CHAPTER 23

CORPORATE POWER IN THE TWENTY-FIRST CENTURY

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Abstract

Corporations in the twentieth century were generally premised on economies of scale. Control of assets and employment was centripetal, becoming more concentrated over time, while ownership was centrifugal, becoming more dispersed. Corporate power was vested in the executives and boards at the tops of corporate hierarchies, whose control of economic resources could often translate into political influence. Since the 1980s, these two trends have reversed: control of assets is more dispersed, while ownership is more concentrated in the hands of a few financial institutions. The ability to rent rather than buy productive capacity means that pop-up businesses are replacing large incumbents in many industries. This chapter describes some of the consequences of these recent developments for power and trust around the corporation.

In an era of eight-figure CEO salaries and a democracy increasingly controlled by corporate money, few seriously question that corporations dominate American society. Who can doubt the majestic power of Goldman Sachs, Walmart, and Google? Who can observe bailouts of businesses deemed too big to fail, tax policies tilted toward the wealthy, and the revolving door between government and Wall Street and not conclude that business is firmly in control?

In this chapter I survey ideas of corporate power as they have played out in the United States over the past 100 years. I describe the rise of the public corporation as the dominant institution in the economy in the first decades of the twentieth century. Corporations were seen as unavoidable due to economies of scale—they were a necessary evil that required a vigilant centralized state to rein them in and orient them toward social benefit, and to limit the influence of financiers over their operations. By the 1930s, American corporations had taken on their familiar shape: vertically integrated, run by growth-oriented professional managers, and insulated from the demands of their dispersed owners. Their executives were regarded as powerful but generally benign, with a penchant for good works; their shareholders were regarded as irrelevant. This model was a fairly accurate description until the 1980s.

The bust-up takeovers of the 1980s, the new ideology of shareholder value and the compensation practices it brought, and the outsourcing movement of the 1990s created pressures favoring the lean-and-mean corporation. The new model looked like Nike: small in assets and employment, but big in revenues and market capitalization, relying on external contractors for formerly essential tasks. By the 2000s, Nikefication had diffused across many industries, from mobile phones and PCs to pet food to pharmaceuticals, leading the corporation to resemble the nexus-of-contracts described by financial economists. It also provided a model for the Federal government itself to become, in effect, a nexus of contractors.

One surprising result is that, since the turn of the twenty-first century, corporations are increasingly irrelevant. The number of public corporations in the US has declined by more than half since 1997 and dropped every year but one since then, as stalwarts like Westinghouse and Eastman Kodak disappear and are briefly replaced by pop-up enterprises that can rent broadly available modular resources. As a result, corporate power is a conundrum. Where control of corporate resources was widely regarded as a key source of power during the twentieth century, corporate power today is an increasingly puzzling construct.

What is Corporate Power?

It is worth probing what we mean when we talk about "corporate power." The traditional view holds that corporate executives are powerful due to their control over corporate resources. Through decisions about where to locate plants, which charities to support, whom to employ and promote, and how to participate in politics, corporate executives wield great power. At the onset of the Great Depression, Berle and Means (1932: 46) wrote that "The economic power in the hands of the few persons who control a giant corporation is a tremendous force which can harm or benefit a multitude of individuals, affect whole districts, shift the currents of trade, bring ruin to one community and prosperity to another." They concluded that "The rise of the modern corporation has brought a concentration of economic power which can compete on equal terms with the modern state" (313).

In an economy dominated by a few dozen oligopolistic corporations, economic power translated readily into political power. *Fortune* magazine wrote in 1952 that "Any President who wants to run a prosperous country depends on the corporation at least as much as—probably more than—the corporation depends on him. His dependence is not unlike that of King John on the landed barons of Runnymede, where Magna Carta was born."

And how would this power be exercised? Harvard economist Carl Kaysen (1957: 313) wrote that the corporation owed a debt to society: "Its responsibilities to the general public are widespread: leadership in local charitable enterprises, concern with factory architecture and landscaping, provision of support for higher education, and even research in pure science, to name a few." Thankfully the new "soulful corporation" was run by benevolent executives who could safely ignore their distant investors and shepherd their oligopoly profits for public benefit. "No longer the agent of proprietorship seeking to maximize return on investment, management sees itself as responsible to stockholders, employees, customers, the general public, and, perhaps most important, the firm itself as an institution" (314).

Not everyone was convinced of the noblesse oblige of the managerial class. C. Wright Mills (1956), for one, noted that the web of connections among those at the top of hierarchies in business, government, and the military gave inordinate influence to an elite inner circle. It was not a conspiracy but simply a reality of human nature that, when powerful people congregate, decisions can be made that are outside the purview of democracy. The old joke had it that when the president of GE ordered a coffee, one of his over-eager underlings proceeded to buy Colombia. (The history of ITT in Chile suggests that this might not be entirely fanciful.) Whatever their motivations, top corporate executives constituted an unelected power elite.

Defining power for contemporary corporations is far more difficult, if not entirely intractable. For most of the twentieth century, corporate power came from large size and holding an oligopoly or monopoly position in industry. Yet corporate power today, in a globalized economy, is far more ambiguous.

Consider three corporations that many would consider to be obviously powerful: Goldman Sachs, Walmart, and Google. Goldman Sachs must be powerful because it pays huge salaries to its Ivy-educated employees, many of whom go off to influential positions in government. Goldman's power is exercised by the high fees it charges to corporate clients and high net worth individuals, and through incomprehensible trading strategies that it enables or engages in. It has direct contact with only a tiny fraction of the public, yet evidently exercises a pervasive and shadowy influence.

Walmart must be powerful because it is able to pay very low wages to its high-turnover workforce, few of whom go on to powerful positions in government. Walmart's power is realized in part by forcing major corporations like Procter & Gamble, Pepsi, Kraft, Tyson, and General Mills to charge it low prices, which enables it to sell things really inexpensively to consumers, which include a large majority of the American population.

Google is powerful because its flagship products (Google search and the Chrome browser), although given away for free, are indispensably useful and allow Google to collect extremely invasive and detailed information from the (non-paying) consumers who love it and rely on it, which include virtually everyone who uses a computer.

These three fit uneasily with the account of the power of traditional corporations. Researchers might ask what the common metric is that could apply across these three. Certainly, questions of plant location, factory architecture, or support for science are muted at best. How, exactly, are these corporations "powerful"? For the moment, we will leave "corporate power" undefined, but are likely to end up agreeing with Jim March that "On the whole, power is a disappointing concept."

Corporate Power in the Twentieth Century

Observing the world in April 1914, one might well have concluded that both political and corporate power had an inherent centripetal tendency, becoming more concentrated and centralized over time. Europe had experienced a century of relative peace following the end of the Napoleonic Wars. There was good reason to be an optimist, if not downright Hegelian. A map of Eurasia would show the young states of Italy and Germany and expansive empires that encompassed many formerly independent nations: the Austro-Hungarian Empire, the Ottoman Empire, and the Russian Empire (which included Ukraine, Finland, and the part of Poland not controlled by Germany). Most of Northern Africa was occupied by France, Italy, and Great Britain (which then included Ireland). A map of North America would show that the US had completed its expansion from Atlantic to Pacific.

The same tendency toward concentrated control held in much of the business world. In the US, mergers around the turn of the twentieth century turned scores of regional companies into a handful of national-scale behemoths. US Steel was formed as America's first billion-dollar corporation in 1901, enveloping much of the nation's steel-building capacity. Within a single generation, business empires were created that would span most of the twentieth century: General Electric, Westinghouse, AT&T, General Motors, Bethlehem Steel, Woolworth, Sears, and several regional Standard Oil progeny (Roy 1997).

The business empires turned out to have far more staying power than the political empires. Business historians, most notably Alfred Chandler (1977), explained that the massive new corporations serving continent-sized integrated markets made economic sense, particularly in North America. Technologies for producing goods (such as emerging mass production methods), delivering goods (such as continent-spanning railroads), communicating (such as the telephone), and social technologies for management (the bureaucracy) meant that bigger was cheaper. Corporations had "economies of scale."

In the US, the massive and seemingly unnatural new aggregations of economic power aroused anxiety and political backlash. The dangers of monopolistic railroads were well-understood, but what could we expect of the giant new phone company, or the giant new steel company? Would they use their resources to undermine democracy and control the government? In his "New Nationalism" speech in 1910, Theodore Roosevelt stated that

> The citizens of the United States must effectively control the mighty commercial forces which they have called into being. There can be no effective control of corporations while their political activity remains . . . It is necessary that laws should be passed to prohibit the use of corporate funds directly or indirectly for political purposes . . . Corporate expenditures for political purposes . . . have supplied one of the principal sources of corruption in our political affairs.[1]

Roosevelt did not advocate dismantling corporations or preventing their growth, however, because he recognized their economic efficiency: "Combinations in industry are the result of an imperative economic law which cannot be repealed by political legislation. The effort at prohibiting all combination has substantially failed. The way out lies, not in attempting to prevent such combinations, but in completely controlling them in the interest of the public welfare."

What about the 1 percent? "We grudge no man a fortune in civil life if it is honorably obtained and well used . . . [But] We should permit it to be gained only so long as the gaining represents benefit to the community. This, I know, implies a policy of a far more active governmental interference with social and economic conditions in this country than we have yet had, but I think we have got to face the fact that such an increase in governmental control is now necessary."

This was, in short, a manifesto for the creation of a progressive centralized government powerful enough to act as a counterweight to the new national corporations and the dynastic fortunes they were creating. To fund this state expansion, Roosevelt advocated a steeply progressive income tax—the US had no income tax at the time, and the miniscule Federal government was largely funded by customs and taxes on alcohol and tobacco—and a confiscatory inheritance tax to prevent the creation of an economic aristocracy.

The tendency toward consolidation in industry was complemented by a tendency toward consolidation in finance, according to some contemporary observers. In *Other People's Money*, Louis Brandeis described how a few bankers in New York, led by J. P. Morgan, had accumulated vast influence over the industrial economy. The bankers controlled the flow of new funds required by the new industrial behemoths and thus held the whip hand. Moreover, Brandeis reported that executives at the top three banks collectively served on dozens of corporate boards, often including competitors in the same industry (e.g. Westinghouse and GE). George F. Baker of First National (predecessor of today's Citigroup) personally served on twenty-two corporate boards, and Morgan's partners held "72 directorships in 47 of the largest corporations of the country." Through ownership, control of access to debt, and a network of board positions, members of this so-called "money trust" had "joined forces to control the business of the country, and 'divide the spoils'" (Brandeis 1914: 27).

V. I. Lenin reported much the same tendency in other advanced industrial economies: as industry becomes concentrated, a few financial institutions gain a position at

[1] <www.whitehouse.gov/blog/2011/12/06/archives-president-teddy-roosevelts-new-nationalism-speech>.

the commanding heights of the industrial economy. In pre-war Germany, for instance, "a very close personal union is established between the banks and the biggest industrial commercial enterprises . . . through the acquisition of shares, through the appointment of bank directors to the Supervisory Boards (or Boards of Directors) of industrial and commercial enterprises, and vice versa" (Lenin 1939/1916: 41–2). Of course, this could prove convenient if one had plans for centralized state control of the economy.

In the US, populists, progressives, and their allies implemented a series of reforms to limit concentrated economic power, and particularly to limit the power of finance (Roe 1994). Antitrust regulations prohibited substantial intra-industry concentration and eventually extended to include constraints on vertical integration. This approach was in contrast to Germany, in part because German industry produced with an eye toward exports (where "national champions" are useful), while American industry was largely oriented toward a domestic market (where monopoly power harms consumers).

Limitations on the power of finance were more severe. Within a year of Brandeis's reporting, bankers resigned board positions en masse, and by the end of the First World War "finance capitalism" was dead in the US (DeLong 1991). Commercial banks were limited to operating within a single state until the late 1980s and were forbidden from owning corporate shares directly. Depression-era reforms separated commercial and investment banking until 1999. For most of the twentieth century, with brief exceptions, Wall Street was approximately as sexy and powerful as the electric utility industry, a refuge for less-ambitious WASPS with Dartmouth degrees.

A singular work by a lawyer and an economist published in 1932 provided a surprisingly durable portrait of the American corporate economy of the twentieth century. *The Modern Corporation and Private Property*, by Adolph Berle and Gardiner Means, assembled data about the 200 largest American corporations and concluded that the US had entered a new phase of capitalism that was analogous to feudalism, but where the manors were corporations and the new landed aristocracy were the professional executives who ran them. Due to economies of scale, corporate control was centripetal: after the merger waves at the turn of the century and during the 1920s, a few dozen corporations controlled half the assets of industry, and if trends continued they would control it all by 1960. Yet corporate ownership was centrifugal, becoming more and more dispersed among the broad public so that by 1930 nearly half of the largest corporations did not have even a single shareholder owning as much as 5 percent. AT&T had over half-a-million shareholders, and the largest held less than 1 percent of its shares. Similar figures held for US Steel, which was the largest steel company, and the Pennsylvania Railroad, the largest transportation company.

By some accounts, this system was not even true "capitalism" any more, but something different. Many corporations no longer sought to maximize profit, given the essential powerlessness of their shareholders, but pursued ends such as growth and stability, which satisfied the desires of corporate managers and employees. Sociologist Ralf Dahrendorf wrote that "Never has the imputation of a profit motive been further from the real motives of men than it is for modern bureaucratic managers" (1959: 46).

Post-war scholars, including critics of the corporation, did not dispute this basic diagnosis but instead sought to analyze the new shape of power. C. Wright Mills described a "power elite" that mingled corporate, government, and military executives through various institutions that helped form a common view, from the country club to shared service on corporate and non-profit boards. Finance was notably irrelevant. Mills stated that "Not 'Wall Street financiers' or bankers, but large owners and executives in their self-financing corporations hold the keys of economic power" (Mills 1956: 125). Indeed, Peter Drucker wrote in 1949 that "Where only twenty years ago the bright graduate of the Harvard Business School aimed at a job with a New York Stock Exchange house, he now seeks employment with a steel, oil, or automobile company."

This basic account—that economic power came from control of corporations, which was primarily held by executives and not financiers—held with little dispute from the 1930s through the 1980s.

The Collapse of Corporate Power in the Twenty-First century

It is somewhat unnerving to read about the near-irrelevance of shareholders and Wall Street to twentieth-century American corporations because this is such a stark contrast to contemporary experience. Corporate executives and directors today vow their undying allegiance to "creating shareholder value," on display in every corporate mission statement, and a recent article in the *Wall Street Journal* stated that "one can't underestimate the threat from shareholder activists, who now patrol the market like prison guards with billy clubs" (Berman 2014). What happened?

By 1980, after several years of economic stagnation, the diversified conglomerates that were built during the 1960s and 1970s were heavily undervalued by the stock market. Meanwhile, new theories were being promulgated by financial economists asserting that the corporation was nothing more than a "nexus of contracts" that existed to create shareholder value (Jensen and Meckling 1976). In 1982, three things happened that enabled this contradiction to be resolved and that ushered in a new era of financial capitalism in the US. First, the Justice Department changed its merger guidelines to create a more forgiving environment for intra-industry mergers. Second, the Supreme Court struck down most state laws that protected domestic corporations from unwanted outside takeovers. In combination, these two factors unleashed a massive wave of bust-up takeovers that threatened any company that failed to work for shareholder value. Nearly one-third of the Fortune 500 were acquired or merged between 1980 and 1990; counterintuitively, the takeover wave and the divestitures it inspired actually reduced corporate concentration, as targets were often split up and sold to related acquirers (Davis et al. 1994). Third, major corporations began to adopt

401(k) plans and to abandon defined benefit pensions. During the subsequent two decades, the proportion of households invested in the stock market increased from 20 percent to 50 percent, creating a popular constituency for shareholder-friendly policies at the corporate level and at the national level. (During the G. W. Bush administration, this was labeled the "Ownership Society.")

In a relatively brief period, the concept of the corporation as a social institution with obligations to various "stakeholders," which held for most of the post-war era, was abandoned in favor of the theology of shareholder value (Davis 2009: ch. 3).

During the 1920s, corporate ownership had grown more and more dispersed through popular participation in the financial markets, enabled in part by the brokerage networks created to sell war bonds. During the 1980s and 1990s, however, widespread participation in the stock market led to a reconcentration of corporation ownership under the control of financial institutions. A handful of brand-name mutual funds found themselves flooded with 401(k) money and then retail investment after 1982, leading them to hold relatively concentrated positions of ownership. By 1995, Fidelity was the largest shareholder of several hundred American corporations, often holding 10–15 percent stakes in competitors in the same industry (Davis 2008). With the advent of the exchange-traded fund (ETF) in 1993, new players also grew, albeit below the radar screen of the public.

Today, BlackRock—which owns the vast iShares ETF business—manages over $4.3 trillion in assets and is the single largest shareholder of almost every major bank (JP Morgan Chase, Citigroup, Bank of America), energy company (Exxon, Chevron, Marathon, Philips), telecom (AT&T), and consumer company (Apple, GE) in the US. Its holdings far outstrip those of any previous financial institution in American history, including JP Morgan at the turn of the twentieth century (Davis 2013a). The shibboleth that the typical American corporation has dispersed ownership is now outdated. Contrary to the situation described by Berle and Means, ownership is now centripetal.

Nikefication and the Dispersal of Production

Conversely, corporate control of assets and employment is now centrifugal.

The advent of the theology of shareholder value has had a raft of (often corrosive) consequences for the economy and the culture. We now reflexively use terms like "social capital" to refer to our family, friends, and communities, and "human capital" to refer to our talents and education, not as an ironic critique of finance run amok, but as an obviously sensible way to talk about the social world.

The effect of this new theology on corporate structures and operations has been especially striking. One way to summarize it is "Nikefication." Nike pioneered a model in which the company owning the brand focuses on the high-value tasks of design and marketing, and contracts out the production and distribution of its goods. This approach to "vertical dis-integration" has been common in the garment industry for years, but spread widely across industries in the 1990s and 2000s, due in large part to pressures on firms to create shareholder value.

Those who ran firms came to believe that Wall Street rewards companies that maintain the lightest possible base of tangible assets and employment. Put simply, one can increase return on assets either by increasing returns (profits) or reducing assets, and the latter is far easier in general. This "de-verticalization" originally took the form of outsourcing peripheral functions (e.g. payroll management) but subsequently came to absorb what had traditionally been core functions.

Nike represents this model in a relatively pure form: the company focuses on design and marketing from its Oregon headquarters while contracting out manufacturing to producers in East Asia. Similarly, Apple designs products in California that are assembled in Shenzhen by Foxconn and others. In electronics, there is a large sector of firms you have never heard of that enable this model (e.g. Flextronics, Sanmina, Jabil Circuit, known broadly as "electronics manufacturing services"), serving as essentially generic manufacturers for the broad electronics sector.

One result of Nikefication in electronics is that American employment in this industry has largely collapsed, shedding 750,000 jobs (over 40 percent) since the turn of the twenty-first century. Moreover, much the same process has occurred across American industry, from mobile phones and computers to pet food (where over 100 competing brands of dog and cat chow were manufactured by Menu Foods from the same ingredients in the same facility in Ontario) to pharmaceuticals (where 40 percent of generic and over-the-counter medications in the US are manufactured in India in facilities generally beyond the purview of the FDA).[2] In many industries, it is surprisingly difficult to locate products actually produced by the company whose name is on the label. As the tragic factory collapse in Dhaka, Bangladesh, in 2013 revealed, even the central node in the nexus often has no idea where its products are created (Davis 2013c).

Vertical disintegration is not limited to business. Since Clinton signed the FAIR Act (Federal Activities Inventory Reform) in 1998 as part of his administration's "re-inventing government" initiative, vast parts of the Federal government have been outsourced, from food service in the Capitol to the protection of diplomats in Iraq to the intelligence gathering of the NSA. Indeed, one reason Edward Snowden's employment as an NSA contractor raised no red flags was that the contractor hired to do security clearances on a piece rate was negligent.[3] (As it happens, oversight and investigation of contractors is also done by contractors.) Total Federal employment

2 <www.nytimes.com/2014/02/15/world/asia/medicines-made-in-india-set-off-safety-worries.html?_r=0>.

3 <www.nytimes.com/2014/01/23/us/security-check-firm-said-to-have-defrauded-us.html>.

declined by 800,000 during the Clinton years and has risen only slightly since then, while spending on contractors doubled during the Bush years. By 2007, Lockheed Martin received more government funds annually than the Energy Department and Justice Department combined (see Davis 2009: ch. 5 on the Nikefication of government).

The Impact of Nikefication on the Corporate Form

Two results of widespread Nikefication are that (1) corporations employ many fewer people directly than they used to, with the exception of retailers; and (2) new entrants can rapidly scale up or down by using the existing base of generic producers, thus eroding the advantages of large incumbents.

First, the largest employers from the 1930s through the early 1990s were manufacturers (GM, GE, Ford), oil companies, AT&T, and Sears. They provided relatively high wages, stable employment, and expansive benefits; most had career ladders with pathways for advancement. These were the corporations contemplated by post-war scholars of the corporation. Today, 9 of the 12 largest US employers are in retail, with Walmart by far the biggest. Retailers in general have low wages, high turnover, minimal benefits, and limited opportunities for advancement (Davis 2009).

Second, contemporary enterprises can rapidly grow to be large in revenues and market capitalization with only minimal assets and employment, by "renting" capacity. Nike and Apple exemplify this possibility. (Apple has relatively few people designing products in Cupertino; the majority of its workers are low-wage employees of its retail outlets.) Newer entrants are even more radically tiny, in spite of being household names: Facebook has 6,300 employees, Twitter has 23,00, and DropBox has only 500 employees.

An underappreciated implication of this situation is that the cost of entry can be very low because the elements of a business can be rented rather than bought, and thus employment is optional. The biggest-selling brand of LCD television in the US in 2010 was Vizio, with a mere 200 employees in Irvine, California. The best-selling portable video camera was Flip, with 100 employees. Meanwhile, Sony, with 150,000 employees, persistently loses money in its electronics business, which it subsidizes with its (highly profitable) life insurance subsidiary. (Sony recently announced that it would sell its computer business and park its television business in a subsidiary.)

In other words, it is possible to become the largest player in an industry segment, at least briefly, with minimal investments in capital and personnel. Conversely, incumbent firms are often weighed down by their large investments. Ten years ago, Blockbuster operated 9,000 physical stores staffed by 80,000 employees, which required substantial capital. Netflix, on the other hand, rents the computing power for its streaming video from Amazon, and employs just 2,000 people.[4] The economies of scale that characterized the American corporate economy for most of the twentieth century have in some cases flipped into dis-economies. Small is beautiful, or at least economical.

A recent widely read article in the *New Yorker* described this new dynamic:

> Once, an entrepreneur would go to a venture capitalist for an initial five-million-dollar funding round—money that was necessary for hardware costs, software costs, marketing, distribution, customer service, sales, and so on. Now there are online alternatives. "In 2005, the whole thing exploded," [an informant] told me. "Hardware? No, now you just put it on Amazon or Rackspace. Software? It's all open-source. Distribution? It's the App Store, it's Facebook. Customer service? It's Twitter—just respond to your best customers on Twitter and Get Satisfaction. Sales and marketing? It's Google AdWords, AdSense. So the cost to build and launch a product went from five million"—his marker skidded across the whiteboard—"to one million"—more arrows—"to five hundred thousand"—he made a circle—"and it's now to fifty thousand." (Heller 2013)

The article went on to note that venture capitalists are increasingly irrelevant for such ventures. "Going public" serves no clear purpose, particularly if the enterprise has a brief expected lifespan, such as the Flip camera, which survived only four years.

Perhaps the most profound implication of Nikefication is that, in an increasing number of sectors, the public corporation is largely obsolete as an economic vehicle.

The rationale for the public corporation was that resources were needed on a large scale for an extended period, which required a special kind of entity to raise capital. Railroads needed land and tracks; integrated manufacturers needed big factories; retail chains needed warehouses and stores. Companies raised capital because they actually needed capital for at least a few years. Today, a credit card and a web connection to Alibaba.com are enough to set in motion production on a large scale by renting rather than buying capacity, for however long it is needed. (Of course some sectors, such as energy, aerospace, and transportation still generally require large fixed investment.)

The profit motive is now optional for creating highly competitive, industry-dominant products, as Linux and Wikipedia have shown. Mozilla, the open-source non-profit, has created an operating system for phones and recently announced an open design for a small smartphone that would cost only $25.[5] Just as Sony is finding it difficult to survive challenges from low-cost nimble competitors who sell televisions, cameras, computers, and phones at much lower prices than it can, it is easy to foresee situations in which Apple would be unable to continue collecting the margins that it does in the face of low-cost open-source competitors.

The machinery of Wall Street and Sand Hill Road are still in place, and there are strong embedded interests in maintaining the system of public corporations. (Investment banks, public accountancies, and business schools have strong attachments to

[4] <http://online.wsj.com/news/articles/SB10001424052702304868404579194353031011652>.
[5] <www.wired.co.uk/news/archive/2014-02/26/firefox-os-25>.

this way of organizing business. And future retirees need to put their savings somewhere.) But the numbers are stark: there are fewer than half as many listed companies today as there were in 1997, and the number declines every year, as Eastman Kodak, Dell, Circuit City, and Borders disappear from the market and are briefly replaced by Zynga and Twitter (Davis 2013a).

Moreover, firms going public in recent years routinely flout established standards of corporate governance by giving founders exceptional voting rights that effectively guarantee their ongoing control. Mark Zuckerberg, for instance, controls an absolute majority of Facebook voting shares (similar to the founders of Google, Zynga, Groupon, Zillow, and others). The most compelling rationale for Facebook's IPO was not that it needed capital—it stated explicitly in its prospectus that it had no foreseeable use for the money it was raising—but to pay off early investors and to be able to use its shares as currency for acquisitions. This may be a convincing reason for Facebook to sell shares, but it is hardly a compelling reason to buy. In short, it is difficult to foresee this system being sustained into the future (Davis 2013a).

The Collapse of the Corporate Elite

The collapse of the public corporation has been accompanied by the disappearance of the "inner circle" of elites who oversee it. From the early years of the twentieth century to the early years of the twenty-first century, corporate boards have shared directors, creating a relatively dense network of mutually acquainted individuals holding central positions at the apex of the corporate hierarchy.

In 1974 there were ninety individuals who served on five or more corporate boards, eighty-nine of them white and all of the male. Analyses show that most of them either saw each other regularly on shared boards or had "friends" in common. In 1994 there were seventy-five directors serving on five or more boards, and their number now included several well-connected women and people of color. By 2014, there was only one individual left who served on five corporate boards in the US: Shirley Ann Jackson, physicist and president of Renselear Polytechnic Institute. As boards began to shun well-connected directors beginning around 2003, the inner circle disappeared, and with it one of the most visible indications of collective corporate influence (Chu and Davis 2013).

The Post-Nike Corporation

Where are we now? Central institutions of twentieth-century economy in the US have been de-constructed back into a primordial soup of component parts. Just as the Austro-Hungarian, Ottoman, and Russian Empires were disassembled into Poland, Yugoslavia, Turkey, and others, the Westinghouses, ITTs, and Sara Lees are now transformed, retrenched, scattered, or disappeared. (Occasionally their brand names and logos live on, to be appropriated by "hermit crab" businesses who rent the use of the old firm's brand equity, such as "Memorex" or "RCA.")

It is not just specific corporations that are retrenching or disappearing, but the public corporation as a vehicle for aggregating economic power. At some point the costs of being a public corporation—detailed public disclosures and the scrutiny they bring for things like executive salaries; corporate governance regulations; demands from herds of analysts and activist investors; shareholder lawsuits premised on misguided notions of "fraud on the market"—outweigh the possible benefits. This is why companies like Dell and dozens of others have gone private, perhaps never to re-emerge as public companies. Meanwhile, one hundred S&P500 companies have bought back roughly $1 trillion of their own shares since 2008, presumably because alternative investments—say, in products or facilities—were less attractive. The *Wall Street Journal* reported that "In 1993, IBM had 2.3 billion shares outstanding. Today it has 1.1 billion, shrinking at more than 1% per quarter over the past few years. At that pace, there will be no more publicly traded IBM shares left by 2034" (Berman 2014).

We have effectively closed the book on the twentieth-century corporate economy described by Berle and Means, and now face something rather different.

There are, of course, temporary counter-examples. Who can doubt the eternal power of Apple? But open-source designs for physical products, coupled with increasingly low-cost CNC production equipment and 3D printing to enable distributed manufacturing on a local level, suggest that such dominance will not last. When the $25 open-source Mozilla smartphone becomes widely available, the $500 Apple version becomes less appealing (although Apple's inevitable "cranial implant" phone for trendier consumers might stave off the inevitable). Those old enough to remember Nokia and Blackberry can appreciate the fleeting nature of market dominance in this sector.

The present moment may simply be an interstitial period as we move toward a new system of economic power, but it is worth analyzing the dynamics of our situation. Two distinctive features of our new system are (1) the scale that can be achieved rapidly by participants and (2) the instability of positions of dominance.

In terms of *scale*, I have mentioned several examples of enterprises that were tiny on one scale (e.g. employment) but enormous on others (e.g. sales). Vizio was the best-selling brand of television in the US in 2010, with 200 employees. Flip was the best-selling portable video camera in 2009, with a 22 percent market share, and only 100 employees. DropBox has 500 million users and only 500 employees.

Market capitalization provides the most extreme examples of this disconnect. The grocery chain Kroger—America's fourth-largest employer, with 343,000 workers and $100 billion in revenues—has a market capitalization of roughly $22 billion today. Twitter, with 2,300 employees, $664 million in revenues, and $645 million in losses, has a market value of $30 billion.

General Motors, America's largest manufacturer, which employs 200,000 people and sold 9.5 million cars around the world in 2013, is worth $58 billion. Tesla, which employs 6,000 workers and sold 23,000 vehicles in 2013—far less than GM's Silverado truck sold in February 2014—is valued at $31 billion.

The meaning of size is increasingly ambiguous today, and if corporate size is a source of power, then the notion of power is problematic. How powerful is Vizio, exactly? Or Kroger? Certainly, there are executives who engage in recognizable power tactics. A class action lawsuit settled in 2014 alleged that Steve Jobs personally orchestrated a gentleman's agreement among Apple, Google, Intel, and other Silicon Valley heavyweights to limit employee poaching (i.e. what the rest of us might call "mobility"). When the new CEO of Palm, Inc. refused to comply, Jobs allegedly threatened to turn loose Apple's patent attorneys on the firm (Streitfeld 2014). But it is not obvious what measure of size converts readily into power.

In terms of *instability*, recent years have witnessed a seemingly endless series of large corporations brought low. The past six years were marked by the bankruptcies, liquidations, or effective government seizures of American's largest insurance company (AIG), mortgage company (Fannie Mae), bank (Citigroup), savings and loan (Washington Mutual), manufacturer (General Motors), and more. Other major corporations are on death watch (e.g. Sears/Kmart, Eastman Kodak), and still others are gone forever (e.g. Circuit City, Blockbuster). This is not just "creative destruction," as the destruction is not nearly matched by the creation, particularly when it comes to employment. The 1,200 companies that have gone public in the US since 2000 have created fewer than 800,000 jobs globally—about what the US lost in March 2009 alone (Davis 2013b).

A recent analysis found that the five Fortune 500 firms at which employees had the longest tenure on average (Eastman Kodak, Aleris Rolled Products, United Continental, Visteon, and GM)—termed those with the "most loyal" workforces—had all gone through bankruptcy in recent years.[6] Conversely, America's largest employer by far, Walmart, experiences an annual turnover estimated at 60 percent.

It appears that the rewards go to the pop-up companies and those with fleeting attachments. WhatsApp, a company with fifty-six employees and $20 million in revenue, recently sold itself to Facebook for $19 billion. Similar stories are endemic to the contemporary Silicon Valley mythology.

In this context, exercise of "corporate power" can be complex.

In a capitalist economy, ownership of capital is supposed to be the source of economic control; this is why the Berle and Means corporation was anomalous. But corporate ownership today is hard to square with any traditional notion of power.

BlackRock is the world's largest shareholder by far, overseeing more than $4.3 trillion in assets. (JP Morgan Chase, Bank of America, and Citibank—the three largest US banks, each of whose largest shareholder is BlackRock—have combined assets of about $4.7 trillion. Vanguard, Fidelity, and Capital Group—the three largest mutual fund families—collectively have about $5.1 trillion in assets under management.)

[6] <www.payscale.com/data-packages/employee-loyalty>.

Yet BlackRock is nearly anonymous, having grown quite rapidly, and few outside Wall Street can name its CEO.

What is even more distinctive is that for much of its assets under management, BlackRock lacks one of the most essential elements of owner power: the discretion to buy and sell shares. Much of its assets consist of "exchange traded funds" that respond to investor demand on a minute-by-minute basis. Unlike Fidelity, BlackRock did not choose to become the largest shareholder of, say, Apple. Rather, investors poured money into BlackRock-managed ETFs that include Apple. BlackRock chooses how to vote at the annual meeting, but it does not have discretion over what it buys. To the best of my knowledge, this is entirely unprecedented.

The New PowerBall Economy

In broad outlines, we can think of our current situation as a PowerBall economy. PowerBall is a large lottery in the US that often has a small number of very large prizewinners, and many millions of non-winners.

Inequality has vastly increased in the US in the past generation, as the 1 percent pull ever farther away from the 99 percent. Many explanations have been offered for this; empirically, I have found that inequality is strongly linked to the shape of the corporate economy, and specifically to the size of the largest employers relative to the size of the labor force. Countries with very high inequality, like Colombia, tend to have tiny enterprises. Countries with low inequality, like Denmark, often have very large enterprises. Within the US, the correlation over time between the size of corporate employers (relative to the size of the labor force) and inequality is remarkably large, about -0.9. The relation is arguably causal. Bigger employers lowered inequality, and the US reached its lowest level of inequality around 1970, when big companies reached their apex in employment and about 10 percent of the private labor force worked for just twenty-five companies. When corporations were split up in the 1980s and outsourcing took hold in the 1990s, inequality greatly increased. And as Nikefication has taken hold since the turn of the century, inequality has grown far worse (Davis and Cobb 2010).

Although highly paid corporate CEOs are often taken as emblems of societal inequality, the most extreme levels of inequality are generated *outside* the corporate sphere. By the late 2000s, the five highest-paid hedge fund managers collectively earned about as much as all the CEOs of the S&P 500 *combined* (Kaplan and Rauh 2007). Yet nobody in the press calculates the ratio of a hedge fund CEO's pay to the average salary of his or her five employees. And nobody compares the compensation of the temps who work at Amazon's vast network of anonymous warehouses to that of Jeff Bezos—after all, they don't work for Amazon, but for a staffing agency.

In the twentieth-century corporate economy, large, hierarchical organizations provided a straightforward pathway to economic mobility. A post-college career at Eastman Kodak was likely to be stable, remunerative, and even intellectually rewarding, ending with a company pension and health insurance in retirement. But in the twenty-first century, careers can look more like PowerBall. Lots of people write more or less equivalent apps for taking photos and sharing them on a mobile phone. For effectively random reasons, one becomes popular, and the company's founder(s) become fabulously wealthy; the other apps and their founders are quickly obsolete. Instagram had thirteen employees when Facebook bought it for $1 billion. Its founders now serve as exemplars of the riches available in the new economy if you work hard and follow your passion. The founders of the other apps move on, now counting themselves as "serial entrepreneurs." (For calibration purposes, Apple recently announced that is has over one million apps on its app store, although it did not mention how many of their creators had become billionaires.)

Corporate Power Today

"Power" in this context is perplexing. Monopoly power at the corporate level was easy to see and understand. Individual power derived from control of corporate resources makes sense. Family wealth is also straightforward. Discretionary control of cash can be very empowering. But wealth derived from seemingly random processes—PowerBall wealth—is a conundrum. Would Theodore Roosevelt have recommended a "lottery tax" to prevent these nouveaux riches from using their wealth to ill effect? And BlackRock's power as an investor comes largely from how it votes in (mostly ceremonial) annual elections; its discretion over buying and selling shares is limited.

To the extent that there is corporate power in a PowerBall economy, it is likely to be highly unstable. Consider an example.

Until now, telecoms have held a traditional form of corporate power for over a century, either as natural monopolies (for landlines) or oligopolies (for cellular service). Yet this position is challenged by applications that allow low-cost communication via the internet. Skype (Microsoft), Hangout (Google), and Facetime (Apple) offer largely interchangeable means of video calling for free. Moreover, there are countless free or cheap apps that allow text and video messaging without use of the cellular network, including WhatsApp, Facebook's recent $19 billion acquisition. With ubiquitous WiFi delivered to open-source smartphones via community-owned ISPs, we may not need the phone company (or its collaborators in the NSA).

We may not need Apple, Google, or Facebook either. Kids in dormrooms around the world are writing open-source apps that can do most of the same things, but without the ads or the Orwellian monitoring. A business or application that experiences brief success can often be easily copied; indeed, rapid copycat businesses transplanted to new markets is the entire premise behind Germany's Rocket Internet.[7]

[7] <www.nytimes.com/2014/02/28/technology/copycat-business-model-generates-genuine-global-success-for-start-up-incubator.html>.

There are, of course, exceptions. Oil companies are not going away any time soon. A few corporations may have unique value specifically as public corporations (perhaps GE, Berkshire Hathaway, IBM, Amazon, and a few others). But it's easy to imagine that in a couple of years we will look back on Facebook as AOL redux, and Google as old-school AT&T.

Conclusion and Future Research

My chapter has been US-centric, speculative, and occasionally digressive. Let me emphasize three points in conclusion.

First, the data suggest that the corporations we have today do not fit the stylized facts that guided our thinking about the corporation during the twentieth century. They are smaller in employment, less integrated, less interconnected at the top, and have more concentrated ownership than the companies described by Berle and Means and other scholars. They also don't last as long.

Second, the kind of power accorded to those who own or manage the new enterprises is likely to be fleeting at best. Even the largest non-governmental shareholder the world has ever known, BlackRock, has at best a fitful form of control with respect to the corporations it nominally owns.

Third, there are reasons to believe that the economies of scale that provided the foundation for the public corporation are eroding in many sectors, opening possibilities for non-corporate alternatives.

Researchers and theorists have much to learn about this new system. Two issues stand out as especially pressing. First, we are used to thinking of the corporation as a body (corpus) comprised of members, a collective actor with boundaries and goals and mechanisms for collective decision-making. This imagery made sense when the characteristic problem of the corporation was gathering large groups of people under common management to accomplish collective tasks—that is, when we lived in the world of the Berle and Means corporation. The other chapters in this volume reflect this corporate ontology. In aiming to theorize the business enterprise as an ethical agent, Elizabeth Anderson describes the firm as a "nexus of reciprocal relationships" with a relatively long time horizon. She argues that firms can manage the prospective trade-off between ethics and profits by defining the firm's mission in terms of mutual advantage, and projects that profits will follow. Phillip Pettit describes the growing corporatization of our world, in which "more and more people live their working lives as the employees of corporations," and those corporate bodies act with shared purpose, speaking with one voice. As such, they can be considered agents and held responsible.

Yet today, enterprises are increasingly provisional and short-lived, resembling the nexus of contracts described by financial economists. They are less like an organism or body than they are like a web page, which requires a rather different corporate ontology. (Web pages appear seamless and coherent on your browser, but behind the scenes they generally consist of a set of calls to other web pages and databases where content such as text and images are stored; these calls are typically contingent on when and where and on what device you call up the page.) It is trivially easy to incorporate; if you have a credit card, you can create a Liberian corporation (or flag a ship) right now at <www.liscr.com/liscr>. With the same credit card and a web connection, you can hire programmers, manufacturers, distributors, and a billing service without leaving your seat. Such an enterprise can accomplish collective feats, but without shared purpose, collective decision-making, or speaking with a single voice.

This webpage ontology creates conundrums about corporate responsibility. Is Apple responsible for the labor practices of Foxconn? Or for the provenance of the minerals that go into its processors? The responsibility paradox (Davis et al. 2008) is that we expect to attribute responsibility to collective actors, yet we are faced with networks of shifting boundaries that no longer resemble collective actors with mutually regarding members. If we want better labor and environmental practices, we need a better understanding of supply chains and their points of accountability. Social research needs to explore in much greater detail the nature and dynamics of contemporary supply chains.

Second, it is difficult to reconcile the picture of labile corporations with their evident political influence. There really are ideologically driven billionaires throwing tens of millions of dollars at elections and often taking elaborate steps to hide their tracks, and corporations evade all efforts at rendering their political activities transparent. Teddy Roosevelt would surely gasp in horror at the *Citizens United* decision and subsequent court cases that eliminate constraints on corporations' ability to shape the democratic process.

But I hope this chapter has made clear that the term "corporate power" conveys an impression of coherence that is not backed up by clear definitions or argumentation. "Power" is often invoked to explain things when we lack the energy to lay out the mechanisms involved. In decades past, we could imagine stating that power is proportional to corporate size. Yet "size" is no longer a coherent construct: corporations can be large in revenues and employment but small in market capitalization (e.g. Kroger), and vice versa (e.g. Facebook); indeed, correlations among these variables have declined precipitously since the advent of Nikefication. If corporations derive their power from their ability to create (or reallocate) jobs, then is Facebook weak (because almost no one actually works for Facebook), while Kroger is strong (because it is a massive employer)? Clearly, if we want to gain traction on corporate power in the twenty-first century, we need greater conceptual clarity, and relying on twentieth-century models will not serve us well.

In his commentary on this chapter, Phillip Kitcher suggested that power may depend on the circumstances of its exercise. That is, rather than corporate power corresponding to an unvarying feature of a corporation (such as its size), it might be at crucial junctures that power is revealed. Bacteria are small and short-lived, yet their influence can be benign or devastating, and perhaps this is true as well of contemporary enterprises. He also wondered whether the power of those left behind (e.g. oil companies) was enhanced by the retrenchment of other corporate sectors. Both of these ideas suggest pathways for future research on the nature of corporate power.

Finally, I would note that our conceptions of power need to adjust to new formats and platforms for collective action, as suggested by Jim Snabe. Corporate power now faces new forms of resistance, as employees, customers, and other stakeholders are increasingly able to join together to make their voices heard. When Mozilla appointed a new CEO in March 2014, employees were displeased because he had donated $1,000 to a campaign against gay marriage six years earlier, and they took to Facebook and Twitter to express themselves en masse. An online dating site suggested to customers using Mozilla's web browser to revisit the site using a different browser. Within two weeks, the new CEO had moved on. When the Susan G. Komen Foundation cut off funds for breast cancer screenings to Planned Parenthood in January 2012, hundreds of thousands of Facebook and Twitter users joined together to express their opposition, and many vowed to end their support of the Foundation. Within three days, Komen had reversed course and reinstated the funding. Similar events are becoming a regular occurrence, and suggest that the trajectory of corporate power may not as consistent as critics suggest. The need for new understandings of the dynamics of corporate power (and its constraints) has never been greater.

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