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"Corporate Power: Why Does it Matter?" by Neva Goodwin

What kinds of power do corporations have? What are the effects of concentrating economic power within a relatively small number of giant corporations? How does the exercise of corporate power affect the distribution of income and other resources?

To ask such questions is already to ask for a new approach to economic theory. In neoclassical economics the analysis of corporate power is largely restricted to the issue of whether a firm can monopolistically set its prices without worrying about being undercut by other suppliers. Occasionally a beginning economics student may be heard to ask, "Is *that* what it's all about? Is `how are prices set?' really the most important question in economics?" Monopoly power over prices does have distributional impacts, but that is only a narrow part of the broad problem of economic inequality. The political economy approach is of special value in understanding the unequal division of economic power in an system dominated, in many ways, by huge corporations; and in appreciating how it is that this skewed organization of corporate power can impact large areas of human experience.

The essay begins with an overview of the treatment of the concept of power in mainstream economic theory, followed by a brief empirical demonstration of the size and market power of large corporations. Subsequent sections examine the pervasive and frequently negative effects of corporations on society; the direct impacts of corporate strategies on the distribution of wages and salaries; and the political mobilization of corporate conservatism that began in the late 1970s. A concluding section suggests places to look for theoretical and practical alternatives to corporate business as usual.

POWER AND COMPETITION

Other social sciences, such as sociology, political science, anthropology, and history, all treat power as a critical variable for understanding human societies. So do alternate schools of economic thought such as Marxian, feminist, and institutional economics. Neoclassical economics stands alone in its dismissive attitude toward the subject.

The treatment of power within the discipline of economics touches on academic and political ideologies; but it is a matter of more than academic interest. Mainstream economics, by giving such scant and narrow attention to the subject, has made it possible to use this discipline to justify a *laissez-faire* policy towards many (though not all) aspects of the corporate role in society. To be sure, the preference of political and academic conservatives for a *laissez-faire* government may be suspended when corporations want help: for example, in sheltering them against foreign competition, in underwriting the costs or the risks of natural resource exploitation, or in bailing out failing financial institutions. Such inconsistencies aside (and normally they are simply brushed aside without explanation), it is widely believed that economics has shown that *market economies will produce a good quality of life for societies which allow them to flourish without undue interference.*

This belief is based upon a standard picture of how the system works. It is assumed that the overriding goal of all firms is to maximize profits. This goal drives firms to be cost minimizers who must purchase all inputs to production (investment capital, labor, raw materials, and goods and services provided by other firms) at the lowest possible cost. The keystone of the theory is the assumption of competition among producers. They compete in a variety of ways -- for example, in the markets for labor and capital -- but most important is the idea that firms vie to attract consumers to purchase their products. It is this orientation (often referred to as "consumer sovereignty") that is expected to make corporations the servants of the general public (viewing members of the public solely in their role as consumers), and thus the prime agents by which market economies will produce a good quality of life.

Samuel Bowles and Herbert Gintis argue that the simple neoclassical picture of the world starts from a misunderstanding of the basic relationships that give rise to inequality. They point out that, even in a perfectly competitive economy, the asymmetry of the employer-employee relationship allows employers to exercise power in enforcing employment contracts. A similar asymmetry between lenders and borrowers leads to the exercise of power by financial institutions. Thus even the idealized conditions of the textbook model (which are, in any case, never realized in practice) would not eliminate the unequal distribution of political and economic power.

What use do employers and lenders make of their economic power? One of the most basic and consistent objectives of firms is to grow large and powerful enough that they can escape from perfect competition. The textbook model, in which firms relentlessly drive each other's profits down toward zero as they compete and innovate, offers a more attractive life for consumers than for producers. Every firm would rather be in a monopoly or oligopoly position, able to charge higher prices and receive higher profits -- and to enjoy relatively more relaxed working conditions, which are squeezed out by hot competition. The inequalities of power identified by Bowles and Gintis imply that some firms are more able to escape from competition than others. The fact that unequal power would exist even in a perfectly competitive economy is, in a sense, one of the reasons why a perfectly competitive economy does not exist.

What exists instead is an economy dominated by large corporations. The emergence of the modern corporation was not a simple or automatic response to an economic stimulus. Large enterprises of some sort may have been inevitable, but the corporation as we know it is only one of many ways to structure a business. A review of the rapidly growing field of corporate history is beyond the scope of this essay; one noteworthy recent contribution is Roy (1997). Like Bowles and Gintis, Roy is intrigued by the not obviously inevitable manner in which the concepts of "public" and "private" have evolved to their present shapes. He asks, "Is a canal, turnpike, or railroad built to serve the interests of the public at large, or is it built to serve the interests of the stockholders? This is the fundamental difference between public and private property." (Roy, 44.) Roy's account of the nineteenth-century origins of the corporation emphasizes the efforts of property owners to consolidate and institutionalize their power, and the historical contingency of the legislation and court decisions that have defined corporate law. As he puts it, there is no selection process that ensures that more efficient institutional forms will triumph; the winners depend on the past uses of power and the accidents of history.

THE EXTENT OF CORPORATE POWER

By any measure, the biggest corporations are enormous. Ranked according to revenues, in 1997 the world's biggest firm was General Motors. Its sales revenues of over $178 billion were larger than the gross domestic product (GDP) of Norway, Hong Kong, or Saudi Arabia. The world's five largest companies (see Table 4.1) each had sales revenues of at least $128 billion, more than the GDP of Finland or Greece. In fact, only 52 nations were as large as Sears Roebuck, the world's 50th-largest corporation.

Table IV.1. Top 20 and Selected Other Global Corporations, 1997

Rank	Name	1997 Revenues ($ millions)	Country	Industry
1.	General Motors	178,174	U.S.	Automobiles
2.	Ford	153,627	U.S.	Automobiles
3.	Mitsui	142,688	Japan	Conglomerate
4.	Mitsubishi	128,922	Japan	Conglomerate
5.	Royal Dutch Shell	128,142	Netherlands	Petroleum
6.	Itochu	126,632	Japan	Conglomerate
7.	Exxon	122,379	U.S.	Petroleum
8.	Wal-Mart	119,299	U.S.	Petroleum
9.	Marubeni	111,211	Japan	Conglomerate
10.	Sumitomo	102,395	Japan	Conglomerate
11.	Toyota	95,137	Japan	Automobiles
12.	General Motors	90,840	U.S.	Electronics
13.	Nissho Iwai	81,894	Japan	Conglomerate
14.	IBM	78,508	U.S.	Computers
15.	Nippon Telegraph & Telephone	76,984	Japan	Telephones
16.	AXA	76,874	France	Insurance
17.	Daimler-Benz	71,561	Germany	Automobiles
18.	Daewoo	71,526	S. Korea	Automobiles
19.	Nippon Life Insurance	71,388	Japan	Insurance
20.	British Petroleum	71,193	U.K.	Petroleum
50.	Sears Roebuck	41,296	U.S.	Retailing
100.	Vivendi	28,634	France	Construction
200.	Yasuda Mutual Life Insurance	18,805	Japan	Insurance
300.	Karstadt	13,720	Germany	Retailing
400.	Microsoft	11,358	U.S.	Software
500.	Sunoco	8,968	U.S.	Petroleum

Source: *Fortune*, August 3, 1998.

According to William Greider, in 1991 the 500 largest companies accounted for one third of all manufacturing exports in the world, three fourths of commodity trade, and four fifths of the trade in technology and management services. In that year the top 300 transnational corporations, excluding financial institutions, owned one-quarter of the world's productive capital. The combined assets of the world's fifty largest commercial banks and diversified financial companies amount to nearly 60 percent of the estimated $20 trillion global stock of productive capital.[1]

These statistics speak to the sheer size of leading corporations. Corporations of that size are naturally quite powerful in many arenas, as we will demonstrate in a moment. However, in neoclassical economic theory the absolute size of the firm is less important than its market share. The power to raise prices above the competitive levels and earn monopoly profits results from being large relative to the market, not from being large relative to the world. Power to set prices, in short, comes from market share.

There are industries in which a few firms dominate the market, raising the neoclassical problem of market power. Selected examples are shown in Table 4.2. Most of the examples are makers of consumer products with well-known brand names; successful promotion of brand names is a leading source of market power today.

Table IV.2. Market Shares of Top Four Firms in Selected Industries

Regular type: U.S. data, 1997
Italics: World data, 1993–94

	Top Four Firms				Share of Market	
Industry	Biggest	Second	Third	Fourth	Biggest	All Four
Beer	Anheuser-Busch	Miller	Coors	Stroh/Heilman	45.8	93.7
	Anheuser-Busch	*Heineken*	*Miller*	*Kirin*	*9.0*	*19.6*
Cars and Trucks	General Motors	Ford	Chrysler	30.6	70.4	
	General Motors	*Ford*	*Toyota*	*Volkswagen*	*15.9*	*46.0*
Cosmetics	Revlon	Cover Girl	Maybelline	L'Oreal	21.6	69.4
Drug Stores	Walgreen	CVS	Rite Aid	Eckerd	18.6	65.5
Film Distributors	Disney	Sony	Paramount	Fox	21.0	64.6
Salty Snacks	Frito-Lay	Wise	Procter & Gamble	54.0	62.0	
Soft Drinks	Coca-Cola	Pepsi-Cola	Seven-Up/Dr. Pepper	43.9	89.3	
	Coca-Cola	*Pepsi-Cola*	*46.0*	*63.0*		
Cigarettes	Philip Morris	RJR Nabisco	Brown & Williamson	Lorillard	47.8	97.1
	Philip Morris	*BAT Industries*	*Japan Tobacco*	*RJR Nabisco*	*12.2*	*29.5*

Source: Taub, Amy et al. "Oligopoly! Highly Concentrated Markets Across the U.S. Economy," *Multinational Monitor* 20, no. 4 (November 1998), pg. 9; and Sawinski, Diane M. et al. *Encyclopedia of Global Industries* (New York: Gate Research, 1996).

The companies shown in Table 4.2 are not small; in fact, 10 of the world's largest 100 companies appear there (the five auto companies, Coke, Pepsi, Sony, Philip Morris, and Procter & Gamble). But large size and large market share are not quite the same thing; the criteria for inclusion in Tables 4.1 and 4.2 are different, and the two lists of companies are not identical. Mindful of our earlier set of comparisons, between corporations and nations, we need to be alert to sources of power that may not show up directly in the standard picture of industry concentrations. Especially important is the power of conglomerates, where their overall ability to shape events may be much greater than is suggested by the market share, of any of the individual firms collected under the conglomerate umbrella. A huge conglomerate with only a tenth of the market in one of its many activities is a far stronger creature than a firm with the same share of this market and nothing else.

Numerous corporations are clearly big enough to wield substantial power, either based on their absolute size or, in many industries, based on their market share. We will turn now to the uses of that power.

SOME NEGATIVE ASPECTS OF CORPORATE POWER

Why should the uses of corporate power concern us? What can corporations do that matters to people outside of the business pages of the newspaper? Sociologists **Dan Clawson, Alan Neustadt, and Denise Scott** describe the varieties of corporate decisions that affect the lives of people inside and outside of the firm. Corporate employment decisions determine who gets jobs, and under what conditions - often under quite dictatorial conditions, as they point out. Corporate investment decisions can transform a community's future, for better or worse. The choice of technologies and processes determines the level of pollution experienced by workers and by those who live nearby. Corporate lobbying, campaign contributions, and threats to move in search of a better business climate can reshape the political process. The effects of product design, marketing, and advertising decisions are felt in all of our daily lives.

Walter Adams and James W. Brock argue that corporate bigness leads to two types of disturbingly undemocratic, unaccountable power: internal corporate planning can displace the market's role in resource allocation; and corporate wealth gives rise to disproportionate influence on government policy. They illustrate the antisocial uses of corporate power with dramatic examples from the automobile industry. The U.S. automakers have actively worked to roll back and replace urban mass transit; they have fought against efforts to reduce automobile emissions; they have resisted safety regulations; and they have refused to produce fuel-efficient cars. To take one particular example, Adams and Brock note that General Motors

> understood at an early date that if urban railways could be eliminated as a viable competitive option, the sale of its buses could be vastly expanded. And if transit systems using buses could subsequently be made to decline or fail, a huge market would open up for additional sales of private automobiles. (Adams and Brock, p. 223)

The destruction of public transportation, it is now recognized, strikes a blow against the viability of communities. To cite another example of the tension between big corporations and the communities in which they estabish a foothold, when a giant Wal-Mart store comes to town, as many as a hundred local stores may go out of business. Three jobs in local retailing are lost for every two created at Wal-Mart; yet Wal-Mart wages are rock- bottom, and benefits are meager or non-existent. Some towns are clobbered again when Wal-Mart later decides to open a new, even bigger supercenter replacing several of the earlier, (comparatively) smaller Wal-Marts. Having already lost most of their local businesses, the townspeople have no choice but to drive long distances to the new, regional Wal-Mart. (Korten 1999, pp. 164-65, drawing on *How Wal-Mart is Destroying America*; Quinn, 1998).

THE CORPORATION AND THE WORKER

One of the major themes of this book (and its predecessor, *The Changing Nature of Work*) is that there was a change in corporate strategy in the 1970s, which has led to a more unequal distribution of wages and salaries. **Bennett Harrison** is one of the economists who analyzed, and vigorously publicized, the change in corporate employment practices. In the chapter summarized here, Harrison explains that big business responded to the increasingly competitive environment of the 1970s by becoming "flexible" - or in Harrison's words, "lean and mean." Full-time jobs with good wages and benefits are offered only to a diminished number of the most crucial employees, while outsourcing to low-wage subcontractors, contingent work, and other cost-cutting measures are the fate of everyone else. Like David Gordon (summarized in Part 1), Harrison sees corporations having a choice between the cost-cutting "low road" and the revenue-enhancing "high road" to renewed competitiveness. For the most part, the inegalitarian "low road" has been taken.This choice is not only part of the political economy of the late twentieth century; it is a recurring dilemma for business, and will surface again in other contexts.

In general, large employers are often in a position to make a choice between a cost-minimizing vs. a revenue-maximizing strategy. Employers adopting the cost-minimizing approach choose to hire labor cheaply, reducing the wage to the minimum level at which vacancies can be filled. The firm is always on the lookout for possibilities for contracting out, replacing a part of its own workforce with lower-paid workers in other firms or other regions who can perform a portion of the work process. Workers are provided with the minimum training needed to complete their tasks. There are few opportunities for promotion; higher-level positions are filled by experienced applicants from outside the firm -- applicants who gained their experience at no expense to their new employer. Since workers earning low wages and with few chances to advance have little motivation to work hard or well, the cost-minimizing employer must rely on close supervision (the "stick"), rather than intrinsic motivation, to maintain a basic level of product quality. This level will be low; since it is easier to monitor quantity than quality in most lines of work, the cost-minimizing firm's focus will be on high levels of output.

The revenue-maximizing approach is the opposite on almost every count. Employers adopting this "carrot" strategy are willing to pay for a greater degree of worker quality and commitment, hoping that this will pay off in other ways. The firm will be on the lookout for workers who will make a long-term commitment, who come with a relatively high level of competence, and who are willing to acquire new skills along the way. To get them, the firm will offer a similar commitment of its own, along with higher than average salaries, and it will stress opportunities for on the job training and promotion. The revenue-maximizing employer's more highly motivated workforce can be given more autonomy, and does not require constant supervision. Conflict is more destructive in a long-term relationship of this sort, so the firm will establish institutions to resolve differences cooperatively. All of these commitments are expensive. In return, the employer expects a high level of performance from the organization, including rigorous quality control, dependability, trust, and creativity that manifests itself in a high rate of innovation. These expenses can be justified when customers are willing to pay more for goods that will meet more exacting specifications and whose supply can be depended on.

To be sure, a firm's decision on whether to take the "low" or the "high" road partly depends on the nature of the product market it faces. Such decisions are also affected by the history of industrial relations within each corporation and each workplace: change in employment relations generally takes time and effort, whether it appears to be change for the better or for the worse. Nevertheless, the case is made by both Harrison and Gordon that this choice was available to many large corporations which, in the 1970s and '80s, especially, opted for the low road. The management theories that became popular during the 1980s and into the 1990s, in the climate of globally heightened competitiveness, gave an emphasis to minimizing the cost of paying workers -- an emphasis that had not previously been thought necessary in large corporations which possess the ability to compete on other grounds than price alone.

It is evident that society is powerfully affected by the aggregate choices of many large employers, choosing between strategies that emphasize an educated, self-motivated workforce, vs. one that offers mostly low-wage, dead-end jobs. The low-wage option is not as cheap as it appears at first glance, as explained by David Gordon (1996)[2.] Gordon described the "bureaucratic burden" carried by the U.S., the nation that employs the world's largest proportion of supervisors/managers to regular workers. According to his 1996 calculations, 15-20% of the total private, nonfarm workforce are appropriately categorized as supervisors or managers, with their compensation accounting for nearly a one-fifth of GDP. This amount -- $1.3 trillion -- was about the size of the total revenue of the federal government in that year. Thus a significant portion of the money that was saved by cutting the compensation and the numbers of production workers was laid out again to hire an army of managers and supervisors for a disaffected workforce.

What changed in the late 1960s and early 1970s, to cause the shift in corporate strategies that is associated with The Great U-Turn? Was this change in corporate behavior in fact responsible for ending the period of remarkable economic stability (even growth and declining inequality) of the quarter-century after World War II? **David Gordon, Thomas Weisskopf, and Samuel Bowles** offer a creative neo-Marxian explanation, focusing attention (as Marx and other classical economists did) on the division of national income between capital and labor. Gordon et al. draw a complex picture of the inherent contradictions that gradually emerged in the Golden Age of stability, leading to the breakdown of its implicit contracts and supporting institutions.

Instability can result, in macroeconomic terms, from an imbalance between capital and labor in either direction. For Gordon et al., the economic problem of the late 1960s was that capitalists had lost the power to keep profits high enough to support investment. As we will see in the next section, capital responded by mounting an attack on labor which was so effective that, by the 1980s, the danger was that wages would not be high enough to support consumption.

There is an implicit suggestion in this account (and in many other macroeconomic analyses) of the need for a balance between the interests of capital and labor. Both sides need to have the division of income occur within a band where labor gets enough to support robust demand, and capital gets enough to be able to support progressive investment.Yet it is a famous problem of macroeconomics that the optimal balance is unstable; in the short run, there can be excessive swings in either direction. A traditional textbook image referred to the difficulty of maintaining a knife-edge balance in the process of growth. More recent commentary in the business press has called for maintaining the Goldilocks economy - not too hot, but also not too cold.

POLITICAL ACTION: CORPORATE POWER BITES BACK

The legal and institutional definitions of corporations give them a powerful advantage; for corporations, unlike individuals, can be immortal. At the same time, corporate representatives have agitated, over the last 100 years, to keep many of the rights and advantages (though not all of the responsibilities) that come with the legal status of personhood. This effort was given its greatest boost in 1886, when the Supreme Court ruled, in *Santa Clara County v. Southern Pacific Railway*, that a private corporation enjoys all of the Constitution's protections of a natural person. This ruling was reaffirmed in the 1976 case, *Buckley v. Valeo*, in which the Supreme Court specified protection of commercial speech under the First Amendment.

The single dissenting voice on the largely Republican Supreme Court at the time of *Buckley v. Valeo* was Justice White, who stated that

> Corporations are artificial entities created by law for the purpose of furthering certain economic goals.... It has long been recognized ... that the special status of corporations has placed them in a position to control vast amounts of economic power which may, if not regulated, dominate, not only the economy but also the very heart of our democracy, the electoral process. (Quoted in Wright, 1982, p. 641.)

The warning was a timely one, for it occurred just as a wave of corporate political activism was rising. According to **Jerome L. Himmelstein**, the political activity of big business helped to turn the tide of increasing equality that had characterized the post World War II Golden Age. An important enabler of this political activity was the Supreme Court decision which decided that, for the purposes of the first amendment, "money is speech" (see Wright, 1976). This rolled back the efforts started in the 1970s, to limit the impact of large contributors (such as corporations) on political campaigns. It has also blocked efforts to treat advertising as a form of social manipulation that requires social control.

Individual corporations can achieve some of their goals by acting alone -- for example, when they entice cities or regions into a bidding war. However, there is a line of research that focuses on the even greater impact business can have when it acts in unison. The sociologists and others who write about this topic (often referring to it as "corporate unity") sometimes take a defensive tone, insisting that empirical evidence of cooperative behavior among actors from different corporations must be taken seriously, even though it runs counter to the economic assumption of competition. The subject of corporate unity appeared in Part 2, particularly in the summaries of articles by Scott and Domhoff, and it appears again, in this Part, in the article by Clawson et all. The quotation at the head of the latter summary puts the matter very neatly: corporations will compete among themselves for market share, but they may be expected to unite to advance their common interest in enlarging the pie that they will divide among themselves. (See also Kerbo and Della Fava, 1983.)

Himmelstein, like Gordon, Weisskopf and Bowles, grounds his analysis in the economic slowdown of the 1970s, to which big business responded by mobilizing their political muscle and devoting it to conservative, anti-egalitarian causes -- including, importantly, a multi-pronged attack on the efficacy of labor unions. He has published a subsequent book about corporate philanthropy (Himmelstein, 1997) which makes even sharper distinctions between the right-leaning interests of big business and a far-right "Conservative Vision" which he perceives as lying largely outside the corporate world, and often in conflict with big business. Himmelstein characterizes the normal U.S. business philosophy as "pragmatic" -- an approach that "accepts the political world as it is and seeks broad influence within it." (*Ibid.*, p. 127) This use of corporate power -- subtler than outright lobbying, the use of corporate PACs, or the funding of conservative think-tanks -- is "rooted in structural indispensability" (*Ibid*., p. 142); that is, the raw fact that business controls a large proportion of investment capital. In Himmelstein's view corporations do not necessarily see a dramatic opposition between profits and wages; under certain economic circumstances (e.g., the Golden Age) all can rise together. However, when economic growth slows, corporations lean towards a conservative ideology that regards wage increases, government benefits, and government regulation as enemies to profits.

MAKING THE BEST OF CORPORATE POWER

Not all corporate decisions have such negative side effects as those which have been emphasized here. Firms can also use their resources (including management and technology) to do things we generally regard as good. At the least corporations supply jobs to people who need them (though the jobs-to-revenue ratio is markedly lower for large corporations, in general, than for small firms), and they produce products, at least some of which are valuable, even essential, for human well-being. They may also support constructive research and make other contributions that go beyond their own obvious self-interest. As we go on, in this final section, to consider how best to deal with the reality of corporate power, we should be aware of the possibility for it to work in positive ways. On the other hand, it is critical to strengthen legal and cultural inhibitions against the harm that corporations can do, reducing their power to pursue their own objectives without regard to their negative externalities.

Examples of corporations that have made serious and efforts to take responsibiliity for their environmental impacts include British Petroleum, which has taken the lead among energy companies in accepting the reality of global warming and pursuing less carbon-intensive sources of energy, (Steiner and Steiner, p. 128); and B&Q, the largest retailer of do-it-yourself furniture in Europe, which requires suppliers to document their timber sources, preferring those that chose sustainable harvesters. (Ayres, 11). Merck Pharmaceutical company spent well over $200 million to develop and distribute free a drug that effectively cures and may eradicate river blindness -a disease that has devastated areas of the world that were too poor to pay for the product. (Steiner and Steiner, 105).

Which do you trust more: markets or politics? Which is more likely to act in the public interest: a corporation or a government agency? There is a political divide that is related in obvious ways to the answers to these questions: markets tend to be kinder to the rich than to the poor, while governments, especially when they attempt to restrain or counterbalance the power of the private economy, are viewed less favorably by the rich. To be sure, when governments are corrupt, then everyone suffers, and the poor may suffer the most. Even when governments are honest, they are often criticized (frequently with good reason) for being inefficient. But at least an honest government is likely to have impacts that are seen as "fair," whereas that is no concern of the ideally competitive market.

As the balance in public policy has shifted toward greater and greater reliance on the market, academic theorists have produced more and more elaborate grounds for glorifying the private sector and disparaging any efforts of the government. A response to this trend can be found in a chapter in **Robert Kuttner**'s book, *Everything for Sale: the Virtues and Limits of Markets*. Kuttner's theoretic contribution is to make explicit the linkages between a conservative political agenda and a particular strand of academic ideology, "public choice theory." This theory, as Kuttner describes it, extends to political life the psychological assumptions of neoclassical theory, which simplify all human motivations to self-interest. He shows how the historical American distrust of government has been used to support those who believe that their pockets will be pilfered for any kind of aid to the less advantaged. In opposition to such views, he urges that we rethink the balance between the public and private spheres.

Bowles and Gintis similarly relate academic thinking to political positions, and call on intellectuals to reexamine the distinctions between *public* and *private* that, they say, have been defined so as to support the interests of holders of wealth (capital). As previously noted, corporate power enables a relatively small group of individuals to make a large number of decisions that affect the lives of most members of the society. Kuttner, like Bowles and Gintis, proposes that the solution is to strengthen government, giving more power to a democratic system of "one person, one vote," and less to the system of corporate dominance which comes down to "one dollar, one vote."

The final summary, which covers two chapters from **Ralph Estes**' recent book, *Tyranny of the Bottom Line: Why Corporations Make Good People Do Bad Things*, takes a different tack. Estes does not count on direct action by governments to correct the modern corporation's ability and willingness to externalize the costs of workplace injuries, deceptive advertising, unhealthy and dangerous products, toxic wastes and other environmental destruction, defense contract overcharges, and other white-collar crime. Estes, formerly a senior accountant with Arthur Anderson & Co., undertakes the task of estimating these externalized costs in the U.S., and comes up with a total (adjusted to 1994 dollars) of over two and a half trillion dollars. He points out that this is over eight times the total expenditure on education in the United States; almost twice the whole federal budget.

Estes' understanding of why corporations externalize these costs is suggested in the title of his book; he starts from a common assumption, held by both Marxian and neoclassical economists, that individual motivations are normally swamped by the exigencies of market forces. Individual decision-makers might wish to behave in a public- spirited way, but if they deviate from a strict profit-orientation, their companies will fail, or, at least, they will lose their jobs. (Note that this prediction is not always accurate; monopoly power does create slack within which companies can raise CEO salaries above any reasonable estimate of marginal productivity, or offer public services, or engage in other not directly profit-related activities.)

Estes' point does not, in any case, depend upon a deterministic vision of corporate behavior. He is interested in figuring out what actions can create an environment in which it is easier for corporate decision makers to act in society's interest, and harder for them to make anti-social moves. This would not be an easy agenda to pursue, even if there existed somewhere a precise and definitive list of which corporate behaviors are good, bad, or indifferent in their social impacts. Unfortunately, no such chart exists. The fallback for Estes, and for those with similar aims, is to promote the idea of *corporate transparency*.

The nascent movement along these lines[3] starts from the premise that there are numerous interested groups (including, but not restricted to, non-profits) who are aware of corporate influence upon their particular areas of concern. Therefore, a great force can be unleashed simply by making much more information about corporations available. An intermediating group of institutions, the "aftermarket" for corporate information, can be expected to expand, as the available information expands, to digest the data for use by NGOs, customers, workers and communities. When the latter possess more knowledge about a company's past practices, as Estes explains, they will begin, through their choices and actions, to clarify what are the critical elements in corporate responsibility.

Estes' focus on transparency is complementary to, not at odds with, the more traditional emphasis on government regulation of corporations, as represented by Kuttner and Bowles and Gintis. Indeed, he recognizes the need for government action to create a level playing field, by requiring all companies to meet basic standards in what and how they report regarding their impacts on the full range of stakeholders. Such a recognition of the requirement for government involvement to make markets work is a step in the direction of institutional economics, or its older form, political economy.

However, the mechanism which Estes expects will spur corporations to internalize externalities is a complex chain, in which governments mandate transparency; corporations respond by reporting on their own impacts; the "aftermarket" of non-profit and for-profit institutions analyze and report on the accuracy and completeness of the corporations' reports; and a broad group of stakeholders reacts in ways that affect the corporation's ability to function and to thrive. The forms of these reactions can include, for example, stockholder resolutions, worker actions, community decisions (on what kinds of supports or inducements to offer to a corporation), consumer preferences (e.g., for products with an eco-label) and consumer boycotts. (The last of these, normally requiring organization of an especially diffuse group, can be effective for only a few, very high-profile situations.)

Such a chain of actions and reactions could radically change the motivations that make corporations, and the world, look as they do today. At best, it could link corporate behavior more closely to broad social goals, for the long run as well as for the present. This would be a dramatic change from a system ruled by an economic theory which says that profits and individual self-interest are the only things that can get maximized in a market. Among other import effects, all corporate stakeholders would be required to make conscious decisions about the values they would like to see reflected in the socio-economic system. If such a process does gather momentum and begins to reshape corporations, it will be interesting to see where equality will rank among the values that will take on more salience for corporate behavior.

Notes

1. Greider, 1997, p. 21; The Economist, March 27, 1993 supplement, p. 6; Korten, 1995, p. 221.
2. A chapter from Gordon (1996) was summarized in Part 1; the discussion here draws on other chapters of the same book.
3. For information about this movement contact CERES (the Coalition for Environmentally Responsible Economies), 11 Arlington St., 6th Floor, Boston, MA 02116-3411; www.ceres.org.