erstwhile The South African Civil Society Information Service (SACSIS) - a nonprofit news agency promoting social justice. He is currently active in the sustainable energy field and works for the World Wide Fund for Nature.