Living in our Globalized World: Notes 7

Rise of corporations and neoclassical economic ideology

- Last time, we saw the process of the initial development of capitalism
  - with a handful of extraordinarily powerful corporations
- but in today's world, there are hundreds of thousands (or more?) of corporations
  - and well over 50,000 **transnational corporations**
  - these institutions are now the major holders of wealth on Earth
  - and as such have tremendous power over government
  - and huge impact on people's daily lives
  - What are they?
- **Corporation**: an organization that is legally a person
  - "incorporate" = "to make corporeal", "to provide with a body"; same root as "corporal punishment" and "corpse"
  - The corporation has all the rights and responsibilities of a **natural person**
    - natural person: human being
  - It can make contracts, and must comply with them
  - It can earn and spend money, make profit and incur debt
  - But the individuals who operate it are not personally liable for its debts, errors, misfortunes, etc. unless they personally break laws
    - This is the reason people form corporations: so that the business bears the risk of business dealings, not the operators themselves
  - But unlike a natural person, who has many, complex social goals in life, a corporation has only the goals set for it
    - usually to make money
    - (it is possible to have a charitable nonprofit corporation, a research corporation, etc., but these are less common and less powerful)
  - also unlike a person,
    - a corporation is immortal
    - it cannot feel pain or sorrow, be shamed or rebuked, go to jail, or be executed
      - except in the sense of being dissolved if it loses all its money
  - that is, an immortal, single-minded profit-seeking entity that cannot be influenced by social sanctions except, arguably, by fines
  - There is currently a case before the US Supreme Court about whether corporations really have the same right to free speech as a person does
    - a corporation can spend huge amounts of money expressing its views
    - far more than almost any natural person can
    - and its motives are not the same as a natural person
      - no shame, family obligations, need for peace and quiet, need to provide for its own old age, etc.
      - only motive is maximizing profit

- – and that typically only in the short term, like one quarter, one year, or a few years at most
- – while sensible people have to think about consequences decades away
- – so, should the government, which created this legal fiction of a "person", grant it the right to spend money on political advertisements to promote its interests?
- – the court seems to be leaning towards upholding full legal rights or personhood for corporations

- **transnational**: spanning multiple nation-states
  - thus hard for any one nation-state to control
  - and thus not necessarily aligned with any particular nation-state's interests

- Transnational corporations have arranged for governments to create circumstances favorable to their interests
  - by lobbying politicians
  - bribery
  - advertising, pundits and spokesmen, studies, etc. that sway public opinion

- What have corporations gained from governments?
  - corporate charters are no longer for a limited time
    - corporations are immortal, need not justify continuing
  - no longer limited to certain specified activities
    - corporations can now do anything that is not illegal
  - now even the corporation itself has only limited liability for accidents
    - more protection than even natural persons have!
  - corporations have the right to free speech
    - but have far more money to "speak" with than any natural person
    - and have only one interest: speech that will increase their profit

- Robbins argues that transnational corporations are intentionally using their right to free speech to alter cultures in order to suit their ends: making profit
  - they would call this "public relations", "image management", "selling", or "spin"

- One use of the corporation's right to free speech: promotion of **neoclassical economic ideology** among the public
  - and thus among politicians who set the conditions for the existence and operation of corporations
  - this is a view of economics that leads people to see business as good, and to support the interests of corporations
  - **Neoclassical economic ideology**
    - also called **neoliberal** ideology, **libertarian** ideology, **market capitalism**, **market liberalism**
  - Before we define it, note that Robbins calls this an **ideology**, not a **theory**
    - an ideology is a belief system
    - ideologies typically rest on values and assumptions that are shaped by culture
    - not particularly on scientific testing and empirical evidence

- this ideology is the core of the culture of capitalism
  - shared in some form across all regional variants of the culture of capitalism
  - understanding it is essential to understanding almost everything about our time
- The central idea is that exchange in free markets leads to optimal distribution of resources
  - balances supply and demand at the appropriate price
    - if a product is scarce and demand is high, the price is high
    - if more can be made and sold for a profit, someone will do so
    - as supply rises, the price drops
    - until the product is being sold for the minimum possible profit
    - no one will increase production any more beyond that
    - businesses compete to provide the best product and lowest price
    - consumers benefit from every possible thing being made and sold at the lowest possible price
  - minimizes waste
    - if resources could be used another way to make more profit, people will do so
    - so resources are directed to what consumers most want
    - which they indicate precisely by how much they will pay for things
- Robbins summarizes neoclassical economic ideology in 5 points:
  - 1. Economic growth is good for everyone
    - measured by rising Gross Domestic Product (GDP)
    - this is the notion that “a rising tide raises all boats”
    - even if some people get richer than others, overall, most people are better off
  - 2. Free markets lead to the most efficient and socially beneficial use of resources
    - as I explained above; this is the key to the whole ideology
    - government regulation of free markets can only reduce their efficiency and produce less good for society
    - because governments respond to considerations other than supply and demand
    - which neoclassical economists see as irrational distortions of the balancing process of the market
  - 3. Economic globalization (free trade between countries) is good
    - it extends the benefits of the free market to everyone
  - 4. Privatization (shifting tasks and assets from governments to corporations) increases efficiency
    - because corporations follow the demands of the free market, but governments do not
    - this is behind the view that private health insurance is good,
      - providing maximum health services for the buyer’s dollar
      - because otherwise customers would switch to a better competitor
    - while government health care would be a bureaucratic mess,
      - squandering money and providing poorer and less care
      - because it would not have to be efficient to keep up with competitors
  - 5. Government’s main role is to provide a setting in which free markets can operate
    - supply infrastructure like roads
    - keep the peace

        - domestically (police)
        - and among countries (military)
    - enforce laws requiring respect for private property and honoring of contracts
- Assumptions in neoclassical ideology, noted by Robbins:
  - 1. Humans are motivated by self-interest, which is mainly in financial gain
    - technically, neoclassical theory sees people as maximizing “utility”, which includes free time, sleep, love, etc. as well as money
    - it even counts the satisfaction of donating time or money
    - but it does boil all human behavior down to self-interest
    - which some people find offensive, unrealistic, or trivial
      - trivial, in that it essentially says people do what they do because they want to do it… not very informative.
  - 2. Whatever yields the maximum profit is best for society
    - this is implicit in “economic growth is good for all”
    - but it is obviously false in many cases
      - profitable companies may pollute or cause other ills far out of proportion to their benefits
  - 3. Competition is more rational than cooperation
    - again, technically, neoclassical theory allows for cooperation when cooperation would be more profitable
    - but again, it boils human behavior down to competition for profit
    - which some find offensive, limited, or wrong
  - 4. Progress is the increasing value of what people consume
    - people who consume more are better off
      - more food, more varied food, larger houses, better cars and computers, more gadgets, etc.
    - some find this, too, to be offensive or wrong
  - 5. Ever-increasing consumption stimulates growth
    - which is good for all…
    - which makes people better off…
    - in that they are consuming more…
    - so increasing consumption should be encouraged
- Problems with neoclassical theory, from my theoretical point of view
  - with 1: “growth is good for everyone”
    - supply and demand disregards the *distribution* of benefits
      - in some cases, GDP rises and the rich get richer, but the poor actually get poorer
  - with 2: “free markets allocate resources optimally”
    - supply and demand disregards *non-monetary* costs and benefits
      - it may provide the most affordable coal possible to heat houses,
        - but it might not be “optimal” to destroy Appalachian mountains to do so
      - workers may allocate their time optimally to maximize income
        - without understanding the costs to their health and happiness
      - such costs cannot be effectively balanced by supply and demand

        - people often simply don't know about the costs
        - they are difficult or impossible to put monetary prices on
  - with 2: "free markets allocate resources optimally"
    - supply and demand disregards *long-term* costs and benefits
      - it may provide the most affordable cars and gasoline possible,
        - but it might not be "optimal" to change Earth's climate to do so
      - people may allocate their resources optimally in choosing food (or drugs) that they like within their budget
        - without accurately counting the costs to their long-term health
      - such costs are not effectively balanced by supply and demand
        - shareholders get dividends quarterly or annually, and can sell their shares for others that are paying more right now
        - people are notoriously poor at evaluating costs and benefits in the future
          - this may be a feature of human psychology
  - with 2: "free markets allocate resources optimally"
    - supply and demand disregards costs and benefits *borne by third parties*
      - a factory pollutes, but neither the company nor the customer bear the cost; the neighbors do
        - since the neighbors are not involved in the supply or demand, their costs and benefits are not included in the balance
      - economists call these third-party costs "**externalities**", which we will look at later
  - with 3: "economic globalization is good for all"
    - only if free markets do allocate resources optimally
      - I have been arguing that they don't necessarily do that
  - with 4: "privatization improves efficiency"
    - again, only if free markets are optimal
      - I have been arguing that they are not necessarily optimal
  - with 5: "government's main role is to support commerce with infrastructure and laws"
    - again, only if free markets are the best way to progress
      - I have been arguing that they do not necessarily lead to progress in social or even long-term economic terms
- but what would be better?
  - maybe government action
    - examples: Social Security, Medicare, public schools, Cal State University system…
  - or regulated (less free) markets
    - such as markets with regulations that adjust incentives to reflect social, non-monetary, or long-term costs and benefits
    - example: charging fees for pollution or carbon dioxide emissions
- A good feature of neoclassical ideology
  - It works to produce growth
    - global consumption has exploded
    - by that standard, we are all far better off

- Rise of multilateral institutions (IMF, WTO, World Bank)

- late 1800s and early 1900s: Corporations became the most wealthy and powerful institutions
  - clearly provided vast benefits to people and countries
- Many politicians accepted neoclassical ideology
- Yet, many world conditions limited corporations
  - currencies of different countries could rise or fall in value
    - adding risk to buying and selling internationally
  - countries imposed tariffs, limits, and rules on imports and exports
  - some peripheral countries flirted with policies that would restrict international trade
    - colonies wanted independence and would set tariffs, limits, etc.
    - others might become socialist, rejecting corporations altogether
- 1944, as Allies were expecting victory in WWII
- Politicians of all 44 Allied countries met at the Bretton Woods conference
- Set up neoconservative measures to facilitate international free markets after the war
  - such as…
- Set up the International Monetary Fund (IMF)
  - agreements to allow freer exchange of currencies
    - to reduce fluctuations in exchange rates
    - reducing the risk of buying and selling internationally
  - loans money to countries that have spent so much on imports that they cannot buy necessities to operate
    - preventing financial disasters, thus reducing risks to business
- Set up the General Agreement on Tariffs and Trade (GATT)
  - to minimize tariffs & laws that impede international trade
    - the theory is that free trade is always better than protecting citizens from outside competition
- 1995: GATT became the World Trade Organization (WTO)
  - countries negotiate tariffs and laws that affect trade
  - may authorize a country to apply sanctions to another
    - like high tariffs on the offending country's products
    - sanctions limit trade, but the WTO approves them temporarily to pressure the other country to change its policies
  - controversial to some, because it seems to reduce a country's independence to set its own policies
- Set up the World Bank
  - lends money for development projects like dams, roads, etc.
  - intended to spur more investment and trade
    - to benefit the recipient country and everyone else
- These institutions have created freer markets globally
- But have caused problems, too
- Especially the **international debt crisis**
  - many countries got World Bank and IMF loans
  - that they used ineffectively
  - they could not pay back

  - in exchange for reduced principle, interest, extensions, etc., the World Bank and IMF required countries to
    - further open their markets to corporations to make profits
    - often at great cost to social programs, labor conditions, the environment, etc.
- Where did the money go?
  - some was lost to corruption
  - but much was simply invested where profits were highest
    - outside the countries it was lent to
    - this is exactly what capitalists are supposed to do
    - but it did not develop the countries' ability to make their own profit and pay back the loans with interest
- Why was so much lent to these countries?
  - US went off the gold standard
    - changed from commodity money to fiat money
    - this allowed banks to lend more, creating more credit money in circulation
    - this money had to be invested somewhere
    - much of it went to developing countries
  - The World Bank had to keep lending more and more
    - since it was collecting payments on previous loans
    - and its job was to lend out more than it was collecting
    - but there were only a limited number of countries
    - so they lent more and more to countries that already owed on earlier loans
  - Oil producers were making huge profits ("petrodollars") which had to be invested somewhere
- Then a global recession hit in the 1970s
  - developing countries had trouble selling their goods
  - could not make payments on loans
    - but these countries are "too big to fail"
    - the World Bank, IMF, and private lenders are depending on the developing world paying back those loans
  - World Bank and IMF did more renegotiating
    - again, in exchange for developing countries changing policies to become "more competitive" to be able to pay off the loans
    - increase exports of raw materials
    - sell off resources
    - reduce environmental protections
    - reduce government spending on health and education
    - devalue currency to make their exports cheaper (more competitive), but making everything more expensive for citizens
  - the World Bank has forgiven parts of much of this debt
    - but the damage was done, and the same pattern continues

- **Capital controllers**: World Bank, private banks, rich individuals, people who manage corporations that have capital to invest, people who manage mutual funds, pension funds, or other investments for others
  - can move their funds to wherever profits are highest
  - even without the debt crisis, this pressures countries to maintain a "favorable investment climate"
    - all those same policies noted earlier
    - good for corporate investors
    - but hard on citizens
    - maybe citizens gain in return from increased economic activity, but it is not always obvious
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