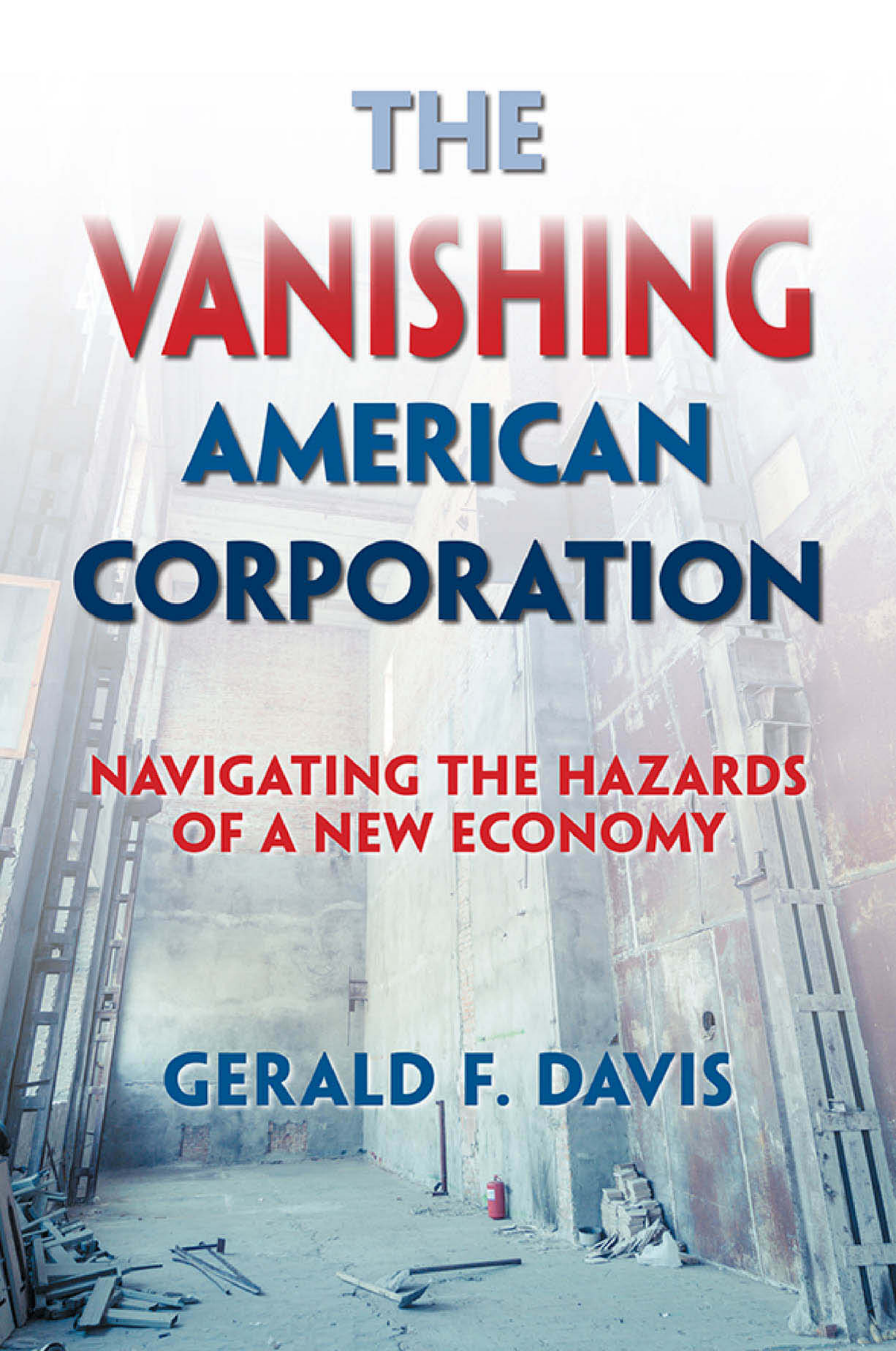
THE
VANISHING
AMERICAN
CORPORATION
NAVIGATING THE HAZARDS
OF A NEW ECONOMY
GERALD F. DAVIS

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NAVIGATING THE HAZARDS OF A NEW ECONOMY

Gerald F. Davis

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The Vanishing American Corporation

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TO BEN AND GRACE, *as they join the new Powerball economy*

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PREFACE

WHY WOULD ANYONE want to write a gloomy book about the economy? And who would want to read it?

As a business professor who sees a lot of examples, I can attest that the world does not need another dull and jargon-filled book about business. But my motivation for writing this book was more personal. I wanted to give some advice to kids heading off into the world, including my own. Yet I was stumped.

When I headed to college, the options were clear. If you studied something practical, like engineering or business, you could get a corporate job when you finished school. If you studied something frivolous like philosophy, as I did, you could go to law school. And if you ran out of money and dropped out, there was always the chance of getting a union job on the assembly line.

That was in the early 1980s. In the years since then, we have all learned about the death of the corporate career. The company would not take care of you; you had to navigate from job to job and company to company, sometimes shifting laterally, but over the long run moving ahead. Today, even the "job" is endangered. Kids graduating from college might find themselves juggling an unpaid internship with a part-time job as a dog sitter and an intermittent gig driving for Uber.

If you ever played the children's game Chutes and Ladders, you have a pretty good idea of the economic landscape facing millennials today. A handful land at the right place at the right time and manage to move up—maybe even selling their app to Facebook and retiring before age 30. But the vast majority face a precarious labor market where one wrong step might send them down the chute to part-time purgatory, struggling to put together enough shifts to make their student loan payments. The factories haven't been hiring for years, and law school only leads to a higher class of unemployment. Even the computer literate working for brand-name corporations find that their jobs can be done more cheaply offshore (sometimes after they train their own replacements).

At the same time, the American corporation has been undergoing dramatic and puzzling changes. The shift from *careers* to *jobs* to *tasks* corresponds to a change in the shape of the corporate economy. Corporate careers only make sense when you have corporations that last a long time. But the "gales of creative destruction" beloved by business writers seem to be a lot heavier on the destruction than on the creation. The most venerable names in the corporate economy were going bankrupt (General Motors, Chrysler, Eastman Kodak), morphing into new industries (Westinghouse, Woolworth), splitting into component parts (Alcoa, Hewlett-Packard, Time Warner), or disappearing entirely (Bethlehem Steel, Lehman Brothers, Borders, Circuit City, and many others). The number of American companies listed on the stock market dropped by more than half between 1997 and 2012. Moreover, new entrants like Zynga and Zillow and Zulily start small and never grow big. By relying on contractors rather than hiring permanent employees in bulk, the newest corporations seem destined to remain tiny.

The new businesses in the "sharing economy" have dispensed with employment almost entirely. At the end of 2014 Uber had over 160,000 "driver-partners" in the United States but only about 2,000 actual employees. Similar figures hold for Airbnb and other "sharing" firms. They are not manufacturers or service providers but *platforms*, out to disrupt traditional industries such as taxis, hotels, and even medicine. In school I was often threatened with suspension for being disruptive. Now being disruptive is an essential virtue for any new business plan.

These things are connected.

New technologies enable new ways of doing business and new forms of organization. New ways of doing business change the economic landscape and the prospects that individuals and families face. In the 20th century, the American economy was dominated by major corporations. In the 21st, that will no longer be true. The old maps no longer work for our emerging economy, and the old remedies no longer fix current problems. The steam engine allowed factories to operate anywhere that could obtain coal, and drove the first industrial revolution. It gave us the steamship, the locomotive, and more globalized markets, as well as the "dark Satanic mills," as William Blake described them, and the urban bedlam of Dickens. The mass production methods that shrank the cost of the Model T spread to all realms of industrial society over the 20th century, from how children were educated to how war was conducted. They gave us the modern corporation, the modern labor movement, and the American way of life. The Web and the smartphone allow pervasive markets and spontaneous collaborations at minimal cost. They make institutions like the modern corporation increasingly unsustainable. What comes next is up to us.

When the corporate economy arose in the early 20th century, astute observers like Theodore Roosevelt recognized that it created both opportunities for prosperity and hazards for democracy. Roosevelt and other Progressives recognized the need for well-informed public policy to harness the new corporations for public benefit.

Today we face a set of challenges similar to those at the turn of the last century: rising inequality, lower mobility, a ragged social safety net, and politics dominated by the wealthy. But this time the cause is not the *growth* of the corporate sector, but its *collapse*. If we want to build an economy that works for all and that provides opportunities to the young, we need to start with an accurate diagnosis of our current situation. *The Vanishing American Corporation* is my venture at such a diagnosis.

I want to thank several readers who gave generous comments on this manuscript as it evolved. They include J. Adam Cobb, David Drews, Wallace Katz, Maggie Levenstein,Dana Muir, and Niels Selling; three excellent Berrett-Koehler reviewers: Jeffrey Kulick, Robert Ellman, and Michael S. Brady; and particularly Steve Piersanti, who

shepherded this book with care and expertise from its very earliest stage, in spite of my serial deadline prevarications. Working with Berrett-Koehler has been a delight from start to finish. As always, I also thank my delightful spouse Christina Brown for her endless cheer and encouragement. I hope the final product justified her faith.

INTRODUCTION

TECTONIC SHIFTS AND THE NEW ECONOMIC LANDSCAPE

IN AN ERA of *Citizens United* and eight-figure paychecks for CEOs, it is easy to imagine that corporations have never been more powerful. Yet public corporations—companies that sell shares to the public, rather than being privately owned—are in retreat in the United States. The number of American companies listed on the stock market has dropped by more than half in the past 15 years, as departures outnumber initial public offerings (IPOs) almost every year. Some of this is due to economic crises and industry consolidation, but most of it is caused by the increasing obsolescence of the corporate form.

For many traditionally "corporate" activities, organizing as a corporation and listing shares on a stock market is no longer the most cost-effective way to do business. Tiny Vizio can sell televisions much more cheaply than giant Sony. The maker of Flip, with 100 employees, sold more portable video cameras than century-old Eastman Kodak, before both became obsolete. Uber has more "driver-partners" in the US than General Motors has employees. Outside of a few industries with very large capital requirements, the sustainability of the traditional corporate form is increasingly in question.

The claim that corporations are in decline is surprising, to say the least. Who can doubt the majestic power of Walmart or Goldman Sachs or Google or McDonalds? Corporations have been dominant economic institutions for over a century, providing products and services as well as jobs for workers and profits for investors. Yet in industry after industry, noncorporate forms are thriving, and corporations are struggling, as the economies of scale that sustained corporations erode. In 1950 it might have made economic sense to assemble cars in giant vertically integrated factories in Detroit and ship them from there to the rest of the world. Today, the parts of a business are like interlocking plastic bricks that can be snapped together temporarily and snapped apart when they are no longer needed. Information and communication technologies (ICTs) make starting an enterprise trivially easy, from creating a legal structure to hiring temporary employees to contracting out for production and distribution. Coordinating activities used to be the corporation's strong suit. Now the corporation is increasingly out-maneuvered by alternative forms of enterprise that are more flexible and less costly. The barriers to entry are falling across a wide swathe of industries.

In his famous 1937 article "The Nature of the Firm," Nobel Prize-winning economist Ronald Coase explained, "The main reason why it is profitable to establish a firm would seem to be that there is a cost of using the price system. The most obvious cost of 'organising' production through the price mechanism is that of discovering what the relevant prices are." But what if discovering the relevant prices becomes trivial? What if the inputs of a firm, including labor, can be priced and ordered as they are needed? What if, in place of long-term employees, firms were able to contract for workers if and when they were needed for specific tasks—the way that customers can use the Uber app to order a ride? This is the world that is emerging now. And while the result may be a delight for consumers, who benefit from low prices and new conveniences, it will become a disaster for labor.

After World War II, Americans relied on corporate employers for their incomes, retirement security, and health insurance for their families. Corporations not only created products and services, but pathways to move up in the world. Whatever their faults, corporations were a source of economic opportunity and stability for workers. Today, the compact between corporations and employees is increasingly under siege by low-cost alternatives that make the traditional corporation unsustainable.

This does not mean that business will disappear, but that its organizational shape will change. Indeed, companies continue to list shares on the market and to attract the attention of investors, albeit at a far lower rate than in prior decades. But they are very different from those that came before. Companies going public around the turn of the 20th century included General Electric, Westinghouse, US Steel, and Eastman Kodak, which grew to be pillars of the 20th-century economy. IPO companies in more recent years occasionally create shareholder value, but they rarely create jobs in large numbers. At this writing, the combined global workforces of Facebook, Yelp, Zynga, LinkedIn, Zillow, Tableau, Zulily, and Box are smaller than the number of people who lost their jobs when Circuit City was liquidated in 2009. Throw in Google and it's still less than the number who worked at Blockbuster in 2005. There is little reason to expect these new technology firms to grow into century-spanning institutions like Kodak or Westinghouse.

Corporations will survive in some sectors, just as there are still royal families in Denmark, Spain, and the United Kingdom. But they will be vestigial rather than central pillars of the economy, and they will not provide stable employment on a large scale. Exxon, one of the world's most long-lasting and financially successful corporations, had 150,000 employees in 1962 (when it was still Standard Oil of New Jersey). Fifty years later, after merging with its giant rival Mobil, it had half as many.

The decline of the corporation is most evident in the US, but the underlying factors behind it are visible around the world. Information technologies are drastically lowering the costs of using the price system. Capital equipment gets radically cheaper and more powerful every year; the Web and mobile phones greatly lower the costs of coordination and collaboration. Corporations are thus no longer the inevitable way to organize an advanced economy. The US became the most corporatized economy early in the 20th century, creating a path that many other economies ultimately followed. Today, the US is the furthest advanced in de-corporatizing. This is, perhaps, the canary in the coal mine. American multinationals have a habit of spreading best (or non-best) practices to their operations around the world, and it is possible that the decline of corporations will spread as well.

The consequences of corporate decline in the US are stark: increased inequality, decreased mobility, and a frayed social safety net. It is hard to fathom where power resides in our economy today, and harder still to know how to navigate it. The generation of those under 30 faces crushing college debt and a rocky economic landscape governed by inscrutable rules. The generation about to retire faces insecurity about financing for their health care and pensions.

The Vanishing American Corporation provides a systematic account of the disappearance of the corporation in the US and its implications. Most of us still understand our economy using an outdated map that sees corporations as the dominant feature of the economic landscape. My hope is to provide a map that renders our current situation more legible, for citizens, businesspeople, and policymakers. Unless we understand the tectonic shifts underway, we will not be able to address them and build an economy that works for all.

PART I

THE CORPORATE CENTURY IN AMERICA

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PART I

THE CORPORATE CENTURY IN AMERICA

THE 20TH CENTURY was the corporate century in America. The American economy became "corporatized" around the turn of the century, and for the next several decades corporations were the most important institutions in the economy, providing goods and services, jobs, and profits for investors. Yet corporations look very different around the world compared to the United States, reflecting the politics and history of their home countries. Much like "breakfast," in which the same word refers to very different things in different cultures, "corporation" means something quite different in the US, Germany, Korea, or China. For much of the past century, public corporations, with shares traded on stock markets, have been far more important to the American economy than to other economies, such as Germany, where smaller family-owned businesses play an important role. There are many ways to do business that do not involve corporations—"corporation" is not synonymous with "business."

The American public corporation grew up around mass production and mass distribution, enabled by a continent-sized consumer market. Economies of scale meant that bigger was more efficient. It also meant that corporations required capital on a scale too large to be funded by private partnerships or banks: They needed shareholders. Massive size was a distinguishing feature of the American corporation for most of the 20th century, and big firms were almost always listed on the stock market.

Large national corporations and their bankers created a worrisome aggregation of power in the early 20th century. The Progressive movement advocated the expansion of a federal government powerful enough to act as a counterweight to the new corporations, including regulatory agencies such as the Food and Drug Administration and new cabinet-level departments like the Department of Labor. The growth of a large national government went hand in hand with the growth of the corporation.

After the labor laws of the 1930s, the mobilization for World War II, and postwar labor agreements across major industries, the American corporation emerged with a widely shared social compact that included stable employment, career ladders, and benefits, such as health insurance and retirement security for employees and their families. This corresponded with an era of unprecedented prosperity, low inequality, and high mobility, largely underwritten by the corporate economy. For three decades after the end of the war, American corporations continued to grow bigger and more encompassing.

CHAPTER 1

CORPORATIONS IN AMERICA AND AROUND THE WORLD

We live our lives surrounded by corporations and their products. At home, at work, in public places, we see their brands (Coca-Cola), eat their food (McDonalds), use their products (Apple), track their share prices, and use their names as verbs (Google, Xerox). It seems that corporations rule the world.

This book makes a surprising claim: Corporations are in decline, and are reaching the end of their reign in the United States. This is surprising for many reasons. Public corporations (those that sell shares on the stock market) have been the most important institutions in the American economy for more than a century.[1] Corporations are the biggest employers and produce the biggest part of our economic output. Most American households own shares in American corporations, and many depend on these investments to fund their retirement and their children's college expenses.[2] Corporations are also deeply involved in the American political system, using their economic power to promote policies that favor their interests. Love them or hate them, public corporations seem indispensable.

We tend to think of corporations as a permanent part of the landscape, like a mountain range that has always been there. But corporations are more like the palace at Versailles where King Louis held court. The monarchy in France seemed eternal, endowed by God with the authority to rule. Yet over the course of a few months during the French Revolution, the monarchy and its associated institutions fell. Things that had been taken for granted for generations—even the names of the months and the units of measure—were up for grabs.

I argue in this book that we are in a situation like that now. Corporations in many domains have outlived their usefulness, and their decline will bring about major shifts in American life, from how we earn a living to how we get health care to whether we can afford to retire.

This chapter provides the background for the rest of the book by explaining what a corporation is, why it looks different in different countries, and why they are changing. Although many people think of "corporate" as a synonym for "business," the corporation is a very specific way of doing business, and the public corporation is a special type of corporation. We want to be clear on our terms before we dive in too far.

What is a corporation?

THE WORD "CORPORATION" calls to mind images of hierarchy, money, and power. If asked to draw a corporation, many people would sketch an organization chart shaped like a steeply pitched pyramid. At the apex would be a middle-aged white guy with a thick head of hair, clad in an expensive suit, looking something like Alec Baldwin without the smirk.

For Americans, General Motors in its heyday might serve as an appropriate stand-in for the corporation. At its peak GM had nearly a million employees, from the vast unionized workforce operating its countless factories to an enormous white-collar office staff occupying its headquarters tower in Detroit. GM was the world's largest manufacturer, with outposts around the world making cars around the clock. When the first Fortune 500 list was published in 1955, GM was at the top. In *Modern Times*, Charlie Chaplin provided an indelible image of the industrial worker at a company like GM, trapped in the gears of the corporation both physically and metaphorically.

Most of us think of the corporation as a specific kind of organization. When presidential candidate Mitt Romney told a heckler that "corporations are people, my friend," he expressed the sense that corporations are simply a group of people—sometimes very large—trying to do business together.[3]

If you ask a lawyer, however, you will learn that a corporation is simply a legal device with a few features that are useful for contracts and financing. Corporations generally have limited liability, legal "personality," and unlimited lifespan. *Limited liability* means that when people do business with a corporation, such as lending it money, they understand that it is the corporation as an entity that owes them money, not the corporation's owners or managers. If the company goes bust, lenders can't show up at the shareholders' houses and start carting away their furniture. However, limited liability does *not* mean that corporations or their owners and employees are not legally liable for their actions. An executive who commits a crime in the name of the corporation is still a criminal.

Legal personality means that the corporation can "sign" contracts and own things, just like a person. The corporation is not just a group of people, but has its own peculiar existence separate from them. Legal personality does *not* mean that corporations have rights identical to actual human beings.

Unlimited lifespan means that corporations can be maintained by different people and can last indefinitely. All of a corporation's employees and shareholders can change, but it is still the same corporation.

Corporations are useful for many purposes, not just business. Nonprofit organizations and municipalities are often legally organized as corporations. One of the most famous legal cases in history, *Trustees of Dartmouth College v. Woodward*, decided by the US Supreme Court in 1819, laid out the legal status of the corporation—in this case, Dartmouth College and the sanctity of its contracts.[4] A change in personnel does not automatically mean a change in the corporation's status or contractual obligations.

Corporations differ from other kinds of organizations and legal entities in important ways. The things that distinguish corporations determine very practical matters, such as who or what pays the taxes and who/what is financially liable or is being lent to.

In spite of their special legal status, corporations are easy to create and destroy. You can create a corporation right now by visiting the Liberian Corporate Registry at the website http://liberiancorporations.com/corporate-entities/corporation/forms/. You would not be alone in "virtual Liberia": Miami-based Royal Caribbean Cruises is incorporated in Liberia, as are a number of other companies that reside physically in America, which find substantial tax advantages in maintaining Liberian citizenship.[5]

Some big businesses are not "corporations" at all. After it was sold by Daimler, automaker Chrysler—with $50 billion in revenues and 72,000 employees—was an LLC, not an Inc. An LLC is a "limited liability company," which is a sort of legal mash-up between a corporation and a partnership. The LLC has grown to be perhaps the most widely used legal form of business organization in the US (and can be owned by parent corporations, such as Amazon Services, LLC, owned by Amazon.com, Inc.). The late legal scholar Larry Ribstein labeled the LLC and other formats "uncorporations" to distinguish them from traditional corporations and partnerships. LLCs are typically cheaper to establish than a corporation (in some states as low as $50), highly flexible, and have certain tax advantages, as well as offering limited liability to their owners.

The distinction between a "corporation" and an "LLC" or other legal form may seem trivial, but there are good reasons why LLCs have become so popular and corporations are in decline. One is regulation: When Congress wants business to behave, it often does so by passing securities laws that are only relevant for corporations listed on the stock market. The Foreign Corrupt Practices Act (aimed at preventing companies from paying bribes) and the Dodd-Frank Act (which requires companies to disclose if their products contain "conflict minerals" that could fund atrocities in the Democratic Republic of Congo) are examples that apply to listed corporations but not (in general) to LLCs. Although we will not focus on LLCs in this book, their popularity makes it clear that there are a lot of legal formats for business that are not corporations.[6]

The corporations that we will be concerned with in this book are "public corporations," the biggest and most visible form of organization. Most of the companies that people call to mind when they think of business are public corporations: GM, Apple, Walmart, Exxon, Coca-Cola. *Public* is a slightly confusing term here, because it does not mean "owned by the broad public" (like a national park) but "having ownership shares traded on stock markets." It is "public" in the sense that the public can buy and sell shares (in contrast to, say, a partnership or family-owned company). When companies "go public" or make an "initial public offering" (IPO), they are making shares available for purchase on a stock market. At this point, if they are American companies, they are almost inevitably organized as corporations under the laws of one of the 50 states (usually Delaware, for reasons to be explained later).

For almost the entire 20th century, public corporations such as AT&T and General Motors controlled the bulk of economic activity in America. The decline of these corporations is the topic of this book.

"Corporation" and "business" are not the same thing

IN EVERYDAY USAGE, "corporate" often refers to anything having to do with business, finance, or money. Almost any business larger than a mom-and-pop store will be regarded as corporate, even if (as in the case of most McDonald's outlets in the US) it is a partnership, family-owned business, or other form.[7] Perhaps due to the widespread corporatization of the economy for much of the 20th century, commerce is seen as corporate unless proved otherwise.

Corporate is often used as an epithet. When we say someone has "gone corporate," we mean that they have started wearing a suit, greeting people with a handshake, and nattering on about value added and leveraging and core competences. Music is corporate when it is soulless, slick, and overproduced. “Corporate” is the antonym of “indie” or “alt.”

But it is worth being precise when talking about corporations. When commentators worry about “corporate money” dominating politics, they often mean that wealthy people (and the shadowy organizations that they fund) have too much influence. The Koch Brothers often serve as poster children for corporate influence, even though Koch Industries—the source of their wealth—is a privately owned business, not a public corporation.[8]

Does it really matter if a hedge-fund billionaire gains his or her wealth through an LLC chartered in the Cayman Islands rather than through a Delaware corporation traded on the New York Stock Exchange? The answer is yes. Corporations, particularly those listed on stock markets, really are different in essential ways from other ways of doing business, from how they are funded and taxed to whom they owe obligations and legal responsibilities. This is why Michael Dell and his colleagues were willing to go to great expense to take Dell Computer private (that is, to buy out all its shares and de-list it from the stock market).[9] Public corporations face greater scrutiny and more extensive regulation than other kinds of business. Companies that need to undergo substantial restructurings, or want to avoid scrutiny, have reasons to avoid being public. Put another way, it is often easier for the government to shape the actions of public corporations than private companies. This matters for public policy and our ability as a nation to guide corporations to behave themselves.

Corporations look different around the world

HOW IS THE corporation like breakfast? The question sounds cryptic, but consider the range of foods that count as breakfast around the world. In Sweden, it might be smoked fish and dark bread. In Korea, soup and rice. In France, a croissant with preserves. In Israel, fresh salads and fish. In Switzerland, muesli and yogurt. In Canada, pancakes and maple syrup. And England's hapless citizens are forced to eat sausages, eggs, and baked beans first thing in the morning.

Other than being the first meal of the day, "breakfast" seems to mean wildly different things around the world. Calling a meal "breakfast" provides surprisingly little information about what kind of food will be served, and only slightly more information about *when* it will be served. The same is true of the corporation. Although we might expect some basic similarities among the world's corporations, we would be wrong, as even the most successful industrial economies host quite different kinds of corporations.

Start at the top: What should the board of directors look like? Boards of directors oversee the broad operations of the corporation and are ultimately responsible for its activities and performance. Given the globalization of financial markets, one might expect best practices in corporate governance to be fairly standardized for the world's largest corporations. Yet in the US, a corporate board typically contains roughly 10 members—the Chief Executive Officer, Chief Financial Officer, and eight unaffiliated outsiders. For instance, GM's board has only one insider and eleven outsiders, comprised largely of retired CEOs.[10] In Japan, a board might have twice as many members as in the US, with a large majority being company insiders. At Toyota 12 of the 15 directors are current or former executives of the company.[11] German corporations are legally required to have half of their supervisory board elected by the employees, to ensure that labor is represented in corporate decision making. This is true at Daimler, where 10 of the 20 board members are elected by employees.[12] And China's Geely Automotive board includes eight executive and six nonexecutive directors.[13]

In short, even among the world's four largest and most successful economies, there is no shared standard for how the board of directors should look, even within the same industry. The same is true all the way down: Like breakfast, corporations look very different around the world.

Countries also differ greatly in their number of stock market-listed companies, and even in whether they have corporations at all. We tend to think of the corporation as an unstoppable invasive species, spreading like bamboo, but in some sense it is more like an orchid, requiring very specific conditions to thrive. Half of the world's economies do not even have stock markets, which rules out the possibility of public corporations. Of those economies that do have stock markets, half have had them for less than 30 years.[14] The collapse of the Soviet Union left former communist countries with the problem of how to transition from government ownership to privately held ownership on a massive scale. Thus, in a brief period, stock markets erupted all over Eastern Europe thanks to "mass privatization," in which marketable shares in state-owned enterprises were handed over to the public. The People's Republic of China had no stock market from the Revolution in 1949 until 1990; the Shanghai Stock Exchange is now one of the largest in the world.

Yet corporations are neither necessary nor sufficient for economic vibrancy. Countries can have vibrant economies with few corporations, or they can have weak economies with many corporations. Thailand had 613 public corporations in 2014, according to the World Bank. Germany, whose economy was almost 10 times larger than Thailand, had only 595. The Netherlands, birthplace of the modern stock exchange, had 130. Vietnam, a more recent convert, had 305.[15] It is, in short, entirely possible to have strong, export-oriented economies with few corporations. On the other hand, a large corporate sector is no guarantee of economic vitality.

Corporations look the way they do because of their country's history and institutions. Corporations grow up at different points in a country's development. American corporations emerged during the railroad era and developed with manufacturing firms around the turn of the 20th century, when there was a lot of uncertainty about what a corporation ought to look like. Through trial and error, they came to look the way we know them today. In contrast, Korean corporations developed in the 1950s and 1960s and were able to draw on proven models from other countries. Korea adapted the corporation to its own particular needs over a number of years, guided by a broad agenda of economic development after the Korean War. In contrast, former Eastern Bloc economies adopted entirely new formats of corporate economy more or less overnight with the breakup of the Soviet Union. In some cases, this was successful; in others, it was disastrous, as the officials responsible for managing the transition from communism to capitalism found it to be an opportunity for looting on a world-historical scale. Dynastic fortunes were created overnight, but it would be hard to see this as a triumph of free markets.

Just as local architecture is shaped by the traditions and raw materials of a region, corporate structures are shaped by aspects of the economy and society. Scholars have found that five broad factors are particularly important for shaping the kinds of corporations and other businesses a country gets, and why corporations look so different around the world. These factors include how the *labor market* works; how critical *financial markets* are to funding businesses; how *product market competition* is encouraged or regulated; the organization of the *education system*; and the character of the *social safety net*, including things like health insurance, unemployment insurance, and pensions.[16]

In the US, for instance, corporate employers after World War II provided health insurance and retirement security, which has resulted in workers dependent on particular employers and created expenses for firms that they do not bear elsewhere. American corporations have elaborate human resource functions to deal with these requirements, and an army of bureaucrats to regulate them. In Denmark, on the other hand, the national government assures access to health care and retirement security regardless of employment status, making it less costly to start up new businesses, and less risky to work for them.

Efforts to transfer practices or institutions from other countries are often doomed to fail because they require a supporting “ecosystem” to work. “Why can’t you be more like Germany, with its thriving export-oriented manufacturing sector?” German manufacturing firms benefit from a strong vocational education system that trains skilled workers for entry-level jobs; a tradition of labor-management collaboration; family ownership coupled with bank financing rather than market financing; a long-standing orientation toward selling on global markets rather than just domestic markets; and a well-established social welfare system that encourages employees to invest in skill development. Just as it's hard to grow coffee in Canada because of its soil and climate, it's hard to grow German-style manufacturing firms in the US because we do not have the right institutional ecosystem for German-style firms. Notably, a handful of German firms like BMW are attempting to replicate parts of their traditional ecosystem (such as vocational training) in exotic places like South Carolina.

The corporation in America

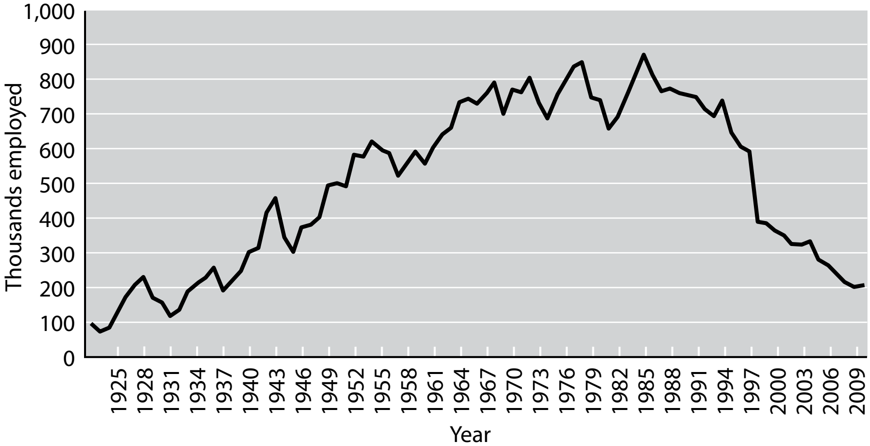
TO A GREATER degree than almost any other country, the United States has had a corporatized economy for generations. From early in the 20th century, corporations controlled most of the nation's economic assets and employed the bulk of the labor force.[17]

Individual corporations dwarfed the size of other social institutions. In 1910, US Steel's assets were far larger than the federal government's annual budget.[18] By 1930, a mere 200 corporations controlled half of the nation's corporate assets.[19] Commentators at the time stated that corporations were more similar to nation-states than to traditional family-owned businesses. When GM's CEO (and later Secretary of Defense) told Congress in 1953 that "what was good for the country was good for General Motors, and vice versa," it was not meant arrogantly or sarcastically.[20] The health of the economy and the health of the largest corporations were inextricably tied. To a great extent, particularly after World War II, the largest corporations *were* the economy.

But if the corporation is the foundation of the American economy, we need to be concerned. GM had about as many employees in 2015 as it did in 1928, which was just one-fourth of its size in the 1980s (see Figure 1.1). Its total North American workforce today is about as large as the number employed at Ford's famous River Rouge plant in the 1930s.

An optimist might suggest that those jobs have simply shifted to other, growing industries, such as computers and electronics. Yet according to the Bureau of Labor Statistics, employment in the

FIGURE 1.1 Employment at GM in thousands, 1923–2009

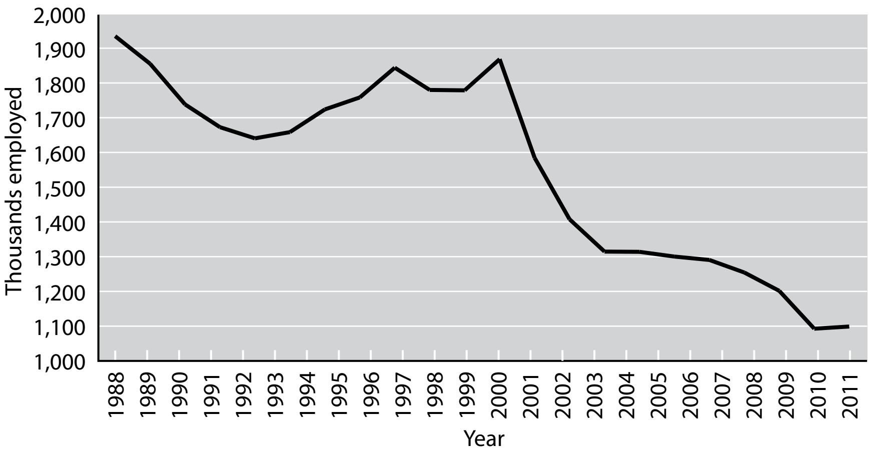


Source: Data from *Moody's Industrial Manual* (various years), Compustat, form 10-K

computer and electronics industry has actually *shrunk dramatically* since 2000, dropping 750,000 American jobs (see Figure 1.2). Telecommunications and information services? Nope: They had one million fewer jobs in 2013 than in 2000 (see Figure 1.3).[21]

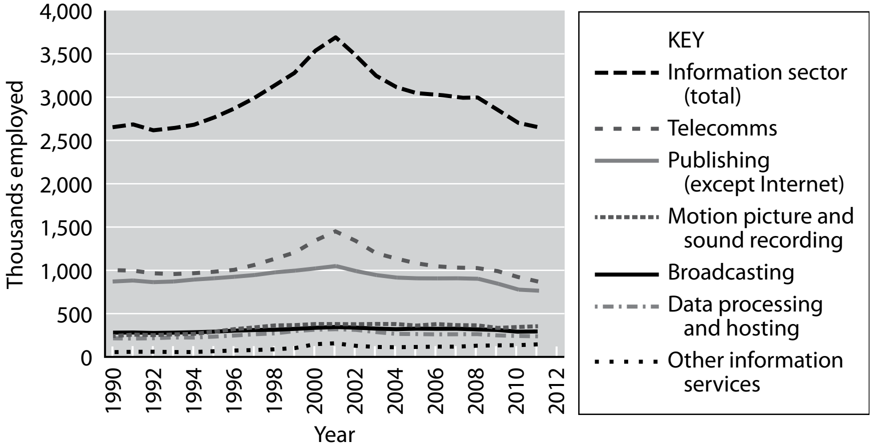
In fact, the number of public corporations has collapsed in recent years. In 2012 the US had less than half as many public corporations as it did in 1997 (see Figure 1.4).[22] As we will see, this is not simply

FIGURE 1.2 US employment in computer and electronic products industry in thousands, 1988–2011



Source: Bureau of Labor Statistics

FIGURE 1.3 US employment in information sector in thousands, 1990–2012



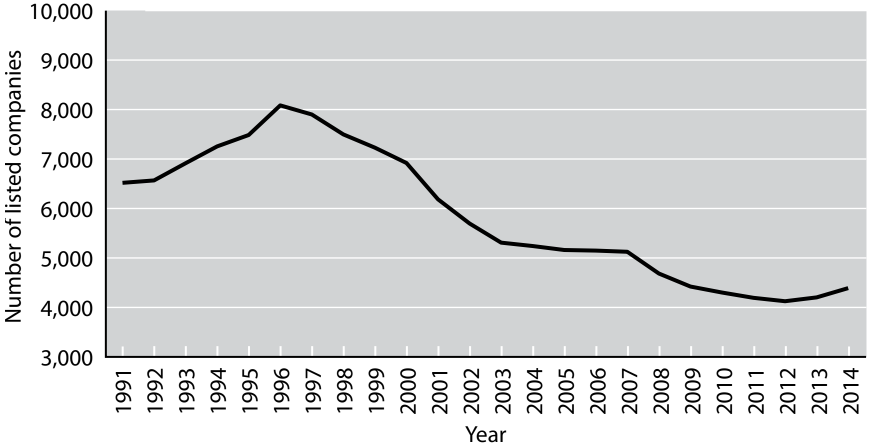
Source: Bureau of Labor Statistics

due to consolidation and mergers. Westinghouse, ITT, Eastman Kodak, Circuit City, Blockbuster, Borders, Lehman Brothers, Washington Mutual, and many other household names are gone (or mere stubs of their former selves), and they are not coming back.

This book argues that the corporation is not an eternal institution but a transient one, at least in the long sweep of history. Corporations survive if they have an economic rationale and their revenues can cover their expenses. They are not supernatural beings like vampires (their unlimited lifespan notwithstanding). If they can't cover their costs, and there are better ways of doing what corporations did, they will eventually die. If Netflix, with 2,000 employees, can provide videos more cost effectively than Blockbuster, which had over 80,000 employees in 2004, then Blockbuster will perish.[23] As we will see, the winner need not be a corporation, or even a for-profit business: If the nonprofit Wikipedia does a better job than *Encyclopedia Britannica*, then the 240-year-old institution will close (unless it finds a sugar daddy indifferent to profit). There is no crying in baseball, and there is no sentimentality in the corporate world.

The major claim of this book is that the public corporation fit well with the requirements for doing business in the 20th century,

FIGURE 1.4 Domestic companies listed on US stock markets, 1991–2014



Source: World Bank, *World Development Indicators*, 2014

but it is an increasingly bad fit for 21st-century business. Corporations are tools for getting things done under particular circumstances, like monarchies, or diesel trucks. Although we might treat the corporation with reverence as a social institution, like the church or the family, it is primarily an economic institution, and one whose time—at least in many domains of economic life—may have passed.

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