



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

One of the first steps to changing how corporations impede democracy is to create the space for serious conversations about the breadth and depth of the impacts of corporate power as well as to provide people with information about meaningful and attainable solutions. Citizen Works is running a nationwide project to jumpstart this debate by helping people willing to host corporate reform discussion groups. Here you can find readings about corporate power and potential solutions, as well as an organizing guide to help you pull together a successful discussion group.

- [How to Organize \(printer-friendly version\)](#)
- [Introduction \(printer-friendly version\)](#)
- Session One ([printer-friendly version](#))
 - Reading One: [The New Problem with No Name](#)
 - Reading Two: [An Overview of Corporate Power](#)
- Session Two ([printer-friendly version](#))
 - Reading One: [This History of the Corporation](#)
 - Reading Two: [The Evil of Access](#)
 - Reading Three: [The Divine Right of Capital](#)
- Session Three ([printer-friendly version](#))
 - Reading One: [The Hidden Costs of War](#)
 - Reading Two: [Session Three: Cheney, Halliburton and the Spoils of War](#)
 - Reading Three: [The Military-Industrial-Think Tank Complex](#)
 - Reading Four: [Total Business Awareness](#)
- [Reading List \(printer-friendly version\)](#)

[next section>>](#)

Last Updated March 25, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

[printer friendly version](#)

DECIDE ON YOUR FORMAT

Citizen Works has designed two different discussion groups; there is a series of three discussions for folks that want to delve more deeply into the corporation, and a one-time discussion for those who are interested a broad overview of corporate power. Decide which is appropriate for your community. You should also decide on the format for your discussion; it can be a casual conversation, like a book club, a more facilitated conversation or you could incorporate a presentation from a local expert or someone who is willing to do a bit more research on their own.

DETERMINE THE LOCATION AND DATE

Your living room is a great place for a discussion, but you could also consider the local library, community center, or coffee shop. Churches sometime offer up their space during the week. Work to find a location that has parking or is accessible by mass transit.

DOWNLOAD THE MATERIALS

Go to www.citizenworks.org to access the readings for your discussion group. There is also a list of suggested discussion questions. You can also register your discussion group here so we can keep track of these conversations and send more information as it becomes available.

INVITE PARTICIPANTS

Make a list of people you think would be interested. It's ok to just invite your friends, but you could also consider inviting other people from the community who might be interested in issues of corporate power. People from local churches, progressive groups, unions and business leaders would add important perspectives to this discussion. We recommend calling people because email is easy to ignore and personal calls are, well, more personable. Work to get a commitment! Most people lead very busy lives, but these conversations are critical to our democracy and our future so encourage people to make time.

FOLLOW UP WITH PARTICIPANTS

Make sure that everyone has the readings a few weeks before the discussion. It is also a good idea to send email reminders a week before, again a day or so before the discussion and call people the night before the event.

TAKE CARE OF LOGISTICS

Include directions to the discussion, bring extra copies of the readings, and perhaps provide food.

ENJOY the discussion!

LET US KNOW WHAT HAPPENED

Send the corporate reform team at Citizen Works an update of your discussion (202.265.6164; Jen

Tucker, jtucker@citizenworks.org; Katie Selenski, kselenski@citizenworks.org). We want to help connect corporate reformers across the country.

[next section>>](#)

Last Updated March 25, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)
ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:



CORPORATE POWER DISCUSSION GROUPS

Introduction

[printer friendly version of introduction](#)

Corporations have brought many benefits to modern society, including technological innovation, important products and services, and high-paying jobs that have created a decent standard of living for hundreds of millions of people. Nevertheless, the vast majority of people believe that corporations have too much power. For example, 72% of those polled by Business Week in September 2000 agreed that, "Business has gained too much power over too many aspects of American life ." And this was before many of us had even heard of Enron.

Today we are facing an astounding array of problems, many of which are rooted in the abusive behavior and unchallenged power of giant multinational corporations. The economy does not sufficiently support working people (thirty percent of American working people earn poverty level wages), the ecosystems that make life on earth possible are gravely endangered (the extinction rate is estimated by leading scientists to be between 1,000 and 10,000 times greater than the natural rate), industrial polluters threaten our health (according to their own data, U.S. industries released over 7 billion pounds of toxic emissions in 2000 alone, or over 20 pounds per person living in the U.S.), and the gap between the rich and the poor continues to expand (the richest one percent of Americans receive as much after-tax income as the bottom thirty-eight percent combined).

Corporations dominate virtually every sector of the economy and nearly all of society. Their influence is felt everywhere, including our schools and universities , religious institutions , entertainment outlets , the halls of government and other public spaces , and virtually every other area of our lives . They determine the news we read (and sometimes don't) , the conditions of our working environment , our health care options , the quality of the food we eat , the safety of our drinking water and air, and the sustainability of the planet's ecosystems .

This discussion group is for those people who believe that corporations have too much power and who want to learn more about the roots of the problems and ways we can move toward solutions.

History teaches us that the power of an informed and organized citizenry can be vast and formidable, and the first step toward building that powerful citizenry is to educate ourselves and our communities. All around the world, for centuries, groups of dedicated citizens have proven that by educating themselves and organizing, people can have strength in numbers and that our voices together can be louder than that of the richest corporation or the most powerful government. In the last century in the United States alone, citizens have asserted their constitutional rights in successful fights for unions, racial desegregation, women's right to vote, young people's right to vote, and international peace.

The struggle between those who have power and those who have little is timeless. In today's world there are two distinct types of power, people and money. Our movements tend not to have much money but generally represent the interests of the majority of people. The challenge facing us today is to find ways to utilize our rights and powers as citizens, along with a little bit of money, to counterbalance the dominance of giant corporations. You don't have to be Gandhi or Martin Luther King, Jr. to be an activist who creates lasting change, but you do need to be dedicated, persistent and willing to stand up for what you think is right.

Citizen Works' discussion group program is designed as a three part series to launch longer-term discussion and sustainable action groups. The first set of readings will give you an overview of the basic problems of corporate power, as well as begin to highlight some approaches to reform. The second set offers a deeper analysis of how corporations gained so much power and explores in more detail some of the major problems. The third set presents concrete reform options and some inspiring thoughts on building a strong citizen movement. Beyond these readings, we suggest turning to the Citizen Works recommended reading list (attached), for a list of titles on corporate power issues. We hope you will share this knowledge with others and find ways to challenge unaccountable corporate power in your community. Citizen Works offers organizing guides and resources to support your efforts.

[next section>>](#)

1. Too Much Corporate Power?, Business Week, September 11, 2000
2. <http://www.house.gov/bernie/statements/2000-04-13-gsdr.html>
3. http://www.iucn.org/info_and_news/press/species2000.html
4. U.S. Environmental Protection Agency 2000 Toxics Release Inventory, May 2002
5. Labor Party Press, http://lpa.igc.org/lpv46/lpp46_wto_roundup.html
6. See Campus, Inc.: Corporate Power in the Ivory Tower, Geoffrey White and Flannery Hauck; The Knowledge Factory, Kate Gillett; Higher Ed, Inc., Richard Ruch
7. See Christianity, Incorporated: How Big Business is Buying the Church, Michael Budde and Robert Brimlow
8. See Adbusters, www.adbusters.org; Commercial Alert, www.commercialalert.org
9. See Who Will Tell The People, William Grieder; Washington on \$10 Million a Day: How Lobbyists Plunder the Nation, Ken Silverstein, and Selling Out: How Big Corporate Money Buys Elections, Rams Through Legislation, and Betrays Our Democracy, Mark Green
10. See Silent Theft: The Private Plunder of Our Common Wealth, David Bollier
11. See Corporation Nation: How Corporations Are Taking Over Our Lives and What We Can Do About It, Charles Derber
12. See Manufacturing Consent, Edward Herman and Noam Chomsky; Rich Media, Poor Democracy, Robert McChesney
13. See <http://multinationalmonitor.org/mm2000/00november/toc.html>, <http://www.hazards.org/>
14. See Making a Killing: HMO's and the Threat to Our Health, Jamie Court; Bleeding the Patient: The Consequences of Corporate Health Care, David Himmelstein MD, et al
15. See Genetically Engineered Food: Changing the Nature of Nature, Martin Teitel and Kimberly Wilson; www.foodfirst.org, www.organicconsumer.org; <http://multinationalmonitor.org/mm2000/mm0001.00.html>
16. See Blue Gold: The Fight to Stop the Corporate Theft of the World's Water, Maude Barlow and Tony Clarke
17. See www.worldwatch.org; www.rachel.org for specific environmental facts and analysis.
18. See Poor People's Movements, Frances Fox Piven; The Populist Moment, Lawrence Goodwyn; Parting the Waters, Taylor Branch; A People's History of the United States, Howard Zinn; State of the Union, Nelson Lichtenstein. For other suggestions see www.citizenworks.org/actions/readinglist.php#amhist.

Last Updated March 25, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

Session One: The New Problem with No Name

[printer friendly version of session 1](#)

By Charles Derber

Introduction to *Corporation Nation: How Corporations Are Taking Over Our Lives and What We Can Do About It*

Reprinted with permission from author

The corporate mystique is a set of cherished beliefs and illusions at the very heart of American culture. We are all, in some measure, captives of the new mystique, which is at the root of the way we think about the most important institutions in our society-chief among them corporations themselves. The corporate mystique dictates how we think about not only what corporations are and the importance of their roles in our lives, but what government and markets, business and democracy, and the good life are all about. It is the main recipe for how to live and think in a corporate world.

Yet the corporate mystique is, at heart, an ideology, which for decades has effectively disguised the rising power of corporations in our lives. Corporate ascendancy is emerging as the universal order of the post-communist world. Its most obvious feature is the reign of vast and much-admired global corporations, from General Electric to Microsoft to Disney. Yet the essence of corporate ascendancy is the quiet shift of sovereignty that is shaking the roots of our democracy.

Corporate ascendancy refers to the rise of a new weakened form of democracy in which the powers of average Americans are being transferred to vast institutions with diminishing public accountability. With the government increasingly unresponsive to popular opinion, and corporations almost entirely unaccountable to the public, corporations have begun acquiring new public powers and acting as unelected partners with governments.

Our social landscape is now dominated by corporations that are bigger and more powerful than most countries. General Motors has annual sales larger than Israel's Gross Domestic Product; Exxon's annual sales are larger than Poland's GDP. One hundred sixty-one countries have smaller annual revenues than Wal-Mart does. General Electric has hundreds of subsidiaries-giant companies such as GE Capital- which are themselves bigger than most nations.

Two hundred corporations, led by giants such as GE, Time Warner, and Philip Morris, dominate America's economy-and much of the rest of the world. Their combined sales in 1996 were larger than the combined gross national product of all but the nine largest nations. Historians speak of the twentieth century as the age of nations and nationalism. Our end of century and the next century loom as the triumphal age of corporations.

America's biggest companies-and some huge European and Japanese corporations-are an overwhelming force in our national politics. Corporations poured almost \$2 billion into political campaigns in 1996 alone-only one of many measures of corporate political power. The relation between corporate power and democracy goes largely undiscussed in newspapers, schools, legislatures, and dinner conversations, as does the very nature of the corporation itself, a question that a hundred years ago was at the center of the national consciousness. It is a testament to the power of the corporate mystique that neither liberals nor

conservatives have the vocabulary to raise these questions today.

In a rare effort by opinion makers to broach these issues, Ted Turner, founder of CNN and now a top executive in Time Warner, the world's biggest media corporation, has publicly worried about the democratic implications of corporate concentration in media: "Media concentration is a frightening thing. It's owned more and more by Disney, General Electric . . . Westinghouse, which now owns CBS. You have two of the four major networks owned by people that have huge investments in nuclear power and nuclear weapons-both GE and Westinghouse. What kinds of balanced stories are they going to give you on the news about the nuclear issues? Turner did not note that Time Warner is the second largest book publisher in the world, the largest music company, the owner of many of America's most important magazines-including Time, Fortune, Life, People, Money, Sports Illustrated, and Martha Stewart Living-and, along with TCI, the owner of television cable systems serving 47 percent of the American cable audience. Turner is implicitly asking whether democracy can survive in a world dominated by companies such as his own.

Corporate ascendancy does not yet threaten to lead to absolute corporate power, but it involves the growing public powers of corporate entities that are defined by the corporate mystique as private enterprise. In addition to capturing huge global markets for traditional products, corporations are invading traditionally public sectors such as medicine, education, social services, and law enforcement. Corporations now own and manage huge domains of the public sector. To speak of the incorporation of America is not to speak metaphorically: There is scarcely any sphere of American life that is not coming under corporate administration.

The corporate mystique has helped to obscure not only the very question of corporate power, but how deeply personal the subject is. The personal identity of today's worker, consumer, and citizen is becoming a corporate construction. Corporations help create our growing obsession with money and success molding both our morality and material lives. We get our dreams and opinions from corporate-owned media such as Time Warner or Disney, our children's education from curricula provided by Microsoft or AT&T, our food from Philip Morris, the world's largest grocer, and our credit from one-stop corporate superbanks such as Citibank and Chase, but this insight only scratches the surface of corporate involvement in our lives. Every citizen has a place in the world of corporate ascendancy, including those not working in the corporation or not working at all. It is impossible to underestimate the extent to which one's own moral integrity and sense of self-respect stem from how one is situated in that world, and the extent to which most of us are involved as both agents and targets of corporate power.

In the past, corporations have served as a shelter from the cold calculus of the market, breeding loyalty and moral commitment among workers and consumers alike. Today, in our new era of greed, the corporation is rushing to shed the last vestiges of community within its walls. Downsizing, outsourcing, and permanent insecurity are the new dread mantras of the corporate world, and they are deeply personal in their impact. The new corporate "morality" is at the heart of a rising uncivil order, which is spreading into every corner of our lives a systemic and sometimes misplaced and abusive market logic. As each of us comes to terms with our unwitting dual complicity-both as perpetrators and victims of corporate abuse-our sense of personal and moral identity will never be quite the same.

The corporate order is undermining the security of American life as our parents knew it, along with the moral certitudes of loyalty and community they lived by. This is not an unambiguous loss; America at mid-century was for many a compromised and constraining place. But the new generation is growing up with an identity it would not have chosen: that of a permanently anxious class with contingency as its new moral code. As jobs have become temporary or otherwise contingent in the new corporate order, so have our communities and, increasingly, our marriages. The crisis of contingency has deeply seared our consciousness; it marks our personal lives with both new opportunities and terrible vulnerabilities. Both advocates and critics of the corporation ... have failed to appreciate how deeply corporate morality shapes personal morality, and has engendered today's crisis of values.

Students have often told me that they leave their sociology classes depressed because the sociological analysis they find there seems at once persuasive and without redemption. Social criticism has its role, but too often it has helped undermine itself in the United States by offering no solutions. Critics without constructive approaches get treated as Cassandras and reasonably dismissed as idealists or nihilists. No matter how compelling a critique, it will find little fertile soil if it offers no constructive solutions, no alternatives to inspire and involve them...

Today, the prospects of change are inhibited by both the vast power of the corporation and the enchantments of the corporate mystique, both of which have effectively removed the issue of corporate sovereignty from national consciousness. But in the Gilded Age, one hundred years ago, and half a century later in the New Deal, the question of the corporation and its moral responsibilities became the centerpiece of American politics, carried by strong populist and labor movements. Although the issue has been buried now for at least two decades, new conditions are arising that could elevate these concerns once again to the forefront of national political debate.

While there is much to learn from populism, New Deal liberalism, and American radical thought, they are inadequate as responses to today's problems. Among their great flaws is their tendency to confuse a critique of corporate ascendancy with an all-out assault on business as a social enterprise ... this approach has doomed virtually all American critics of the market order, and has created misleading notions about the change we need. We desperately need a challenge to the culture of greed, materialism, and manic consumerism that the new corporate order has bred. But there will be no solutions to downsizing, inequality, and the morality of contingency-and little hope for a more humane or democratic culture-in a world of declining or failing business. The changes we need must defend society against the new corporate assault- while at the same time protecting the health of business enterprise itself.

Positive populism starts with a recognition of the many benefits that the American corporation-and American business generally-has delivered. Visitors from around the world marvel at the consumer cornucopia that Americans enjoy, and flock to American shopping malls to buy goods that are either unavailable or vastly more expensive in their own countries. American corporations are among the most innovative and productive enterprises in history, and deliver unrivaled creature comforts to their huge consumer base...

The American public has historically rejected populism, in part because it has benefited handsomely from the success of the American corporation. Millions of Americans have been employed their whole lives by corporations and are understandably grateful for the standard of living they enjoy. While poor Americans and even many in the middle class haven't shared in the great corporate profit boom of the last two decades, they still can regard themselves as privileged compared to most of the world's population.

Even Karl Marx, their most famous foe, recognized the dynamism of the emerging corporations in his own time, and celebrated their coming as the precondition for a better life. Marx dedicated his life to a harsh critique of the new capitalist world in the making, but never forgot that the rising corporation was the engine of a radical new prosperity. Only corporate capitalism, he said, could liberate most of the world from centuries of feudal poverty and despotism, and open the door to the rule of law, individual rights, and opportunity. Marx was wrong about many things, but right in recognizing the deep contradictions involved in trying to humanize the rising market order. For even as corporations wreak havoc on the lives of millions of workers and communities here and all over the world, they are still global symbols of opportunity and the central engine of economic growth on which most Americans depend. Americans now harbor deep new grievances toward corporations. We feel betrayed by their frequently cold, calculated influence on our lives, and fear their growing power and wealth. But a new populism cannot take hold until it's demonstrated that it will not hurt business or the larger economy.

The realistic opportunities for change today lie in contradictory principles within contemporary business about how to remain competitive. While most large corporations have taken the same low road as their robber baron forebears a century ago, many of the same companies are seeking to empower employees,

and to decentralize the huge bureaucracies that have traditionally protected corporations from public accountability. The new movements for corporate responsibility, while deeply flawed, hint that cooperation and economic democracy-core goals of positive populism- may ironically be emerging as necessary conditions of business success. Many sectors of business can find a place in the positive populist movement-which is not likely to succeed without their embrace.

Positive populism is a movement that affirms the virtues of business even as it seeks to humanize and democratize it. This creates many conundrums, for it is a movement which can succeed only by tapping the deep personal anger and hurt that corporations create among disposable workers and communities-without demonizing either corporations or their leaders. Positive populism seeks to encourage corporations to take the high road to social justice, but also recognizes that the new moral order we need will not always go hand in hand with maximizing profits.

The change we need will have to be championed by many sectors of the business world, but must be led by social movements whose values transcend making money and profit-including a newly assertive labor movement and vocal grassroots movements in communities across the nation. It must call on the strength of both "insider" and "outsider" populist forces-managers and shareholders seeking to democratize the business system from within, and populist labor and social movements acting from outside the corporation to preserve the ideals of democracy. Cooperation between insiders and outsiders is essential to positive populism, but their relation will be a difficult one, and their strategies not always harmonious. How to reconcile them is one of the great challenges of the twenty-first-century progressive agenda.

Since the crisis of corporate ascendancy is both economic and spiritual, so must be the movements that seek reform. Our nation is in need of a transformative movement, one that combines the forces of healthy business, energized workers and unions, and newly activist citizens, in the pursuit of a truly democratic culture. Deep economic and political changes are necessary to achieve corporate responsibility and a society that values people over money. What we need, finally, is a politics of the heart-but one that recognizes that we need more than changes of heart to create a new moral and truly democratic society.

[next section>>](#)

*Charles Derber, professor of sociology at Boston College, is a leading social critic, who has written eight widely acclaimed books. The most recent is *People Before Profit: The New Globalization In An Age of Terror, Big Money, and Economic Crisis* (St. Martin's Press, 2002). He is also the author of *Corporation Nation: How Corporations Are Taking Over Our Lives and What We Can Do About It* (St. Martins Press, 2000). New editions of his books, *The Wilding of America* and *the Pursuit of Attention*, have been issued in 2000 and 2001, as well as a paperback edition of *Corporation Nation*. His books have been reviewed by the *New York Times*, the *Washington Post* and numerous other major media. He writes for many newspapers and magazines, has been a monthly commentator on national talk radio, and appears regularly on national TV and radio shows. You can visit his web page at: [http://www2.bc.edu/~derber/Homepage\(Frames\).htm](http://www2.bc.edu/~derber/Homepage(Frames).htm)*

Last Updated March 18, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWERDISCUSSION GROUPS

Session One: An Overview of Corporate Power

[printer-friendly version of session 1](#)

By Citizen Works

CORPORATE DOMINANCE: DEFINING THE PROBLEM

America is built on simple yet revolutionary principles; fundamentally, self-governance is an inalienable right and governments should serve the interests of the people. These are essential characteristics of a healthy and functioning democracy. But America has stumbled upon a formidable roadblock to the realization of our founding fathers' dream, as Lincoln said, of a country that is "of the people, by the people, and for the people". Clearly, the gap between our democratic ideals and our current reality is due to many factors; one of the biggest is that mammoth corporations, huge in size, wealth and power, are drowning out the voices and interests of everyday American citizens. The following is a broad overview of the ways in which corporate dominance is stifling democracy, stunting our communities and devastating the environment.

THE CORPORATE INFLUENCE ON GOVERNMENT

A huge component of increasing corporate control, power and irresponsibility is the grip that corporations have over our government. The most obvious way that corporations influence government officials and policy is through campaign donations and lobbying. In the 2000 election cycle alone, businesses gave \$1.2 billion to congressional campaigns, lining the pockets of both the Democrats and Republicans. Unless you are rich, it is nearly impossible to run a viable congressional campaign without corporate financial backing, since their donations make up about 75% of the money that candidates receive. In the most recent election, the candidate who raised the most money won 94% of the time.

Once elected, an army of roughly 20,000 corporate lobbyists provides constant reminders of just whose money elected whom. The combination of corporate political donations and pressure from lobbyists is an excellent investment for the corporate world. It helps them frame the issues and keep critical interests out of the halls of government. Sometimes the payoff is direct. In 2000, corporations received \$125 billion in tax-breaks and subsidies, a return of about 100 to 1 on their investment. In addition to draining taxpayer dollars to support corporate welfare, the government also heavily subsidizes the research and development side of many industries, particularly the pharmaceutical, technology and military hardware/weapons industries, spending billions of government dollars and then giving away the findings for virtually nothing to corporations, who proceed to make a profit.

The ties between corporations and governments run so deep that a revolving door has appeared between the two sectors. Many of President Bush's appointees, for example, are ex-corporate executives now in government positions where their role is to regulate the industries they were once a part of. For example, 41 officials in the Bush administration have close ties to the oil industry. These kinds of connections clearly make it difficult for objective evaluation and regulation of industry, or for the interests of ordinary citizens to receive equivalent consideration.

THE RISE OF MULTINATIONALS

In the past several decades, corporations have been given free reign to enter markets around the world

with little regulation and with the license to demand priority treatment. With the emergence of the World Trade Organization (WTO) in 1995, and the transformation of the World Bank and International Monetary Fund into corporate-driven institutions, there now exists an institutional framework by which corporations are legally dominating markets around the world, dictating economic policies of developing nations, and strong-arming their way to resource and wealth extraction. Although we usually think of these transnational institutions as determining the economic policies of indebted nations in Asia, Africa and Latin America, it's also true that international trade agreements such as NAFTA pose considerable threats to the U.S. system of democracy.

One example of how international trade agreements give corporations more rights than citizens is Chapter 11 of NAFTA, the chapter that defines investors' rights. Chapter 11 grants corporations of each nation (the U.S., Mexico and Canada) the power to sue the other two nations and overturn laws that might be construed as interfering with the corporation's profits. If a company believes that a NAFTA government has violated these new investor rights and protections, it can initiate a binding dispute resolution process for monetary damages before a trade tribunal - a process which is closed to public participation, observation and input. Individuals, on the other hand, have no legal status in NAFTA. Human and labor rights, environmental protections, and democratic accountability were consciously excluded. As Jeff Faux of the Economic Policy Institute puts it, "NAFTA thus represents the most extreme example of the so-called neoliberal model, in which supranational rules liberate the private corporate investor from the constraint of democratic public values."

The recent mass wave of corporate mergers has resulted in extreme consolidation of wealth for a very small number of corporations. In fact, 51 of the world's 100 largest economies are corporations, while only 49 are nations. The result is that unaccountable corporations and corporate dominated institutions like the IMF, World Bank and WTO have more power and influence than many countries' governments.

WHAT DRIVES THE SYSTEM?

Hardwired into the corporate machinery is a drive to maximize shareholder value. Translated into practice, this economic imperative means that corporations do whatever it takes to maximize their gains while externalizing all possible costs onto workers, communities, consumers and the planet.

CEOs are in fact legally bound to make as much money as possible for their shareholders. The problem with this kind of system design is not the notion of profit in itself, but rather that the real costs of business ventures and corporate activity are not taken into account. Consequently, communities, workers and the environment are left to pick up the tab for corporate irresponsibility. Any economic model that solely relies on profit and growth to gauge success is fundamentally unsustainable and flawed because it neglects critical components of a healthy society: the well being of communities, workers, and the environment. A huge component of this problem is that there are very few avenues available for the voices and concerns of employees, communities or other stakeholders to be heard and heeded as they are excluded from the corporate decision-making process.

The logical result of the single-minded profit-based approach is an array of both legal and illegal bad corporate behavior. For example, in the name of profit corporations legally can, and often do, re-incorporate in an off-shore tax haven without moving any of their operations. While still benefiting from government services and contracts these corporate tax traitors can save tens of millions in annual tax returns. Officials from the U.S. Treasury Department estimate that between \$70 and \$155 billion disappears into the "Bermuda Triangle" of off-shore tax havens each year. By utilizing tax havens and other tax loopholes corporations are paying less than their fair share, only 1.3 percent of the nation's Gross Domestic Product, the lowest percentage in two decades. At the same time, many of these same companies are receiving untold billions in corporate welfare subsidies. Additionally, because of weak whistleblower protection laws, corporate disclosure regulations and public right-to-know laws, it is often difficult for the public to learn when corporations are breaking the law.

While much corporate irresponsibility, abuse and tax-avoidance is legal, we recently witnessed a wave of

corporate crime that was fueled, in part, by the drive to maximize profits. But corporate crime is not a new phenomenon. While the FBI doesn't keep statistics on corporate crime, one university professor found that in 1997 there were twice as many workplace deaths as murders . White-collar corporate crime - consumer fraud, deceptive advertising, tax cheating, and insurance, Medicare, and securities fraud - cost society between \$200 - \$500 billion each year . Compare this to the cost of burglary and robbery costs, which the FBI estimates is about \$3.8 billion a year .

The punishments for white-collar crime are also significantly less than those for street crime, generally on the order of months instead of years. Corporate crime, like violating environmental, workplace safety or labor laws, regularly goes un-prosecuted and often results in nothing more than a minor fine that the corporation can write off as the cost of doing business. The big Wall Street banks that were charged with stock-research abuses in 2002, for instance, are claiming that more than \$1 billion of their \$1.5 billion global settlement is tax-deductible.

Frank Easterbrook and Daniel Fischel, two leaders of the Chicago School of Law and Economics, summed up the profit-at-any-cost school of thought 20 years ago: "Managers not only may but should violate the rules when it is profitable to do so. "

THE CORPORATE CRIME WAVE - A SYSTEM OUT OF CONTROL

The explosion of corporate scandals in 2001 and 2002 should not surprise anyone. The drive to maximize profits at all costs (externalized costs, that is) reached manic proportions during the recent stock market bubble. And when the bubble burst, it sent many companies into a devastating tailspin that hit employees and shareholders the hardest. A total of 186 public companies with \$368 billion in debt filed for bankruptcy protection in 2002, shattering the record for a second straight year . With nearly half of all U.S. households owning stock , the corporate restatements of earnings and huge losses of stock value (both for criminal corporations and across the market), hurt millions of ordinary citizens.

The corporate scandals of 2002 were caused by a number of factors that can be viewed as the failure of both internal and external accountability. Observers, such as The Conference Board , that describe the cause as a failure of internal accountability point to a breakdown in corporate governance. Corporate governance is the accountability of management to shareholders and directors. Shareholders (mostly passive investors) are technically the owners of publicly traded companies, but since they are such a diffuse group, they exert little control. Instead, they "elect" a board of directors to look out for their interest, which is almost always narrowly defined as making money. However, these directors are generally handpicked by management and wind up serving the interests of management more than the interests of shareholders.

An illustration of the resulting unaccountability of management is the ridiculous pay packages that top executives have received in recent years . Nor is this lack of accountability unique to companies involved in financial fraud. On average, CEO pay is astronomical, and still rising. In 2001 the average CEO earned 411 times what the average worker earned . Incentive packages for CEOs often include millions in stock options that can motivate executives to pursue short-term profit at any cost, even if that involves laying off employees or artificially inflating share price through accounting fraud.

Even where directors are more independent, they still only represent a small slice of people affected by a company's actions. If workers, communities, consumers and other stakeholders were given a participatory voice in corporate governance, corporations would probably become responsive to more than just profit-driven investors, and more closely resemble their roots as public-minded entities. But shuffling the players on the board is not enough. We are still left with the failure of corporations to be accountable to the broader citizenry. (The analysis of the Enron scandal provided by its own board through the so-called "Powers Report" - which depicted a company defrauded by a few greedy executives - ignores the damage that Enron did to California consumers, the environment, etc.)

Much of the debate after the recent scandals focused upon the failure of the system's traditional watchdogs

- including accountants, stock analysts and the media. The dismantlement of New Deal-era protections and the aggressive deregulatory agenda of the last 30 years led to massive conflicts of interest between and among the accounting and banking sectors. The doctrine of deregulation only left corporations alone to bend and break the law, while these so-called watchdogs aided and abetted the fraud. Their indifference was fueled by "tort reform" laws that gutted the liability of aiders and abettors of fraud, such as the Private Securities Litigation Reform Act of 1995 .

But while a few laws were passed regarding accounting reform and analyst ties to banks that underwrite the businesses to which they are supposed to provide objective stock analysis, the general faith in deregulated markets continues. Although many "experts" were touting the benefits that deregulating the electricity markets would bring to places like California, we now know the results: gouging of customers (including poor homeowners and small businesses), blackouts, and fraud and manipulation of trading by Enron and other companies. Nevertheless, efforts to gut the Public Utility Holding Company Act (PUHCA) continue unabated .

The larger lessons seem to have gone unnoticed. The most prominent companies involved in the corporate scandals came from industrial sectors -- energy, banking and telecommunications -- that were quickly transformed in recent years by new laws that lowered existing barriers to the companies' rapid expansion and involvement across business sectors. For example, after the Telecommunications Act of 1996, the telecom industry (buoyed by overinflated expectations about the new high-tech economy) spent nearly half a trillion dollars building a monumental high-tech network with extensive overcapacity that caused it to grow its debt from \$9 billion to \$306 billion by the year 2000 . Telecom investors alone lost nearly \$2 trillion, while half a million workers lost their jobs, and dozens of debt-laden companies went bankrupt, including WorldCom, the biggest bankruptcy in history .

We also saw the repeal of the New Deal-era Glass-Steagall Act, which established the strict separation between investment banking, insurance, and underwriting businesses. As a result of lobbying efforts led by Citigroup, in 1999 the Act was fully repealed after several years of gradual dismantlement. As a result, investment analysts rated stocks that their own banks were underwriting, giving them strong recommendations, while privately deriding them as junk.

BIG PICTURE: LEGAL WRONGDOING

Of course the most horrific truth about the recent corporate scandals is that much of the devastation was the result of perfectly legal actions. The fact that millions of employees, pensioners, and investors lost their life's savings while executives knowingly cashed out without going to jail indicates a much larger and more fundamental problem. Corporations have become so powerful, and have so many rights, that many of the worst abuses of corporations and top executives are often considered to be legal. And even when the bad behavior is illegal, the enforcement of the law is undermined every step of the way, and the penalties are minor -- considered merely the cost of doing business. For example, it is easier and cheaper in many cases for a company to pay a fine for dumping toxic waste into the sewer than it is for the company to dispose of it properly. The problem therefore is not just that they break the law, but that they write the laws, influence the people and entities that enforce the laws, and use their illegitimate claims to constitutional rights to block any serious attempt at holding them accountable.

HOW DID THIS HAPPEN?

While the enormous power and influence of today's corporations results in a complex web of negative impacts, corporations as large, private institutions are historically speaking a fairly recent creation. Reading two of the next session describes how corporations gained increasing amounts of power through both legal and legislative measures. One seminal legal case is important to understand, Santa Clara v. Southern Pacific Railroad. As a byproduct this 1886 case, corporations gained access to the legal standing of "persons" and as a result can use constitutional rights installed for citizens to challenge attempts to limit their power. The importance of this corporate status of personhood cannot be overstated: it means corporations have the same rights as real people including constitutional rights to free speech, protection from search and seizures, and freedom from discrimination, all of which can manifest itself in legalized

corporate abuse (session II readings include further analysis). While the Supreme Court never ruled or heard arguments in the case as to whether corporations qualified as "persons", Santa Clara has effectively given corporations the legal standing of people .

MOVING TOWARDS SOLUTIONS

Challenging Corporate Power on a Number of Fronts

Corporations did not always have such a firm grip on power and wield such commanding influence over our lives. Even though the problems of corporate dominance may seem insurmountable, we can proceed toward countering their power and grip over all of society by building a widespread movement of citizens tackling the problem from many angles, ultimately reasserting citizen authority over corporations.

There is a huge array of potential solutions, and a variety of strategic approaches that can be used, including legislative fixes, legal challenges, community empowerment and direct limits of corporations. Some are already being used in one place or another; others have yet to be tried. None of these is the magic bullet to suddenly fix the problem of abusive corporate power. These approaches vary in size and scope and their usefulness and appropriateness will vary from community to community, and from issue to issue. For example, in some places citizens can pursue legislative strategies. Under other circumstances, it may be necessary to begin with an educational program to lay the groundwork before mounting a fundamental challenge to entrenched corporate interests. In fact, all of these approaches should include an educational component and focused outreach to new people and groups. A successful national movement to curb abusive corporate power will include efforts on many fronts and will operate on the local, state and national levels all at once. We need organized citizens to educate one another and mobilize a multi-faceted, coordinated campaign to make substantial steps forward.

ILLEGITIMATE LEGAL RIGHTS

Ultimately, we need to reclaim the very concepts with which democracy was originally conceived; corporations only have the rights that we as citizens allow them to have; they should exist to provide the public good. Citizen participation, not the maximization of corporate profit, is the fundamental essence of democracy.

Corporations have not always had a firm grip on the rights of people while managing to escape the responsibilities of citizenship. At the center of the illegitimate corporate claim to the rights of people is the notion of corporate personhood, based on the 1886 case Santa Clara v Southern Pacific Railroad. While 100 plus years of corporate legal theory is based on the corporations-as-people assumption, remember that the Supreme Court has never ruled on corporate personhood. American citizens have never voted on corporate personhood and congress has never passed legislation about corporate personhood. We have truly been bamboozled. The struggle to reclaim citizen authority over corporations and strip the illegitimate corporate claims to constitutional rights and protections of people will require years, perhaps decades of work. It will necessarily involve both local and national campaigns as well as legal and legislative battles. Although revoking corporate personhood may ultimately require a constitutional amendment, there are significant steps we can take before we are strong enough to mount a campaign of that magnitude. (See Box entitled Abolishing Corporate Personhood for an example of a local approach.)

Another approach is to challenge specific corporate rights. One of the many rights that corporations claim is that of free speech, which, among other things, allows them to make campaign contributions. This "right" was affirmed in the 1976 case Buckley v. Valeo which stated that money is a form of free speech and corporations, as people, have the right to use speech (i.e. money) to influence candidates and elections. Finding a way to legally challenge this assumption may be a key step to significantly reduce corporate influence of politics as well as educate the public about corporate personhood.

Corporate access to First Amendment rights is also being challenged on another front. Marc Kasky, an activist in California, alleges that Nike is deceiving consumers in a PR campaign to convince the public that it has cleaned up its subcontractors' sweatshop labor practices. It is against California law for corporations to intentionally deceive people so Kasky is suing Nike, Inc. Nike isn't saying it didn't lie, but

rather is arguing that corporations have the same free speech rights as individual citizens and therefore can lie just like regular folks. The California Supreme Court disagreed, and now the U.S. Supreme Court will hear arguments about whether Nike can use the First Amendment to protect its "right to lie." This controversy is an excellent opportunity to educate the public about corporate claims to constitutional rights and re-examine the assumptions of corporate personhood. A decision is expected in late July 2003. See www.reclaimdemocracy.org for more information.

ABOLISHING CORPORATE PERSONHOOD: A Case Study of Porter Township

In early December 2002 one small township in Pennsylvania made history by being the first local government in the United States to eliminate corporate claims to civil and constitutional privileges. Porter Township is in many ways a microcosm of the struggle between people fighting to make their voices heard and corporations claiming the rights afforded natural people in the constitution and utilizing these legal privileges to override democratic decision-making. The Porter community was working to regulate the dumping of Pittsburgh-generated toxic sludge in their township by adopting a "tipping fee" which requires dumpers to pay per ton of sludge dumped and allows the Township to verify the safety of the sludge applied to the land. Sludge companies have used both the legal and legislative process in an attempt to override the decision-making authority of several Pennsylvania Townships to regulate toxic dumping. The legal attempt involves the Synagro Corporation claiming that "tipping fees" violate their constitutional rights, in this case using the 14th Amendment's protection against discrimination. In response to this litigation, the people of Porter Township asserted their democratic rights to be able to make and enforce legislation and laws for the good of citizens by passing an ordinance that denies that corporations are "persons" thus stripping them of the same constitutional protections that natural persons are afforded.

Corporations use their legal status as "persons" to claim an array of rights including First Amendment free speech protections, which also allows corporations to make campaign contributions, and other constitutional claims that include protection from search and seizure, double jeopardy, self incrimination and discrimination, as well as rights like due process. Corporations are legal fictions and lack the morality and responsibility to community that many people value. They should not have access to the same constitutional protections. A starting point for a community that wants to challenge corporate personhood is to connect a corporation's false claims to constitutional rights to specific local battles like Porter Township did in Pennsylvania. These local battles could include campaigns to keep giant chain stores out of the community, stopping the development of dumps and incinerators, or fighting corporate farming. In the appendix is a model ordinance for revoking corporate personhood in your community. For more information about corporate personhood check out: www.poclاد.org and www.wilpf.org.

Corporate Crime and Punishment

A double standard plagues our criminal justice system. While corporations have the legal rights of people, they escape many of the responsibilities and consequences of citizenship. Burglars, car thieves and drug users typically are aggressively prosecuted and serve years in jail. Corporate law violations cost society at least \$2 trillion dollars and often go unpunished. When corporate crimes like toxic pollution, food and drug violations, fraud, bribery, illegal agreements, and wrongful death of community members and employees are prosecuted, the resulting fines are generally insufficient and can be written off as the cost of doing business. Individuals convicted of criminal activity can have their rights taken away from them and often have difficulties getting a job. Corporations with repeated criminal activity usually suffer no such difficulties, not even when it comes to getting government contracts. Threats of imprisonment are meaningless against corporations because, while the law has created the fiction that corporations are persons, there is no way to imprison a fictional person.

Another problem is the sheer power of large corporations versus the government. Both the Department of Justice and the Securities and Exchange Commission (the two agencies responsible for prosecuting corporate crime) are woefully under-funded and unfocused when it comes to unraveling complicated corporate crime. But plenty of resources are devoted to street crime. The lack of much initiative against corporate crime at the federal level has in some cases caused some politically ambitious attorneys general in a few states to take aggressive action. In order to force corporations to change their behavior we need

to punish them as institutions, not just individual executives. One attempt to crack down on corporate crime is the Corporate Three Strikes Act currently being pursued in California (see box entitled Corporate Three Strikes).

Another approach is to change the system design or incentives that motivate executives to commit crimes in the interest of maximizing profits. One model of this approach has been suggested by attorney Robert Hinkley, who calls his approach the Code for Social Responsibility (see box entitled Code for Corporate Responsibility).

CORPORATE THREE STRIKES

The courts have long held that corporations may be dissolved or denied permission to do business if they violate the law. Usually it is the responsibility of the Attorney General to initiate charter revocation proceedings against criminal corporations, an action that is sometimes used against small corporations, but rarely used against the larger corporations. Californians are seeking to enact state legislation in the Corporate Three Strikes Act, which would require California to take legal action to put out of business in the state any corporation that has three "major violations" in a ten-year period. In this case, a "major violation" is defined as an intentional or grossly negligent violation of existing law that results in a death, or in a fine, damages or settlement of over a million dollars.

After Enron, the Corporate Three Strikes Act is an excellent example of how we can be tougher on corporate crime and assert our authority over corporations. See www.corporate3strikes.org for more information.

THE CODE FOR CORPORATE RESPONSIBILITY

Robert Hinkley was a corporate securities attorney for 23 years before he realized that "many of the social ills created by corporations stem directly from corporate law...[which] actually inhibits executives and corporations from being socially responsible." His beef is with the state laws that say the only purpose of a corporation is to maximize profits and make as much money as possible for the shareholders. Hinkley says, "corporate law thus casts ethical and social concerns as irrelevant, or as a stumbling block to the corporation's fundamental mandate." The implications of the "profit-only" focus are apparent in crumbling job security, disintegrating communities and the devastated ecosystems that surround us. Hinkley's suggestion is simple: adjust state corporate legal codes which define the purpose of corporations to expand their realm of responsibility. This would fundamentally restructure the priorities of the corporate world to better align them with the values of the citizenry. This change is captured in these 28 words that can be inserted into state corporate laws: ...but not at the expense of the environment, human rights, the public safety, the communities in which the corporation operates or the dignity of its employees. The Code was introduced in the California Senate on February 19, 2003.

See the [Citizen Works web site](http://www.citizenworks.org), or www.c4cr.org for more information.

CULTURAL TRANSFORMATIONS

Corporations are invading our lives from all angles through a cascading assault of sponsorships and advertisements, an all-encompassing web of product placements and branding. Our sports stadiums and museums garishly broadcast the names of corporations ; our symphonies and public works are only made possible through their "generous" sponsorship. Even our schools, universities, and places of worship now increasingly bear the marks and mindsets of corporations. We no longer relate to each other as citizens, but as consumers, our identities somehow defined by the clothes we wear, the cars we drive, even the soft drinks we prefer. Corporate values have permeated our culture, through and through.

We can challenge the corporate co-optation of our culture, both through individual actions and coordinated campaigns. For example, 11 years ago, Adbusters started Buy Nothing Day on the busiest

shopping day of the year, the day after Thanksgiving, as a simple yet powerful way to challenge our over-consuming culture. Citizens participate in a variety of ways by stepping out of the insanity of consumer work-spend-work-spend fray for 24 hours to organize symbolic and educational actions. In the same vein, in 2002 Citizen Works launched an annual event, Big Business Day, as a vehicle to demonstrate opposition to corporate driven culture and corporate power. Each year, communities across the country organize teach-ins, rallies, protests, parades and other media events to illustrate a local aspect of the problem of corporate power. Big Business Day is helping to build the movement to challenge corporate power by educating and activating concerned citizens, and raising awareness about corporate power among the general public.

Citizens also find other ways to locally challenge the infiltration of corporatism into their communities. Some communities are running campaigns against Channel One, a mandatory T.V. program shown to eight million students in 12,000 schools across the country. The program contains a mix of ads, news and other programming. Critics contend that the content of Channel One forces children to watch commercial advertising, wastes school time, promotes violent entertainment, wastes money and promotes television instead of reading. See www.commericalalert.org for more information.

COUNTERING THE CORPORATE MEDIA

Corporate control of the media is one of the biggest threats to democracy. There are a number of ways that activists can respond to growing corporate control of the media: fight that control, support alternatives, or establish your own media outlet (e.g. through the Independent Media Network).

Challenging Corporate Consolidation of the Media:

Media Access Project: www.mediaaccess.org

Center for Digital Democracy www.democraticmedia.org

Critiquing the Content of Corporate News:

Fairness and Accuracy in Reporting: www.fair.org

Independent Press Association: www.ipa.org

Project Censored: www.projectcensored.org

Alternative Media Sources:

Independent Media Center www.indymedia.org

Independent Press Association www.indypress.org

For more information see: *The Progressive Guide to Alternative Media and Activism*

On a larger scale, campaigns targeting corporations nationally or internationally have proven to be an effective tool to both educate the public and initiate change within specific companies and industries. Thanks to the vision and hard work of anti-sweatshop and other activists, companies with well-known brands like Nike, the Gap, Starbucks, Coca-Cola and other large retailers have been forced to address growing public concern over the content of and conditions under which their products are made overseas . Similarly, stores like Wal-Mart and Home Depot have had to respond to citizen protest about their unethical labor and environmental practices . We can also include a message of challenging corporate power while running winning local sustainability campaigns to stop damaging corporate development projects. Both types of campaigns are opportunities to educate the broader public about the need to fundamentally change the role of corporations in our democracy .

CHALLENGING CORPORATE POLITICAL POWER

We know that it will take a multi-faceted effort to weaken the vice grip corporations have on our government. Back in 1906, in an address to Congress, Theodore Roosevelt said "let us prohibit in effective fashion all corporations from making contributions for any political purpose, directly or indirectly."

Fighting to ensure that public officials are truly independent and beholden only to their voting constituents, activists and public interest advocates throughout the twentieth century have championed various campaign finance reforms (CFR) aimed at curbing corporate influence in government. Particularly in the last two decades, since monumental court decisions expanded opportunities for corporations to contribute to electoral campaigns, the debate about money in politics has become increasingly visible and the necessity for reform clear to the public.

The turning point that ushered in the modern campaign finance reform era was the passage of the Federal Election Campaign Act (FECA) in 1971. This act, along with a slew of amendments in 1972 after the Watergate scandal, represented an effort to address the damaging conflicts of interests created when big corporate money elects public officials. Among other things, it enacted spending caps, limited the amount an individual could contribute to a federal candidate to \$1000, and established the Federal Election Commission to enforce the regulations.

This system was never given a fair chance, though, because in 1976 the Supreme Court ruled in *Buckley v. Valeo* (see Legal Rights section) that the key provisions were unconstitutional. This decision was monumental and laid the foundation for the unjust and disastrous system we are faced with today.

The next campaign finance reform victory came in March of 2002, when after years of proposals and compromises and in the wake of the Enron scandal, the Congress passed into law the McCain-Feingold campaign finance bill. While proponents of reform celebrated, most of them recognized it as a compromise and a modest step forward. The laws' two major provisions are a ban on soft money (money donated to parties that is not subject to contribution limits or disclosure), contributions to national parties, and restrictions on the timeframe within which interest groups are allowed to air ads. But many of the key provisions of the initial bill drafted in 1996 did not make it into the final version of the law. These include bans on PACs (Political Action Committees), voluntary spending limits in exchange for free broadcast time, and a mandate for Senate candidates to raise 60 percent of their funds in their home state. Some critics even say that the law has the potential to further cripple the system with its increase in the hard money (money donated directly to candidates) limit from \$1000 to \$2000. While McCain-Feingold was on the whole an important victory for the CFR movement, we must consider it a step towards more fundamental change, not a final destination.

FOUR LEADERS IN PUBLIC FINANCING

Arizona, Maine, Massachusetts, and Vermont have led the way toward publicly financed elections. In those states, voters have chosen a system that provides qualifying candidates who agree to limit their spending and reject contributions from private sources with a set amount of public funds to run for office. Evaluation of these new laws is underway, but early analysis of the first election cycle (2000) under the system already reveals improvements in transparency and access for a broad field of candidates. See Public Campaign www.publiccampaign.org/ for more information.

The ultimate goal of the CFR movement should be full public financing of federal, state, and local elections. Over two-thirds of people polled favor public financing of campaigns if it means limits on spending and a ban on private and special interest money and most industrialized nations have it. Public financing would quell the voice of corporate special interests that are so loud in Washington, and allow solid candidates from all backgrounds to compete. (See box entitled Four Leaders in Public Financing.)

In addition to publicly financed elections, Mark Green, a longtime expert on campaign finance reform and author of *Selling Out*, lays out the following additional steps, essential to a clean system:

- Overturn *Buckley v. Valeo*: take away the corporate claim to free speech rights.
- Restructure the Federal Election Commission: make it nonpartisan instead of bipartisan, increase staff and budget, take it off the 'honor system' by mandating audits, and empower it to review laws regularly.
- Allot free broadcast time and mailings to qualified candidates.

Getting corporate money out of electoral politics is only one of the reforms necessary if we are to eliminate immense corporate influence of government. Corporations manipulate our democratic process with an army of lobbyists, scores of unelected and appointed high-ranking government officials, and by demanding massive industrial subsidies. The following are some important steps to counter this influence beyond CFR:

- To balance the loud voice of the corporate interests that often dominate Washington, the federal government could create a "Consumer Protection Agency" to advocate for consumer interests, investigate, develop facts, participate in federal agency proceedings, challenge agencies that neglect to enforce statutes

passed by Congress, and present consumer interests to legislators, regulators and courts .

- The "revolving door" between business and government should be closed. Public officials should be required to recuse themselves for 3 years from any investigation, enforcement action, or rule-making involving a former employer or client.

- We can also drastically cut the subsidies, giveaways, and huge bailouts that only benefit corporations at the expense of taxpayers . Good Jobs First (www.goodjobsfirst.org) helps groups that want to fight local giveaways to corporations.

ECONOMIC POWER

Economic power can be measured in different ways, including market size and control. Many giant corporations use their superior size and cross-sectoral integration to stifle competition within their market sector . As we have seen, corporations have become so big that they are, as economies, larger than dozens of nations . They are able to wield tremendous amounts of influence and power to shape domestic and international economic policy, consumer choice, and aspects of cultural life.

A single corporation is able to integrate operations across many sectors, stifling competition and access to markets. For example, Clear Channel, a firm that controls 1,200 radio stations in the United States, owns concert promotion firms and many concert venues across the country. Clear Channel uses its radio stations to promote its concerts, and some independent concert promoters claim they are denied access to airtime for paid advertisements and some bands produced by competing promoters do not get airtime either . This illustrates how companies involved in many phases of production or delivery of a particular service can leverage their power in one market to exert influence over another.

For Clear Channel, as for Enron, corporate misconduct has been enabled by deregulation. Deregulation is part of a broader economic philosophy that is often described as neoliberal, and is based on the idea that free, unregulated markets are the best way to provide equal access to opportunities for growth and progress. What the theorists behind neoliberalism neglect, though, is that the world does not operate in a vacuum free of stresses and complicating influences. We have seen time and time again that markets left unregulated do not in fact allow equality. Rather, they produce increasing inequality and a wild, volatile atmosphere that does not encourage sustained growth, while constantly narrowing consumer choice and making it difficult for smaller and new businesses to startup and sustain . Deregulation assumes that competition will promote efficiency that benefits all, and that government is wasteful because it has no incentives to do better. It should be clear after what energy deregulation did to California that the assertions about increased efficiency and consumer choice have proven false .

There are a number of national and state groups working to reverse the deregulatory tide and advocate for sensible economic policies on the state, national, and international levels. Some of these include Public Citizen www.citizen.org (particularly in the area of energy and water utilities), United for a Fair Economy www.ufe.org, the Economic Policy Institute www.epinet.org, Institute for Policy Studies www.ipd-dc.org, New Rules Project www.newrules.org, and Campaign for America's Future www.ourfuture.org.

Communities around the country are challenging these neoliberal economic policies and challenging the corporate dominance of local markets in other ways. Community groups have beaten back large corporate box stores like Wal-Mart in a number of towns.

In addition to resisting corporations, communities are working to strengthen local economies through such means as small business associations. Owners of small businesses have begun to organize independent business alliances that aim to highlight the value of supporting local business. These alliances are instrumental in preserving local cultural heritage, integrity in business practices and community involvement, and often set a standard that larger international chain corporations cannot meet. (See box entitled American Independent Business Alliance.)

American Independent Business Alliance

Another way that communities fight corporate

Activists at Reclaim Democracy in Boulder, Colorado joined with independent business owners to establish the American Independent Business Alliance, a group that helps people in communities across the country establish independent business associations. The IBA's help local business compete successfully against chains and reverse the trend of losing community-based businesses. By its third year, Boulder IBA had united over 150 member businesses and made a tremendous impact on community consciousness. Visit www.amiba.net to learn more.

control of the local economy is by resisting the expansion of markets into essential services. Battles over the privatization of municipal services like water and electricity are critical parts of the resistance to corporate rule over community services . Sometimes those battles attempt to reverse corporate control. After the California energy crisis San Francisco barely voted down a proposal to reclaim its electrical utility. (See box entitled Limiting Corporate Intrusion on Competitive Markets.)

These fights are also tied in a way to national and international policies . While starting with advocacy on the local level is certainly the best way to protect services in your community, there are many ways that state, national or international policies affect your local struggle. The battle against trade agreements is in many ways a battle to protect local control.

But how do we make the connection?

On a global scale, we are fighting an aggressive push by the corporate-driven international financial institutions to coerce developing nations to relax trade laws, open markets and usher in privatization . This agenda is being driven by taxpayer-funded institutions such as the IMF and the World Bank. And we can fight these institutions by taking away their funds. One way is to pressure our elected officials to vote against any funding reauthorization.

The World Bank Bonds Boycott is another way that your community can help deflate these institutions' ability to exert remote decision-making authority over local communities in poor nations. The World Bank pressures governments to cut social spending on vital health and human services, and funds destructive development projects. The Boycott is in effect in several cities, investment firms, and unions internationally .

Limiting Corporate Intrusion on Competitive Markets:

Nebraska Fights Corporate Concentration Of Farms Nine states have placed some sort of restriction on corporate-owned farms, whose profits usually end up in corporate headquarters, not the local economy. The country's toughest anti-corporate farming law was adopted in 1982 as part of Nebraska's constitution. Its reach is broad, covering not only land ownership but the operation of farms and ranches. The family farm corporation is exempt from the law, but it must meet two conditions: a majority of the livestock must be owned by members of the family, and the family members must live on the farm or be engaged in the day-to-day work and management of the farm. Most significantly, if there is a violation of the law and the state fails to act to enforce it, any citizen has standing to sue the corporation. For more information, check out Nebraska's Friends of the Constitution at www.i300.org.

Both domestically and internationally, internal pressure to change corporate behavior is growing through a rapidly-expanding network of socially-conscious investors. A record number (up to 893 by late February) of shareholder proposals have been filed at 2,000 widely held U.S. companies in 2003, according to the Investor Responsibility Research Center. The resolutions address company policy on corporate tax dodging, worker rights, global warming, executive compensation and other corporate governance questions .

There are at least as many approaches to solving the problem of corporate dominance as there are components of the problem. Instead of allowing the choice to overwhelm us, we should recognize that these approaches can be complimentary and that a multi-faceted effort is indeed necessary to effectively challenge the complex problem corporate power. Only through a comprehensive and versatile effort of coordinated groups will we engage massive numbers of diverse citizens and build a strong and successful

movement.

[next section>>](#)

1. *Gettysburg Address, delivered November 19, 1863*
2. *Center for Responsive Politics, <http://www.opensecrets.org/overview/blio.asp?Cycle=2000>*
3. *Center for Responsive Politics, <http://www.opensecrets.org/overview/blio.asp?cycle=2000>*
4. *Center for Responsive Politics, <http://www.opensecrets.org/pressreleases/Election2002Analysis.asp>*
5. *http://www.pbs.org/now/transcript/transcript_lewis.html*
6. *Public Citizen; <http://www.citizen.org/congress/welfare/index.cfm>*
7. *See Cutting Corporate Welfare, Ralph Nader*
8. *"War in Iraq: The Oil Factor," Miriam Pemberton, Foreign Policy in Focus, September 2002*
9. *See 50 Years Is Enough, www.50years.org, Multinational Monitor, www.multinationalmonitor.org, When Corporations Rule the World, David Korten, and International Forum on Globalization, www.ifg.org*
10. *See "NAFTA's Investor Rights: A Corporate Dream, A Citizen Nightmare," Mary Bottari, Multinational Monitor, April 2001; "Corporate Control of North America; And how to bring NAFTA under popular governance," by Jeff Faux, American Prospect, January 13, 2003.*
11. *See The Divine Right of Capitol, Marjorie Kelly*
12. *See 50 Years Is Enough: The Case Against the World Bank and the International Monetary Fund, Kevin Danaher; <http://multinationalmonitor.org/mm2001/01september/sep01toc.html>*
13. *"Capitalist Tools", St. Louis Post-Dispatch, May 23, 2002*
14. *Citizens for Tax Justice, <http://www.ctj.org/html/corp0302.htm>*
15. *The Rich Get Richer and the Poor Get Prison, Jeffrey Reiman*
16. *ibid, see also Corporate Crime and Violence, Russell Mokhiber*
17. *ibid*
18. *"The Stock-Research Pact," Greg Zuckerman, Wall Street Journal, January 13, 2003.*
19. *<http://lists.essential.org/pipermail/corp-focus/2002/000105.html>*
20. *"Bankruptcies Smash Record as Fraud Takes Toll: U.S. Corporations", December 31, 2002, Dena Aubin, Financial Post*
21. *<http://members.ici.org/pubinfo/equity.pdf>*
22. *See The Conference Board, www.conference-board.org*
23. *"The Greedy Bunch", August 11, 2002, Mark Gimein, Fortune*
24. *"Executive Excess 2000," United For a Fair Economy/Institute for Policy Studies, <http://www.faireconomy.org/press/2002/EE2002.pdf>*
25. *See "The Enron Debacle and Gatekeeper Liability: Why Would the Gatekeepers Remain Silent?" Testimony by Professor John C. Coffee before the Senate Committee on Commerce, Science and Transportation, December 18, 2001*
26. *See Public Citizen, www.citizen.org/cmep*
27. *"Too Much, Too Soon For Telecom", Karen Kaplan and Jon Healy, LA Times, June 30, 2002*
28. *"WorldCom files Record Bankruptcy Case", Christopher Stern and Carrie Johnson, Washington Post, July 22, 2002*
29. *See Unequal Protection: The Rise of Corporate Dominance and the Theft of Human Rights, Thom Hartman*
30. *"Supreme Court to Review Nike Case in Major Look at Free Speech Rights of Companies", New York Times, January 19, 2003*
31. *www.corporate3strikes.org*
32. *www.pogo.org/p/contracts/co-020505-contractors.html*
33. *See "Attorneys General Crusade Against Corporate Misdeeds: States Often Sue When the Federal Government Won't," Caroline Mayer, Washington Post, February 19, 2003.*
34. *League of Fans, www.leagueoffans.org*
35. *Adbusters, www.adbusters.org*
36. *The Global Activist's Manual (Local Ways to Change the World), Mike Prokosch (ed.)*
37. *For a list of corporate campaigns, see links at Multinational Monitor Magazine*

- (www.multinationalmonitor.org) and *Empowering Democracy* (www.empoweringdemocracy.org).
38. See *Good Jobs First*, www.goodjobsfirst.org.
 39. *Selling Out: How Big Corporate Money Buys Elections, Rams Through Legislation, and Betrays Our Democracy*, Mark Green
 40. *ibid*
 41. *Public Campaign*, www.publiccampaign.org
 42. *Selling Out*, Mark Green
 43. *For the Consumer and Shareholder Protection Association*, see <http://www.essentialinformation.org/features/ctspa1.html>
 44. *For more information about corporate welfare see Essential Action* <http://www.essential.org/features/corporatesocialism.html>; *Cato Institute*, <http://www.cato.org/fiscal/corporate-welfare.html>, as well as *Taxpayers for Common Sense*, www.taxpayer.net.
 45. *When Corporations Rule the World*, David Korten.
 46. Kelly, *The Divine Right of Capital*.
 47. "Divide and Conquer: Restraining Vertical Integration and Cross-Industry Ownership," Robert Weissman, *Multinational Monitor*, Oct./Nov. 2002
 48. See *When Corporations Rule the World*, David Korten, *One Market Under God*, Tom Frank, and *Everything for Sale*, Robert Kuttner.
 49. See "Blind Faith: How Deregulation and Enron's Influence Over Government Looted Billions From Americans," *Public Citizen*, www.citizen.org/cmep
 50. *The American Local Power Project* can help connect you with local power advocates in your community, <http://www.local.org/>, and *Public Citizen*, www.citizen.org/cmep/water
 51. *Citizen's Network on Essential Services*, www.servicesforall.org
 52. *Global Trade Watch*, <http://www.citizen.org/trade/>
 53. *World Bank Bonds Boycott*, <http://econjustice.net/wbbb/>
 54. See www.socialinvestmentforum.org; www.shareholderaction.org; www.thecorporatelibrary.com

Last Updated March 27, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

Session Two: The History of the Corporation

[printer friendly version of session 2](#)

By Lee Drutman

How did corporations become the dominant institutions in our society, powerful behemoths with a hand in every almost every aspect of our lives?

The history of corporations in America is indeed a fascinating tale, the story of how a small legal construction designed to harness human ingenuity and entrepreneurship for the public good has been transformed into a largely unaccountable force that has, in some instances, grown larger than entire nations.

The modern corporation dates back to 1601, when Queen Elizabeth I created the East India Trading Company. At the time, the concept of a corporation was quite different than today. Corporations were small, quasi-government institutions chartered by the crown for a specific purpose. The idea was to bring together investors interested in financing large projects, such as exploration. (Many American colonies were originally governed by corporations, such as the Massachusetts Bay Company) Kings and queens kept a close watch on these corporations and didn't hesitate to revoke charters if they weren't happy with the way things were being run. Investors were liable for any harm or loss caused by the company.

As the American colonies developed and won their independence, corporations remained in the background. Sure, there were a few notable anti-corporate protests, like the Boston Tea Party (the Sons of Liberty dumped 342 crates of British East India Company tea into the ocean), but the vast majority of Americans at the time lived and worked on small family farms. The real threat was the unilateral, unaccountable power of King George III, and the founders of a new nation, skeptical of that kind of power, formed a government of checks and balances to prevent any one branch from getting too powerful. Although corporations were not mentioned once in the Constitution or the Bill of Rights, Thomas Jefferson famously noted that representative government's purpose was "to curb the excesses of the monied interests." Had the Founders realized how powerful corporations would become, likely they would have created checks on their power.

Post-Revolution America developed largely along the ideals of Jefferson's yeoman farmer, with American industrialism lagging behind its European counterparts. Corporations remained small institutions, chartered at the state level for specific purposes, such as banking or seafaring. Corporations could only exist for a limited time, could not make any political contributions, and could not own stock in other companies. Their owners were responsible for criminal acts committed by the corporation and the doctrine of limited liability (shielding investors from responsibility for harm and loss caused by the corporation) did not yet exist. Often corporate charters went to the wealthy or well-connected. But these small corporations did move America into the industrial era, encouraging entrepreneurship on a grander scale. Governments kept a close watch on how these corporations were being run, regularly revoking charters if corporations were not serving the public interest. For example, in 1832, President Andrew Jackson refused to extend the charter of the Second Bank of the United States and the State of Pennsylvania revoked 10 banks' charters.

Slowly, though, corporations were gaining power. In 1819, the Supreme Court ruled in the case of *Dartmouth College v. Woodward* that states could not alter a contract granted by a previous legislature, leaving Dartmouth's King George III-granted charter in tact and creating a framework of protection for corporations against government encroachment.

As industrialization began reshaping America, great fortunes began accumulating in the hands of canal owners and financiers and later railroad and steel magnates. And as great fortunes accumulated, a new wealthy class began influencing policymaking, changing the rules governing the corporations they owned. Charters grew longer and less restrictive. The doctrine of limited liability - allowing corporate owners and managers to avoid responsibility for harm and losses caused by the corporation - began to appear in state corporate laws. Charter revocation became less frequent, and government functions shifted from keeping a close watch on corporations to encouraging their growth. For example, between 1861 and 1871, railroads received nearly \$100 million in financial aid, and 200 million acres of land.

As corporations grew in size and influence, however, their accounting structure remained the same. For a small corporation driven by investors, it made sense to measure corporate performance by measuring financial profits and losses. But for a corporation with thousands of employees and millions of customers, a corporation that was receiving public subsidies and encroaching on communities, a more extensive reporting system that measured the impact of the corporation on people's lives might have made sense. This never developed, however, and the profit-generating mentality remained the dominant driving force behind corporations.

The growing industrialization of America in the second half of the 19th century meant more citizens were leaving the countryside farms for work in the cities. A wave of immigration swelled the ranks of the urban workers, creating a new class that depended on factory jobs to earn a living and depended on factory products to survive. The era of self-sufficiency was ending and the era of corporate market dominance was beginning.

Meanwhile, corporations were expanding their power through both courts and legislatures, both of which were increasingly packed with sympathizers. In 1886, corporations emerged from the Supreme Court case of *Santa Clara v. Southern Pacific Railroad* as "persons" under the law and thus could use the 14th Amendment to protect their equal rights. This meant that corporations were now entitled to free speech, protection from searches and seizures, and could not be discriminated against. Suddenly, corporations (artificial persons) had the same rights as real people.

At the state level, checks on corporate power were quickly eroding. In 1889, New Jersey became the first state to permit corporations to own equity in one another, perhaps as an attempt to attract more business. A "race to the bottom" quickly followed, with states all over the country madly gutting their corporate laws to be the most business-friendly state. In 1896, New Jersey passed the revolutionary "General Revision Act," permitting unlimited size and market share, removing all time limits on corporate charters, reducing shareholder powers, and allowing all kinds of mergers, acquisitions, and purchases. Not to be outdone, Delaware passed its "General Incorporation Law" in 1899, which set the standard by essentially allowing corporations to write all their own rules of governance. Today, nearly 60% of all Fortune 500 companies are incorporated in Delaware

Meanwhile, between 1895 and 1904, the first great merger wave consolidated 1,800 companies into 137 mega corporations or "trusts." When all was said and done, the corporation was transformed from a quasi-public, state-controlled organization limited in size to a gigantic unlimited private organization with limited responsibility and limited accountability.

Corporations were now the dominant institutions of society, and as their excesses provoked public sentiment, the government set out to deal with the problem. Presidents like Teddy Roosevelt and Woodrow Wilson now turned to a regulatory system and applied anti-trust laws to corporations that were getting too big, engaging in a tug-of-war with corporations over who was in charge. By the 1920s,

however, a string of pro-business presidents (Harding, Coolidge, Hoover) gave up on cracking down on corporate power. Instead, Coolidge proclaimed in 1925: "The business of America is business."

Meanwhile, as corporations grew larger and larger and more and more people began to own stock, a new problem emerged - the owners (now an increasingly diffuse network of individual investors) no longer controlled the corporation. Instead, managers were running the company at their whims, accountable to no one. In the days of the robber barons, magnates like J.P. Morgan and Cornelius Vanderbilt ran the companies they owned with pride, insisting that their benevolent leadership would benefit the public. Now, with ownership increasingly divorced from management, owners took little interest in how their company was being run and managers had few consequences for mismanagement. This meant that managers could more easily use the corporations to enrich themselves at the expense of workers or employees, as they increasingly did. A.A. Berle and Gardiner C. Means first noted this problem in their groundbreaking work *The Modern Corporation and Private Property*, published in 1932.

In 1929, the stock market crashed, ending a speculative bubble and pushing the country into a great depression where unemployment would reach 25%. Like the stock bubble of the '90s, the bubble of the '20s featured a new technology (the automobile and the radio) and lots of financial speculation.

The Great Depression changed the corporate power equation again. For the first time, government became the dominant economic force by creating a massive public works program as well as attempting to control wages and prices. The New Deal worked toward stronger government control of industry, but it was a control that favored large, stable corporations over the unpredictability of competition. The New Deal favored government mechanisms to reduce the risks of capitalism. This helped the entrenched corporate powers to stay strong. However, organized labor grew more powerful as well, creating a more balanced corporate framework.

America emerged from World War II as the dominant global power and the world's major exporter. This helped U.S. corporations to become increasingly wealthy. In the 1950s and 1960s, large corporations dominated, but organized labor and government remained strong countervailing forces, creating an economy that was at least somewhat equitable and balanced (compared to today). In 1954, Union membership peaked at 34 percent of the workforce.

By the 1970s, however, a new free market idealism was developing. In 1970, Nobel Prize-winning economist Milton Friedman wrote that "There is one and only one social responsibility of business -- to use its resources and engage in activities designed to increase its profits", signaling the birth of a new American myth. When Ronald Reagan became president in 1980, he put much of this into policy, kicking off two decades worth of deregulation, eliminating key public controls over corporations. He also cut taxes on corporations and the wealthy, draining the public coffers. Organized labor became weaker as industrial jobs went overseas and employees began to jump around more and more. Big business was now increasingly free to do as it wanted with minimal government oversight. Market populism prospered with mega-mergers everywhere and CEO pay skyrocketing. (By 2000, corporations were merging at the rate of more than 100 a day, approximately 5 times the rate in 1995. Meanwhile, CEO pay clocked in at 531 times average employee pay in 2000; in 1980, the ratio was 42-to-1.)

Corporate political donations also grew rapidly; in 2000, business interests donated \$1.2 billion to federally elected candidates, accounting for 75% of all political donations. With 20,000 lobbyists in Washington, corporations have become experts at getting their money's worth in legislation and lax regulation in return for cash contributions.

And that's where we are today. Corporations stand as the dominant institutions in our society. They provide the products and services upon which most of us have come to depend. Through advertising, public relations, and mass media, they shape our views of the world and our views of each other. They handle our finances and our health care, even our ability to communicate with each other. They provide most of our jobs. They wield more influence over the legislative process than any government branch was

ever supposed to wield. They increasingly provide many essential services, including water, electricity, and health care. Even public schools, universities, and churches have turned to corporations for funding, opening up once sacred spaces to commercialization. Meanwhile most natural countervailing force against corporate power, organized labor, has become increasingly powerless. Today, only 10% of the private workforce is organized, a 60-year low.

Yet, hopefully by examining and understanding the history of corporations in America, we can understand that it doesn't have to be this way. Corporations were not always the dominant institutions in society. Corporations did not always enjoy constitutional rights, unlimited size, and unlimited lifetimes. Naturally, we cannot go back to the past, nor should we overly romanticize a prior era. We must instead learn from the past and draw inspiration from American traditions like democracy that have proven far more durable than corporate dominance.

[next section>>](#)

Lee Drutman is the Communications Director of Citizen Works and has researched and written extensively on corporate reform issues. He is also the editor of the Corporate Reform Weekly, a weekly e-mail digest on the rhetoric and reality of corporate reform.

Last Updated March 25, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)
ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

Session Two: The Evil of Access

[printer friendly version of session 2](#)

From the December 30, 2002 issue of *The Nation*

By Mark Green

Reprinted with permission from *The Nation*

Among the least-discussed numbers from November 5 is \$184 million--the amount by which Republican national committees out-spent their Democratic equivalents. And with President Bush loudly beating his war drums, who heard any discussion about the escalating cost of campaigns? Spending in the New York and Pennsylvania gubernatorial elections, for example, tripled within one election cycle.

The evidence that money shouts is mountainous: Ninety-four percent of the time, the bigger-spending Congressional candidate wins--and 98 percent of House incumbents win. The average price of a House seat rose from \$87,000 in 1976 to \$840,000 in 2000. It cost Ken Livingstone 80 cents a vote to win the London mayoralty last year, compared with Michael Bloomberg's \$100 a vote in New York City.

As money metastasizes throughout our political process, the erosion of our democracy should be evident to left and right alike:

§ **Special Interests Get Special Access and Treatment.** While members publicly and indignantly deny that big contributions often come with strings attached, all privately concede the obvious mutual shakedown--or as one Western senator told me, "Senators are human calculators who can weigh how much money every vote will cost them." Two who violated the usual senatorial omertà gave dispositions in the federal district court arguments on the McCain-Feingold law earlier this month. "Who, after all, can seriously contend," said former Senator Alan Simpson, "that a \$100,000 donation does not alter the way one thinks about--and quite possibly votes on--an issue?" Senator Zell Miller bluntly described the daily conversations from fundraising cubicles: "I'd remind the agribusinessman I was on the Agriculture Committee; I'd remind the banker I was on the Banking Committee.... Most large contributors understand only two things: what you can do for them and what you can do to them. I always left that room feeling like a cheap prostitute who'd had a busy day." The access that money buys, of course, doesn't guarantee legislative success, but the lack of it probably guarantees failure.

After 9/11, for example, many legislators thought the argument for energy conservation and reduced dependence on Middle Eastern oil was obvious. So Senators John Kerry and John McCain were stunned when their effort to increase fuel-efficiency standards failed 62 to 38--with the average no vote getting \$18,000 in donations from auto companies and the average yes vote only \$6,000. One senator insisting on anonymity said: "That vote was one of the most politically cowardly things I ever saw in the Senate. We know how to be energy-efficient, and it starts with cars."

§ **Fundraising Is a Time Thief.** Imagine if someone kidnapped all candidates for state and federal office for half of each day. The story would be bigger than Gary Condit, and would surely lead to calls for tougher penalties against political kidnapping.

Well, there is such a culprit. It's the current system of financing political campaigns, which pits each

candidate in a spiraling "arms race," not merely to raise enough money but to raise far more than any rival. One Midwestern senator complained, "Senators used to be here Monday through Friday; now we're lucky to be in mid-Tuesday to Thursday, because Mondays and Fridays are for fundraisers. Also, members loathe voting on controversial issues, because it'll be used against you when you're raising money."

Candidates start to feel like Bill Murray in *Groundhog Day*, trapped in a daily, stultifying repetition they can't escape. As a mayoral candidate I made 30,000 phone calls (that is not a misprint) over two years to lists of potential donors and spoke at 205 of my own fundraising events. It's hard to overstate the physical and psychological stamina required in such an effort, and how little time and energy it leaves for all else.

§ **The "Money Primary" Weeds Out Good Candidates.** Potential candidates know they have to succeed in not one but two elections: The first, in which contributors "vote" with their dollars, comes long before constituents have their say. And if you don't win round one financially, you might as well not bother with round two; after all, because incumbency attracts money and money entrenches incumbency, no challenger spending under \$850,000 won a House seat in 2000. With odds like those, many talented women and men flinch.

§ **The "Pay to Play" System Especially Hurts Democratic Candidates and Values.** Most Republicans oppose new regulations and taxes out of authentic belief. So they regard the special-interest funding of public elections as a brilliant system: For them, principles and payments go hand in hand. Robert Reich, a former Labor Secretary and recent Massachusetts gubernatorial candidate, believes his party is losing its identity as the champion of the average family "because Democrats became dependent on the rich to finance their campaigns. It is difficult to represent the little fellow when the big fellow pays the tab."

Ever wonder why polls show that so many Americans strongly favor higher minimum wages, prescription drug benefits for Medicare, quality daycare, publicly financed Congressional campaigns and stronger environmental protection, even at the cost of higher taxes--yet the political system can't produce any of these? The pay-to-play system is a circuit breaker between popular will and public policy.

Put yourself in an honest Democrat's shoes: What do you do when a big-business donor privately asks you, "So where do you stand on X?" X being something that hugely helps or hurts his economic interests? You realize not only that your answer could immediately affect a large contribution but that the cost of paying for X will fall on taxpayers who are not listening on the phone.

Or suppose you're in government. Once, as the New York City consumer affairs commissioner, I was considering filing a legal action that could cost a Democratic businessman I knew well millions of dollars. I successfully sued, and he did lose millions, and he wouldn't speak to me for a decade. But this outcome did cross my mind as I weighed my decision to prosecute--given the current political money process, how could it not?

§ **Wealth Buys Office.** As more and more multimillionaires run and win--the percentage of them in the Senate has risen to more than one-third, about the same proportion as it was before senators began being elected by popular vote in 1913--more and more experience-rich candidates are grilled by party leaders about how they can possibly run against experience-poor but wealthy candidates. And when a very wealthy candidate inundates TV, radio and mailboxes with ads portraying him as a young Abe Lincoln and you as the Manchurian Candidate, the pressure to hustle special-interest money becomes even more intense.

Also, as campaign reformer Ellen Miller describes it, "the problem [with] more and more wealthy people running and winning is that then tax policy, healthcare policy and education policy are seen through the lenses of multimillionaires, people who don't need government services. They are a different class of people and from a different world than most Americans, who sit around the kitchen table calculating their finances."

So although issues like terrorism, healthcare and pollution absorb far more public attention and concern, the scandal of strings-attached money corrupting politics and government is the most urgent domestic problem in America today--because it makes it harder to solve nearly all our other problems. How can we produce smart defense, environmental and health policies if arms contractors, oil firms and HMOs have such a hammerlock on the committees charged with considering reforms? The culprit is not corrupt candidates but a corrupt system that coerces good people to take tainted money.

The old and much-discussed saga of political money may reach a climax between now and 2004 as a result of three epic developments:

First, the corporate scandals of 2001-2 started with questions about corrupt financing practices and then moved to questions about corrupt political practices. Joan Claybrook, head of Public Citizen and a veteran of the campaign finance wars, says, "Political money from the Enrons and others bought loopholes, exemptions, lax law enforcement, underfunded regulatory agencies and the presumption that corporate officials could buy anything they wanted with the shareholders' money." Once the current war fever abates electorally, will the Enron/Adelphia/Global Crossing/Tyco/WorldCom scandals lead to a shift in our political zeitgeist, as corruption a century ago led to the Progressive Era?

Second, the McCain-Feingold fight re-educated the public about money in politics. Given all the problems of our current system, the McCain-Feingold law is like throwing a ten-foot rope to a drowning swimmer forty feet offshore. But it's necessary to stop huge soft-money federal gifts that enable big interests to make an end run around federal bans on corporate and labor donations.

Third, the Supreme Court will likely rule next spring on the constitutionality of McCain-Feingold's two major provisions: banning soft-money fundraising by the national parties and restricting soft money for sham "issue" ads. This will be the Court's first major consideration of campaign finance since 1976's disastrous *Buckley v. Valeo* ruling, which held that legislatively enacted "expenditure limits" were an unconstitutional infringement on speech. If the Court had reached a different conclusion then, there would be no \$2 million House candidates today, no \$15 million Senate candidates, no \$74 million mayoral candidates.

Moreover, the State of Vermont last year enacted a spending ceiling. The Court of Appeals for the Second Circuit initially upheld the law in August, arguing that evidence of legislators routinely selling access showed the law was a constitutionally permissible way of stopping such corruption. If this case goes to the Supreme Court with McCain-Feingold--and swing Justices Sandra Day O'Connor and Anthony Kennedy agree with the Second Circuit majority--we'll be close to taking the for-sale sign off our democracy.

Meanwhile, can the political process significantly reform not just the soft-money but also the hard-money system?

Most senators and representatives I interviewed thought Congress had exhausted itself in the McCain-Feingold fight and that this Republican Congress had no interest in going further. However, Fred Wertheimer of the campaign-reform group Democracy 21, citing the revolution of rising expectations, believes that "winning McCain-Feingold will open the door to another round," if not in this Republican Congress then in a future one. "And we have put together the best coalition I've ever seen on an issue--from the AARP to the Sierra Club to labor and some businesses."

But 535 campaign finance experts in Congress don't want to change the rules that got them there and have kept them there; and there are hundreds of large interests who invest thousands and reap billions, a rate of return unrivaled since IBM and Microsoft went public--and who like things as they are.

So systemic reform may turn on the 2004 presidential election. If Gore, Kerry, Gephardt or Daschle runs against the current money game as ardently as McCain did--and wins--our slow-motion decline from democracy to plutocracy could end. Democrats searching for a popular and important message should

embrace three fundamental reforms based on the slogan "Don't Let Enron Run Your Democracy."

1. Public Financing. The rationale is simple: If, say, twenty special interests give a senator \$100,000 each, they own him or her; if instead a million taxpayers give \$2 each in public funds, we own him or her. Isn't it preferable for elected officials to be responsive to all voters rather than to relatively few donors? "Democratically funded elections" could follow either the New York City or the Arizona model. Under the first, 4-to-1 matching grants are made for all gifts up to \$250 from people who can vote for the candidate (so a \$25 gift becomes \$125); under the second, after a gubernatorial candidate crosses a certain threshold--raising 4,000 contributions of at least \$5--he or she receives all subsequent funding up to a specified ceiling from the public treasury, which could be raised by a "democracy surtax" imposed on registered lobbyists, political consultants and TV advertisers.

Public financing has worked in presidential campaigns and in New York City, Arizona and Maine elections. It avoids First Amendment arguments, since it increases speech instead of limiting it, and majorities of 70 percent regularly support it.

Two strategies can help win over even more voters and some legislators to democratically funded elections: Because the current private system of financing costs tens of billions in corporate welfare, pollution and lost productivity, any public financing system would be inexpensive by comparison. Also, bad policies--for example, privatization of Social Security and weaker fuel-efficiency standards--should be publicly linked to big contributions so voters understand the impact on their health and wallets.

2. Spending Limits. Because the financial "alms" race steals time and buys access, Congress and the Supreme Court should approve Vermont-like spending limits, which existed in the 1971 and 1974 federal campaign-finance laws until Buckley threw them out. But isn't money protected First Amendment speech, as Senators McConnell, Lott et al. claim? No, money is property, as Justice John Paul Stevens concluded in a recent case, which is why the 1907 Tillman Act has banned corporate contributions for nearly a century. How does it advance First Amendment values to allow a few wealthy interests to spend millions of dollars more and drown out the voices and contributions of millions of average citizens?

3. Free or Discounted TV. Because the airwaves belong to the public, we provide broadcasters with federal licenses--for free--on the condition that they agree to serve "the public interest, convenience, and necessity." But they have not lived up to their end of the bargain, perhaps because broadcasters pulled down \$1 billion in revenue from political commercials in the 2000 elections. Reducing that revenue would mean cutting into profit margins that average between 30 and 50 percent.

Paul Taylor, executive director of the Alliance for Better Campaigns, a nonpartisan group that advocates free airtime, sums up the scam: "Our government gives broadcasters free licenses to operate on the public airwaves.... During the campaign season, broadcasters turn around and sell access to these airwaves to candidates at inflated prices." He proposes that candidates who win their parties' nominations receive vouchers for electronic advertising in their general election campaigns. Candidates, particularly from urban areas, who don't find it cost-effective to advertise on television or radio could trade their vouchers to their party in exchange for funds to pay for direct mail or other forms of communication. As historian Arthur Schlesinger Jr. writes, "America is almost alone among the Atlantic democracies in declining to provide political parties free prime time on television during elections." If it did so, it would "do much both to bring inordinate campaign costs under control and revitalize the political parties."

For those who universalize the political moment and doubt we'll ever have public financing, a spending ceiling or free TV, please remember that you're right if reformers don't try.

The history of America shows a "capacity for self-correction." Even the Supreme Court, given enough time, has reversed itself on such issues as affirmative action, right to counsel, poll taxes and health and safety regulations.

Only such apologists for the status quo as George Will could believe it's OK for a powerful 0.1 percent of

the population to make \$1,000 contributions to dictate policy to the other 99.9 percent; for only the rich or the kept to win office; for candidates to spend three-quarters of their time raising money so that the toll-takers known as broadcasters will allow public candidates to speak to the public over our publicly owned airwaves.

"History is like waves lapping at a cliff," wrote French historian Henry See. "For centuries nothing happens. Then the cliff collapses."

Mark Green worked with Ralph Nader from 1970-1980, ultimately as head of Public Citizen's Congress Watch. He founded and ran The Democracy Project ('81-'89) and served 12 years in city-wide office in New York City - - as Consumer Affairs Commissioner ('90-'93) and then the twice elected Public Advocate ('94-'01). He won the Democratic nomination for mayor in 2001, losing 49%-47% to Michael Bloomberg in the general election. He is the author or editor of 16 books on government, business and law, including his most recent book, Selling Out: How Big Corporate Money Buys Elections, Rams Through Legislation and Betrays Our Democracy. He is currently the "Distinguished Visiting Professor" at the New York University Law School and the founder/president of The New Democracy Project, a new national-urban affairs institute in New York City. Visit his web site at www.markgreen.com

[next section>>](#)

Last Updated March 25, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

Session Two: The Divine Right of Capital

[printer friendly version of session 2](#)

Excerpted from a book of the same title published in 2003 by Berrett and Koehler

By Marjorie Kelly

Reprinted with permission from the author

Wealth

Where does wealth come from? More precisely, where does the wealth of major public corporations come from? Who creates it?

To judge by the current arrangement in corporate America, one might suppose capital creates wealth - which is odd, because a pile of capital sitting there creates nothing. Yet capital-providers (stockholders) lay claim to most of the wealth that public corporations generate. They also claim the more fundamental right to have corporations managed on their behalf. Corporations are believed to exist for one purpose alone: to maximize returns to shareholders. This principle is reinforced by CEOs, the Wall Street Journal, business schools, and the courts. It is the law of the land - much as the divine right of kings was once the law of the land. Indeed, "maximizing returns to shareholders" is universally accepted as a kind of divine, unchallengeable mandate.

In the business world at large, it is not in the least controversial. Though it should be.

What do shareholders contribute to justify the extraordinary allegiance they receive? They take risk, we're told. They put their money on the line, so corporations might grow and prosper. Let's test the truth of this with a little quiz:

Stockholders fund major public corporations - True or False?

False. Or, actually, a tiny bit true - but for the most part, massively false. What's intriguing is that we speak as though it were entirely true: "I have invested in AT&T," we say, imagining AT&T as a steward of our money, with a fiduciary responsibility to take care of it. In fact, "investing" dollars don't go to AT&T but to other speculators. Equity "investments" reach a public corporation only when new common stock is sold - which for major corporations is a rare event. Among the Dow Jones Industrials, only a handful have sold any new common stock in thirty years. Many have sold none in fifty years.

The stock market works like a used car market, as accounting professor Ralph Estes observes in *Tyranny of the Bottom Line*. When you buy a 1993 Ford Escort, the money doesn't go to Ford. It goes to the previous owner. Ford gets the buyer's money only when it sells a new car. Similarly, companies get stockholders' money only when they sell new common stock, which mature companies rarely do. According to figures from the Federal Reserve and the Securities and Exchange Commission, about 99 percent of the stock out there is "used stock." That is, ninety-nine out of one hundred "invested" dollars are trading in the purely speculative market, and never reach corporations.

Public corporations do have the ability to sell new stock. And they do need capital (funds beyond revenue) to operate - for inventory, expansion, and so forth. But they get very little of this capital from

stockholders. In 1993, for example, corporations needed \$555 billion in capital. According to the Federal Reserve, sales of common stock contributed 4 percent of that. I used this fact in one of those large-typeface quotes in a magazine article once, and the designer changed it to 40 percent, assuming it was a typo. It's not. Of all capital public corporations needed in 1993, stockholders provided 4 percent.

Well yes, some will say - that's recently. But stockholders did fund corporations in the past.

Again, only a tiny bit true. Take the steel industry. An accounting study by Eldon Hendriksen examined capital expenditures in that industry from 1900 to 1953, and found that issues of common stock provided only 5 percent of capital. That was over the entire first half of the twentieth century, when industry was growing by leaps and bounds.

So, what do stockholders contribute, to justify the extraordinary allegiance they receive? Very little. And that's my point.

Equity capital is provided by stockholders when a company goes public, and in occasional secondary offerings later. But in the life of most major companies today, issuance of common stock represents a distant, long-ago source of funds, and a minor one at that. What's odd is that it entitles stockholders to extract most of the corporation's wealth - forever. Equity investors essentially install a pipeline, and dictate that the corporation's sole purpose is to funnel wealth into it. The pipeline is never to be tampered with and no one else is to be granted significant access (except executives, whose function is to keep it flowing).

The truth is, the commotion on Wall Street is not about funding corporations. It's about extracting from them.

The productive risk in building businesses is borne by entrepreneurs and their initial venture investors, who do contribute real investing dollars to create real wealth. Those who buy stock at sixth or seventh hand, or one thousandth hand, also take a risk - but it is a risk speculators take among themselves, trying to outwit one another like gamblers. It has little to do with corporations, except this: Public companies are required to provide new chips for the gaming table, into infinity.

* * *

It's odd. And it's connected to a second oddity - that we believe stockholders are the corporation. When we say "a corporation did well," we mean its shareholders did well. The company's local community might be devastated by plant closings, its groundwater contaminated with pollutants.

Employees might be shouldering a crushing workload, doing without raises for years on end. Still we will say, "the corporation did well."

We do not see rising employee income as a measure of corporate success. Indeed, gains to employees are losses to the corporation. And this betrays an unconscious bias: that employees are not really part of the corporation. They have no claim on the wealth they create, no say in governance, and no vote for the board of directors. They're not citizens of corporate society, but subjects.

Investors, on the other hand, may never set foot inside "their" companies, may not know where they're located or what they produce. Yet corporations exist to enrich investor alone. In corporate society, only those who own stock can vote - like America until the mid-1800s, when only those who owned land could vote. Employees are disenfranchised.

We think of this as the natural law of the free market, but it's more accurately the result of the corporate governance structure, which violates free-market principles. In a free market, everyone scrambles to get what they can, and they keep what they earn. In the construct of the corporation, one group gets to keep what another earns.

The oddity of it all is veiled by the incantation of a single magical word: "ownership." Because we say stockholders "own" corporations, they are permitted to contribute very little, and take quite a lot.

What an extraordinary word. One is tempted to recall the comment of Lycophron, a Greek philosopher, during an early Athenian slave uprising against the aristocracy. "The splendour of noble birth is imaginary," he said, "and its prerogatives are based upon a mere word."

* * *

A mere word. And yet the source of untold trouble. Why have the rich gotten richer while employee income has stagnated? Because that's the way the corporation is designed. It is designed to pay stockholders as much as possible, and to pay employees as little as possible. Why are companies demanding exemption from property taxes? Why are they cutting down 300-year-old forests? Because that's the way the corporation is designed. It is designed to internalize all possible gains from the community, and to externalize all possible costs onto the community.

"A rising tide lifts all boats," the saying goes. The corporation really functions more like a lock-and-dam operation, raising the water level in one compartment by lowering it in another.

The problem is not the free market. That notion - buyers and sellers regulating prices without external guidance - is relatively innocent. Indeed, brilliant. Nor is the problem capitalism. The capitalist system - private ownership driven by self-interest - is in many ways superbly effective. Certainly free-market capitalism is the most fruitful economic system the world has yet conceived. If we go rummaging through its entire basket of economic ideas - supply and demand, private property, competition, profit, unconscious regulation, wealth creation, and so forth - we'll find most concepts are sturdy and healthy, well worth keeping. But we'll also find one concept that is inconsistent with the others. It is the lever that keeps the lock and dam functioning, and it is these four words: maximizing returns to shareholders.

When we pluck this notion out of our basket and turn it over in our hands - really looking at it, as we so rarely do - we will see it is an aristocratic edict. In a competitive free market it decrees that the interests of one group will be systematically favored over others. In a system devoted to unconscious regulation, it says corporations will consciously serve one group alone. In a system rewarding hard work, it says members of that group will be served regardless of their productivity.

Shareholder maximization is a form of entitlement. And entitlement has no place in a free market. It is a form of privilege. And privilege accruing to property ownership a remnant of the aristocratic past.

Democracy

Alexis de Tocqueville observed that there are two great ages of human history: the aristocratic age and the democratic age. In the twentieth century, governments worldwide have made a great passage from one to the other. In the years just prior to World War I, kings and emperors sat enthroned atop most nations of the globe - but they did not, by and large, survive the two world wars. After a calamitous interval of dictatorship and communism, a majority of the world's nations had, by the 1990's, turned to democracy.

We have crossed a great divide in history from aristocracy to democracy. But we have done so only in government. We have yet to democratize economics.

We think of capitalism as the handmaiden of democracy, but that's only partially true. Free market theory points toward democratic outcomes in its emphasis on individuals getting what they earn. But corporate governance points towards aristocratic outcomes in its insistence on shareholder primacy. Corporate governance is anti-democratic. Or, perhaps, pre-democratic.

The wealth-owning class today is a kind of secular aristocracy, much as dictators were secular monarchs attempting to reproduce aspects of privilege enjoyed in the aristocratic era. In the past, secular monads

largely failed because they lacked the sustaining myth of the divine right of kings. As fallen dictators from Mussolini to Marcos showed the world, power without myth does not long endure. Analyzing the fall of dictators in a chapter tellingly titled "The Weakness of Strong State," Francis Fukuyama observed, "The critical weakness that eventually toppled these strong states was in the last analysis a failure of legitimacy - that is, a crisis on the level of ideas."

The secular aristocracy must cling to its sustaining myths. They provide the base of its legitimacy, without which the amassing of wealth begins to seem indefensible. That's why the core myth of today's aristocracy - that shareholder returns must be maximized - is considered unchallengeable, nearly sacred. It is a myth with the force of law. We might call it our modern version of the divine right of kings.

* * *

Although such myths serve to legitimate a bias favoring those who own property (which today we call "financial assets") we do not hold them consciously; instead, our legal structures hold them for us, as they once held biases favoring men over women, or whites over blacks.

The first step to changing unconscious bias is to see it. To help us do so is the aim of this essay (and of the book I am writing of the same title). It is a venture into what Michel Foucault would call an "archaeology of knowledge," a foundational dig, examining the ancient conceptual structures on which wealth bias is built. It is an inquiry into the aristocratic echoes in the corporate worldview - the sustaining myths which support shareholder primacy.

I'm primarily addressing public corporations, because they are fundamentally different from smaller, private, family-owned corporations. My premise is that the shareholder primacy that drives these mammoth firms is, like the divine right of kings, an increasingly archaic mandate, imposed on an organic system capable of self-governance. It is a stricture that is blocking the natural evolution of capitalism, because it is increasingly out of step with the times due to a number of massive changes in the nature of major public corporations:

1. *Increasing size.* Today, among the world's one hundred largest economies, fifty-one are corporations. They have revenues larger than nation-states, yet maintain the guise of being "private."
2. *The shrinking of ownership functions.* Though still considered "owners," stockholders in major public companies do not manage, fund, or accept liability for "their" corporations. Ownership function has shrunk to one dimension: extracting wealth.
3. *The rise of the knowledge economy.* For many companies, knowledge is the new source of competitive advantage. To allow shareholders to claim the corporation's increasing wealth - when employees play a greater role in creating that wealth - is a misallocation of resources.
4. *The increasing damage to our ecosystem.* The rules of accounting were written in the sixteenth century, when nature seemed an unlimited reservoir of resources, and an unlimited sink for wastes. That is no longer true, but the rules of accounting retain fossilized remnants of those ancient attitudes.

Major public corporations have evolved into something new in civilization, structures more massive, more dominant in the world than our democratic forefathers dreamed possible. They left us little guidance on governing these institutions - the word "corporation" appears nowhere in the Constitution - because only a handful of American corporations existed when that seminal document was written. Washington and Jefferson governed a nation of farmers, in which most nonagricultural businesses were indeed "private," run out of the parlor, or in the barn, as part of the private household.

As the name itself implies, "public" corporations are no longer private. The major corporation, as Franklin D. Roosevelt observed, "represents private enterprise become a kind of private government which is a power unto itself."

* * *

We fail to see the growing public power of corporations because we accept the myth that corporations are pieces of private property owned by shareholders whose primacy is a natural mandate of free markets, just as our ancestors accepted that nations were private kingdoms owned by kings whose supremacy was a natural mandate of God.

We live with these myths like buried shells from an old war, the war we thought we had won, between monarchy and democracy. When these invisible old bombs go off - as they have in the resurgence of sweatshops, the rise of income inequality, or the increasing demands of corporate welfare - we become alarmed. We ask, how can the "free market" go so wrong? Believing the myth that the system must remain unfettered, we feel powerless to reach down and defuse the explosive and buried nub of the problem, which is shareholder primacy. Or in broader terms, wealth bias.

Property

In searching for the source of stockholder privilege, we come around again to the incantation of that single, magical word: "ownership." It is property ownership that gives stockholders power. Thus, like a feudal estate, a corporation must be considered a piece of property - not a human community - so it can be owned and sold by the propertied class.

This word "own" is deceptively small, and worth unpacking. Because stockholders "own" corporations, we are implicitly told: 1) the corporation is an object that can be owned; 2) stockholders are sole masters of that object; 3) they can do as they like with "their" object. It's an entire worldview in three letters. And as a result of this tiny incantation (like the "Shazam" that turns a boy into Captain Marvel), stockholders gain omnipotent powers: they can take over massive corporations, break them apart, sell them, squeeze them dry, or shut them down - while employees and communities remain powerless to stop them.

Power of this sort has an unmistakable feel of something more ancient. Ownership - that bundle of concepts we also label "property rights" - is one antique tradition that has remained impressively intact. It comes down to us from that time when the landed class was the privileged class, by virtue of its wealth in property. To own land was to be master. And in the master's view, what was owned was subordinate, as in the imperial presumption that India was a "possession" of the throne of England. Or the feudal presumption that lords could own serfs, like so much livestock.

Ownership, according to British law, conferred upon the owner "sole and despotic dominion." The phrase is from William Blackstone's eighteenth century Commentaries on the Laws of England. It is a phrase worth lingering over, for "dominion" shares the same root as "domination." And "despotic" means the tyrannical rule of those who are not free.

Even in John Locke's Two Treatises of Government - considered a founding document of democracy - God is conceived of as the Great Property Owner. Locke wrote:

For Men being all the Workmanship of one Omnipotent, and infinitely wise Maker; All the Servants of one Sovereign Master, sent into the World by his order and about his business, they are his Property, whose Workmanship they are....

This notion of one sovereign master extended to the marriage relationship, where only men were permitted to own property. In early American law, a husband became owner of his wife's property upon marriage. He had sole right to administer it, had sole claim to its profits, and was required to render his wife no accounting. In the 1764 case of Hanlon v. Thayer, a Massachusetts court said a husband owned even his wife's clothing - though she'd brought it with her at marriage. Husband and wife were one legal person, and that person was the husband.

* * *

Today, the corporation is considered one legal entity, and that entity is equated with stockholders. Like wives, employees "disappear" into the corporation, where they have no vote. The property of the corporation is administered solely in the interests of stockholders, who like husbands claim the profits, and are required to render employees no accounting. We have thus a "corporate marriage" in which one party has sole dominion. The reason is property.

Profit

The "property" stockholders have in corporations is represented by two numbers. The first is the stream of income, called profit, or earnings. Stockholders get a piece of it in dividends. The second is the value of the corporation itself, called market value, or capitalization. (It's the value of all shares added together.) Stockholders receive their portion of market value when they sell stock and pocket capital gains, if the stock has gone up. In analogy to a rooming house, you might say stockholders own the stream of rent coming in, and they own the house itself.

The key to it all is profits. This is the wealth - the "property" - the corporation creates each year. The value of the corporation as a whole is often expressed as a multiple of profits (generally called "earnings"), as in the price/earnings ratio. If earnings go down, the value of the corporation will often go down. Hence maximizing profits means working in the stockholder's interests - and if necessary, working against employee and community interests. Profit is often viewed as a neutral concept, and it could be, if companies made some rational, periodic analysis of how to allocate it. But they don't. Custom grants to employees and the community no right to a cut of profit. Capitalist theory says it belongs to stockholders alone.

Jeff Gates in *The Ownership Solution* calls this the "closed loop" of wealth creation. Stockholders are by definition those who possess wealth. And in the design of the corporation, all new wealth flows to those owning old wealth, in a closed loop.

In the current narrative of the corporation, it works like this: A corporation exists to generate profit. Profit belongs to stockholders, but they leave part of it in the corporation to fund growth. So a portion (about a third) is paid out as dividends, and the rest is kept as retained earnings. Those earnings are generated by the income statement, and retained on the balance sheet, where they are added to shareholder equity. Equity is what stockholders initially contributed when they purchased shares from the company. And by the magical closed loop of accounting, equity grows, year after year, while stockholders never contribute another cent out of their pocket.

Ergo- Stockholders "create wealth" without lifting a finger.

We call this "return on equity," or ROE. It is designed to continue into infinity.

It's a bit like the plant in *The Little Shop of Horrors*, which ate everything in sight. The more equity grows, the more it demands to grow. If equity is at, say, \$1 million, and grows 15 percent a year for ten years, it quadruples. So if a 15 percent return on equity initially means shoveling out \$150,000 worth of profits to satisfy shareholders, by the tenth year 15 percent requires a shovel four times as big, or \$600,000. The company needs four times the profits just to stay in place as far as stockholders are concerned, yielding the same ROE, year after year.

It's like pushing a rock up a hill, and when you push nice and hard, the rock gets bigger. There is no top of the hill. You must do this for eternity.

It's little wonder CEOs at public companies are desperate to boost profits however they can - sending jobs to sweatshops overseas, demanding corporate welfare, refusing to give raises using temporary workers without benefits, wheedling tax breaks, downsizing staff. No one needs to stand up and tell them to do these things. The financial statements make the demand. The closed loop of corporate accounting holds the demand in place forever.

One enforcement mechanism is the hostile takeover, in which CEOs who fail to deliver are given the boot. Return on equity functions a bit like the Mafia, demanding a larger and larger payment every year, or the hostile takeover folks come and break the CEO's kneecaps.

Return on equity lasts forever, as did title of nobility, which had a similarly tenuous connection to merit. At some point, it's true someone did invest dollars in the corporation, just as someone quite often did do something "noble." But that single act granted passive privilege to a string of other folks, who did nothing. They continue to pass on privilege, hand to hand, forever. Of course, privilege of nobility passed by inheritance, while privilege of stock ownership passes by purchase. So we have made a few changes.

* * *

One might debate the legitimacy of this arrangement. One might question the rationale of an infinite payback for a one-time hit of money. (Even credit cards let you off the hook at some point.) But let us sidestep that debate.

Let us assume, for the sake of argument, that all profits legitimately belong to stockholders. Let us assume they own all tangible corporate assets: the book value of the corporation is theirs. (Book value means everything you own minus everything you owe. It's what would be left, theoretically, if you sold everything and paid off debts.) Even granted this, stockholders are still running off with 75 percent of corporate value that's arguably not theirs.

Consider: At year-end 1995, book value of the S&P 500 accounted for only 26 percent of market value. The combined book value of these companies totaled \$1.2 trillion. Market value was \$4.6 trillion. Thus "intangibles" were worth \$3.4 trillion - three times the value of tangible assets.

Thus, even if S&P stockholders owned the companies' tangible assets, they got off scot-free with other airy stuff worth three times as much.

Included in intangibles is discounted future value (what the market will pay today for estimated future value), plus things like patents and reputation. But also included is a company's knowledge base, its living presence. Or to call it by a simpler name: employees.

Human Capital

In owning intangible value, stockholders essentially own employees - or at the very least, they have the right to sell them (which amounts to the same thing).

Take the case of the Maryland company in Chapter 11 bankruptcy, which in 1997 sold itself to Space Applications Corp. (SAC) in Vienna, VA. The company's real assets were its one hundred scientists. So it sold them. As Edward Swallow of SAC told the Wall Street Journal, "The company wasn't worth anything to us without the people."

"Human capital" acquisitions happen all the time. Through 1997, Cisco Systems Inc. in San Jose, California, had made nineteen of them - mostly acquisitions of small software companies with little revenue but fifty to one hundred employees, for which it paid premium prices: up to \$2 million per employee.

* * *

It's revealing when the accountants go to record such purchases on the balance sheet. If you pay \$100 million for a company with, say, \$25 million in tangible assets, what's the other \$75 million of stuff you bought? How do you record it? Well, what you don't record is "one hundred scientists." In post-Civil War America, we recoil from the notion human beings might be bought and sold. So we say a company has purchased "goodwill." That's how it's booked: as a line item on the balance sheet called "goodwill."

The parallel to Blackstone is eery: our law does not support the literal buying and selling of persons, but it does support the principle that stockholders can own certain kinds of property in employees. We allow company owners to sell company assets, even when the primary assets are one hundred scientists. This doesn't make these scientists property in the sense slaves were property, because the scientists are free to leave. But neither are they property owners, with a right to vote on the sale and a right to pocket the proceeds. Their status is akin to a third category recognized by Blackstone: "that of a right-bearing subject who is also the property of another."

* * *

Employees-as-property is a disturbing concept. But evidence of it is disturbingly widespread - as in the commonplace observation that "employees are our greatest assets." Assets, of course, are something one owns.

And companies can take this quite literally. Consider the case of Evan Brown. This computer programmer claimed to have dreamed up a concept that would fix outdated computer codes, and he wanted to develop it on its own. But his employer, DSC Communications in Plano, Texas, said the idea was company property, because Brown had signed an agreement granting DSC rights to inventions "suggested by his work." Brown never made notes for his concept. So when DSC sued him, it wasn't for ownership of his papers. It was for ownership of his thoughts.

* * *

How can companies own employees' thoughts? Isn't it unconstitutional to own human beings? Questions like these are not asked in the property-based society of capitalism. The fact that corporations fail to ask them is a sign of their pre-democratic bias: their archaic mental habit of seeing everything - even human knowledge - as property, and seeking to own it.

Through the lens of ownership, one either owns property, or becomes property. There is nothing else.

It's an attitude that says, if I own the assets of a firm, I own everything created on top of those assets. All new wealth flows to old wealth. This is a feudal assumption - and we can see it more clearly if we make the analogy to land. Say a landowner pays a tenant to farm some land, and the tenant builds a house there. Who owns the house? The landowner or the tenant?

In feudal England, the landowner legally claimed the house. But as legal scholar Morton Horwitz points out, American courts rejected this claim, beginning with the 1829 case. *Van Ness v. Pacard*, where Justice Story wrote: "what tenant could afford to erect fixtures of much expense or value, if he was to lose his whole interest therein by the very act of erection?" Under democratic law, the rule became that "the value of improvements should be left with the developer."

Refusing to bow to ancient property rights, democratic law articulated a new precedent: the house belongs to the person who built it. New wealth flows to those who create it.

In this tradition, employees who "build" atop the corporation (creating new products or new efficiencies) should have a legal right to the value of their improvements. But in corporate law that isn't the case. Corporate law says stockholders own everything, Hence the increasing value of the corporation flows to shareholders, though they haven't lifted a finger to create that value. The presumption is literally feudal.

Personal Assets

Tied up with this feudal presumption is the notion that property owners are the corporation. Employees are incidental: hire them today, get rid of them tomorrow, they're of no consequence. They're not on the balance sheet, so they don't exist in the tally of what matters.

Yes, well. We might puncture this fantasy with a simple question: What is a corporation worth without its

employees?

This question was acted out, interestingly enough, in London, with the revolutionary birth of St. Luke's advertising agency, which was formerly the London office of Chiat/Day.

In 1995, the owners of Chiat/Day decided to sell the company to Omnicom - which meant layoffs were looming - and Andy Law in the London office wanted none of it. He and his fellow employees decided to rebel. They phoned clients and found them happy to join the rebellion. And so at one blow, London employees and clients were leaving.

Thus arose a fascinating question: what exactly did the "owners" of the London office now own? Without employees and clients, what was the London branch worth? One dollar, it turned out. That was the purchase price - plus a percentage of profits for seven years - when Omnicom sold the London branch to Law and his cohorts. They renamed it St. Luke's, and posted a sign in the hall: Profit Is Like Health. You Need It, But It Is Not What You Live For. All employees became equal owners. Ownership for St. Luke's is a right that is free, like the right to vote. Every year now the company is revalued, with new shares awarded equally to all.

* * *

Thus we see how the presumptions of property hold up in the knowledge era: the fiction that outsiders can "own" a company, which is nothing but a network of human relationships, is as flimsy as a house of cards. Employees themselves are the cards, willingly holding the place together, even as stockholders walk off with the wealth that employees create.

How long this will be sustainable remains to be seen. But for the time being, employees seem content to remain hypnotized: believing themselves powerless, and accepting (shazam!) that stockholders have sole and despotic dominion.

No one thinks to object when employees are called "assets" - or sold in an acquisition. We don't notice when employees are lumped with "intangibles": as though they are not flesh and blood, but ghosts. It seems rational that corporate accountants recognize the value of "goodwill," even as they ignore the value of employee knowledge.

We accept these notions, because we operate from the unconscious assumption that corporations are objects, not human communities. And if they're objects - akin to feudal estates - then they're something outsiders can own, and the humans working there are simply part of the property. Either you own property, or you become property: there is nothing else in a property-based world.

These antique notions inhabit us at levels beneath awareness. We don't become conscious of them until someone like Andy Law, or Evan Brown, stands up to stockholders and says, "I am not your property." Such gestures are reminiscent of the founding fathers standing up to Great Britain and saying, "America is no longer your property." Or women standing up to men saying, "We are not your possessions."

What seems solid melts under challenge. In the heat of confrontation, the notion of "owning" human beings slips away, like ice melting. Or like an incantation, fading, once we have broken its spell.

Wealthism

It's instructive to recall that at America's founding, the voting franchise was limited by three biases then considered legal: biases based on race, sex, and wealth. All three restrictions on the vote have since been removed. But only the first two restrictions have been recognized as unfair forms of discrimination, which we term "racism" and "sexism." The third, discrimination based on wealth, hasn't yet been fully recognized. We might begin by giving it a name. I suggest "wealthism."

Though it is pervasive, this bias has no coherent history or theory comparable to those dealing with racism

and sexism. There is a large literature on "class," which is a vital beginning. But "class" is too amorphous a term. Wealth lurks in its background, but in the foreground are an array of issues, having to do with the family you're from, your mode of dress, where you went to school, how you speak - all of which may be only tangentially related to possession of wealth. Furthermore, America pretends it is a society without classes. But no one would suggest we are a society without wealthy individuals.

In point of fact, "wealthism" has a precision that "class" lacks. Corporate financial statements do not discriminate based on mode of dress. The voting franchise was not restricted based on how people spoke. These structural forms of discrimination find their basis in wealth. Because we fail to name this discrimination precisely, we fail to see how it functions (how many people understand how financial statements work?) and we fail to claim its history. This history lies cloaked in collective amnesia, lost in a kind of vast national forgetting. How many of us could say when or how wealth restrictions on the vote were removed? How many of us remember Thomas Dorr?

Dorr was a hero in the fight for white manhood suffrage in Rhode Island, where property restrictions once kept more than half of adult males from voting. In the Dorr Rebellion of 1842, the disenfranchised rose up and created their own "People's Constitution" - mandating universal suffrage for white males - and elected Dorr as their governor. This put Rhode Island in the awkward position of having two governors until President Tyler stepped in to crush the rebellion. Dorr was sentenced to "life imprisonment" (which lasted one year), but his cause was soon triumphant: In 1843, state suffrage provisions were liberalized. By the 1850s, wealth restrictions on the vote were abolished in virtually all states.

We don't know this history, because wealth prejudice remains largely unconscious. Change begins by seeing. And we do not yet see.

* * *

Wealth bias is articulated - quite brazenly - in the mandate to maximize returns to shareholders. It is given institutional form in the denial of corporate voting rights to employees. It is right in front of our eyes.

The 1919 date of Dodge v. Ford Motor Co. - the case that said the purpose of the corporation is to serve stockholders - is worth noting, for it anchors the notion of shareholder primacy in the era to which it belongs: that era which still denied voting rights to women and blacks, that era when such forms of discrimination were legal. In that time, when only white men were considered full members of society, it seemed natural that only wealth-holders would be full members of corporate society.

Corporations still live in the charmed circle of this taboo. They see their customs as unalterable, like the custom that only stockholders may vote, that wealth's only goal is more wealth, that the measure of success is a rising stock price. We buy into this belief system. With our tiny stashes of stock, we think the system is working for us, even as wages are sluggish, working hours are increasing, layoffs are rampant, and benefits are declining. Even as our children study in poorly funded schools while corporations elude the property taxes that once supported those schools.

There are seams of vulnerability here, once we think to look for them. Great seams of illegitimacy, of a creaky antiquity, One day, when there's been a bit more of a thaw in the climate of opinion, the time will come to strike at a few of these seams. Change might result more quickly than we imagine. Roosevelt enacted his most transformative New Deal laws in just one hundred days, or slightly over three months. This kind of opening for change is likely to come again. For if the system design is unsustainable (and it is), crisis becomes more likely. If the corporate governance system in the meantime seems impenetrable, it's because all closed societies seem impenetrable. The monarchy in its day seemed eternal. Shareholder primacy today seems likewise inevitable and eternal. But history suggests it will not be.

[next section>>](#)

Marjorie Kelly is the co-founder and editor of Business Ethics, a national publication on corporate social

responsibility launched in 1987 and the author of the book *The Divine Right of Capital: Dethroning the Corporate Aristocracy*, published in November 2001 by Berrett-Koehler Publishers. The book explores why socially responsible practices have failed to take hold and identifies the problem as the mandate to maximize returns for shareholders, which is an aristocratic mandate to serve the interests of wealth-holders above all other interests. For more information go to: www.thedivinerightofcapital.com

Last Updated March 25, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

Session Three: The Hidden Costs of War

A Report commissioned by Howard S. Brembeck and the Fourth Freedom Forum

War Without End? The Costs of the New Military Buildup

14 February 2003

by William D. Hartung

[printer friendly version of session 3](#)

The Bush administration's war on terrorism and its proposed military intervention in Iraq have sparked the steepest increases in military and security spending in two decades:

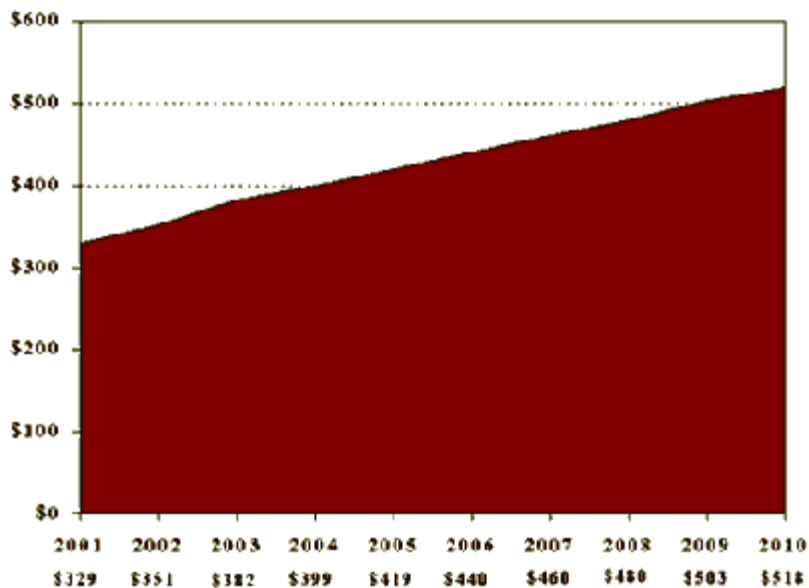
- Since September 11, 2001, the president has requested, and Congress has approved, over \$110 billion in increases in military spending and military aid. The military budget has jumped from \$329 billion in FY 2001 to over \$380 billion in FY 2003 (see Table I, below). In addition to these increases in regular appropriations, the Pentagon has received over \$30 billion in emergency and supplemental funding, and Congress has authorized roughly \$3 billion in new military and security aid for U.S. allies in the war on terrorism.
- Spending on homeland security has doubled, from \$18 billion to \$38 billion per year, and a new Department of Homeland Security has been created.
- The cost of the war in Afghanistan is at \$15 to \$20 billion so far. Independent estimates of the costs of a potential war with Iraq put the price tag at \$100 billion or more.(1)

If the administration's strategy of using force and the threat of force as its primary tools for dealing with terrorists and tyrants is fully implemented, these new expenditures may be just the down payment on a long-term buildup that will push U.S. military spending to Cold War levels and beyond. Based on current Pentagon spending projections, U.S. military spending will total \$4.3 trillion during this decade, with annual spending on national defense topping \$500 billion per year by 2009 (see Table I).

But even the huge sums displayed in Table I are likely to understate the true costs of our military establishment, since the Pentagon's budget projections only cover the costs of routine, peacetime operations. The costs of going to war are generally financed out of emergency or supplemental appropriations, as has been done with the ongoing war in Afghanistan, and as will be done with any conflict in Iraq.

Given the Bush administration's expansive military strategy, the costs of war could become the biggest "wild card" in the federal budget over the next decade. In less than one and one-half years, the Bush administration's objectives have expanded from a post-9/11 pledge to act against "terror networks of global reach," to a threat to use force to disarm and displace regional tyrants like Saddam Hussein, to a commitment to use American military might to promote "democracy and free markets" throughout the world.(2)

Table I: U.S. Military Spending, Actual and Projected,
Fiscal Year 2001 to Fiscal Year 2010
(in billions of U.S. dollars)



Bottom figures are actual dollar figures

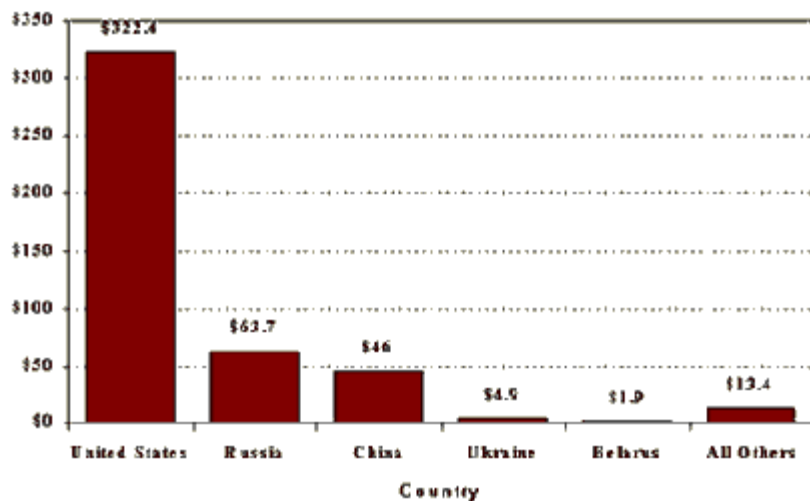
Source: U.S. Department of Defense, Fiscal Year 2004 Budget Request, February 2003, as analyzed by Christopher Hellman, Center for Defense Information, available at Center for Defense Information (February 12, 2003). Figures are for budget category 050, National Defense, which includes spending on the Pentagon and military activities of the Department of Energy. The figure for 2010 is a projection based on the assumption of a 3 percent growth rate per year for each of those three years.

This open-ended definition of U.S. strategic priorities goes far beyond anything the United States committed itself to during the Cold War, when the stated mission was containing the Soviet Union. Unlike that earlier period, when the United States was engaged in an arms race with a rival superpower, in this new era, the United States is in an arms race with itself, seeking a wide range of new missions and capabilities that go well beyond what is required to deal with Al Qaeda and related global terror organizations. As a recent analysis by Steven M. Kosiak of the Center for Strategic and Budgetary Assessments has demonstrated, only about one-third of the Pentagon's increased funding between FY 2001 and FY 2003 has been devoted to homeland security and combating terrorism, and only 5 to 10 percent of the Pentagon's total budget for Fiscal Year 2003 is being set aside for these purposes.(3)

Even before the increases of the past two years, United States military spending far outpaced spending by potential adversaries (see Table II). As Carl Conetta of the Project on Defense Alternatives has pointed out, as of 2001 the United States was spending two and one-half times as much as all of its potential adversaries combined, whereas in 1985, at the height of the Reagan buildup, U.S. military spending was only 80 percent as much as the combined spending of the adversary group. The United States and its closest allies now account for 73 percent of global military spending, compared to 57 percent in 1985.(4)

Table II: U.S. Military Spending

Versus Actual or Potential Adversaries, 2001
(in billions of constant 2000 dollars)



Source: International Institute for Strategic Studies, *The Military Balance 2002-2003* (London: IISS and Oxford University Press, 2002), Table 26, pp. 332-37. The "All Other" category includes the combined military budgets of Iraq, Iran, North Korea, Syria, Libya, Cuba, and Vietnam.

This growing gap between U.S. military spending and capabilities and the military budgets and forces of all other countries in the world has led some analysts to suggest that the United States now acts as a de facto imperial power. Human rights advocate Michael Ignatieff provided a provocative synopsis of what he views as America's new imperial role in a recent front page article in the *New York Times* magazine entitled, "The American Empire (Get Used to It)":

Being an imperial power . . . means enforcing such order as there is in the world and doing so in the American interest. It means laying down the rules America wants . . . while exempting itself from other rules that go against its interest. . . . It also means carrying out imperial functions in places America has inherited from the failed empires of the 20th century-Ottoman, British, and Soviet. In the 21st Century, America rules alone, struggling to manage the insurgent zones-Palestine and the Northwest Frontier of Palestine, to name but two-that have proved the nemeses of empires past. [emphasis added] (5)

This vision of the United States as a unilateralist global policeman is a far cry from the vision that motivated President Franklin Delano Roosevelt to promote the creation of the United Nations as World War II drew to a close. While most Americans agree that standing up to the Axis powers in World War II was necessary regardless of the price, the human and economic costs of that conflict spurred world leaders to seek mechanisms to prevent future wars in the wake of what proved to be the most devastating conflict in human history.

One of the greatest potential costs of relying on war and preparations for war as a centerpiece of U.S. foreign policy is the danger of distorting the U.S. role in the world from that of a vibrant democracy that is ready to defend itself and its allies when necessary, to that of a garrison state that uses force to get its way on a wide range of issues that have little to do with self-defense. As the great American writer and anti-imperialist Mark Twain wrote in the early part of the last century, "When the only tool you have is a hammer, all your problems look like nails." In the wake of the 9/11 attacks, the United States needs to expand its foreign policy tool box so that when crises arise, resorting to military force is the last option, not the first. The enormous human, financial, and security costs of major conflicts engaged in by U.S. forces over the past half century underscore the importance of developing policy alternatives to war.

Notes

1 For further details on data cited in this section, see Michelle Ciarrocca and William D. Hartung, "Increases in Military Spending and Security Assistance Since 9/11/01," October 4, 2002; estimates of the costs of the war in Afghanistan and the possible conflict in Iraq will be dealt with in more detail later in this analysis. [Return to Text](#)

2 The most expansive statement of the Bush military strategy is contained in "The National Security Strategy of the United States," released in September 2002 and available online at the White House, <http://www.whitehouse.gov> (12 February 2003). [Return to Text](#)

3 Steven M. Kosiak, Director, Budget Studies, Center for Strategic and Budgetary Assessments, "Funding for Defense, Homeland Security, and Combating Terrorism Since 9/11: Where Has All the Money Gone?" in Marcus Corbin, editor, *Security After 9/11: Strategy Choices and Budget Tradeoffs* (Washington, D.C., Center for Defense Information, 2003), p. 7-11., available at Center for Defense Information, <http://www.cdi.org/spwg> (February 12, 2003). [Return to Text](#)

4 Carl Conetta, co-director, Project on Defense Alternatives, "9-11 and the Meaning of Military Transformation," in Corbin, *Security After 9/11*, op. cit., 25-30. Conetta's statistics on military spending are derived from International Institute for Strategic Studies, *The Military Balance, 2001-2002* and *2002-2003* editions, (Oxford: IISS and Oxford University Press, 2000 and 2002). His category for actual and potential U.S. adversaries during the Cold War includes the Soviet Union and the other members of the Warsaw Pact alliance, plus China, North Korea, North Vietnam, Iran, Iraq, Syria, Libya, and Cuba. For the 2001 comparison, the adversary category includes Russia, Ukraine, and Belarus plus all the other members included in the 1985 comparison. Other former Warsaw pact members and other former Soviet Republics, many of whom are now U.S. military aid recipients, are excluded from the 2001 comparison. [Return to Text](#)

5 Michael Ignatieff, "The American Empire (Get Used to It)," *New York Times Magazine*, January 5, 2003, p. 24.

[next section>>](#)

William Hartung is the Director of the World Policy Institute's Arms Trade Resource Center.
www.worldpolicy.org/projects/arms/

Last Updated May 15, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)
ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

Session Three: Cheney, Halliburton and the Spoils of War

Cheney, Halliburton and the Spoils of War

April 4, 2003

By Lee Drutman and Charlie Cray

[printer friendly version of session 3](#)

When Defense Policy Board chairman Richard Perle revealed that he was getting \$725,000 to help Global Crossing navigate the national security issues surrounding the sale of its assets, the press jumped all over Perle, and rightly so. There was indeed something fishy about a top Pentagon advisor making that kind of money to help a company that was having problems with national security issues. Perle is also on the board of Onset Technology, the leading provider of message conversion technology and a major supplier to Bechtel - one of the leading candidates for rebuilding Iraqi infrastructure.

As the Center for Public Integrity has documented, this kind of thing is not unusual. At least nine of the 30 members of the Defense Policy Board have ties to corporations that have won more than \$76 billion in defense contracts in 2001 and 2002. As more and more wartime contracts are announced, more and more conflicts of interest are coming to light. After all, the Bush administration is riddled with ties to the weapons, engineering, construction, and oil companies that have the most to profit from in the Iraq war.

Cheney's Conflict of Interest

However, of all the administration members with potential conflicts of interest, none seems more troubling than Vice President Dick Cheney. Cheney is former CEO of Halliburton, an oil-services company that also provides construction and military support services - a triple-header of wartime spoils.

A few weeks ago, the U.S. Army Corp of Engineers awarded a no-bid contract to extinguish oil well fires in Iraq to Kellogg Brown and Root (KBR), a subsidiary of Halliburton. The contract was granted under a January Bush administration waiver that, according to the Washington Post, allowed "government agencies to handpick companies for Iraqi reconstruction projects."

The contract, which was not announced until more than two weeks after it was awarded, was open-ended, with no time limits and no dollar limits. It was also a "cost-plus" contract, meaning that the company is guaranteed to recover costs and then make a guaranteed profit on top of that. Its value is estimated at tens of millions of dollars.

This is not the first buck that Cheney's former company has made off military conflict and likely won't be the last. KBR currently has thousands of military support personnel on the ground in Kuwait and Turkey as part of a multi-year contract worth close to a billion dollars. The engineering subsidiary was also one of a select few firms invited to bid on an initial \$900 million USAID contract for rebuilding post-war Iraq. Though it didn't get that job, Halliburton says it is still in the running for subcontracts and there will likely be plenty more opportunities. The American Academy of Sciences estimates the rebuilding Iraq will cost between \$30 and \$105 billion dollars. At a recent investor conference call, Halliburton reported a 30% increase in year-over-year revenues, to \$1.6 billion, for KBR.

The Revolving Door Between Big Business and Government

Cheney, who served as CEO from 1995 to 2000, continues to receive as much as \$1 million a year in deferred compensation as Halliburton executives enjoy a seat at the table during Administration discussions over how to handle post-war oil production in Iraq.

The Cheney-Halliburton story is the classic military-industrial revolving door tale. As Secretary of Defense under Bush I, Cheney paid Brown and Root services (now Kellogg Brown and Root) \$3.9 million to report on how private companies could help the U.S. Army as Cheney cut hundreds of thousands of Army jobs. Then Brown and Root won a five-year contract to provide logistics for the U.S. Army Corp of Engineers all over the globe. In 1995, Cheney became CEO and Halliburton jumped from 73rd to 18th on the Pentagon's list of top contractors, benefiting from at least \$3.8 billion in federal contracts and taxpayer-insured loans, according to the Center for Public Integrity.

Halliburton's Dubious Track Record

But the Halliburton story is more than just a simple revolving door tale. Even without the Cheney conflicts of interest, serious doubts remain about whether a company with a record like Halliburton's should even be eligible to receive government contracts in the first place. This, after all, is a company that has been accused of cost overruns, tax avoidance, and cooking the books and has a history of doing business in countries like Iraq, Iran and Libya.

Cost overruns: In September 2000, the General Accounting Office (GAO) found that the U.S. Army had not taken appropriate steps to limit the \$2.2 billion costs Kellogg Brown and Root charged for logistical and engineering support in the Balkans. According to the report, Army officials "frequently have simply accepted the level of services the contractor provided without questioning whether they could be provided more efficiently or less frequently at lower cost."

Questionable Accounting: The SEC recently formalized an investigation into whether Halliburton artificially inflated revenue by \$234 million over four years. Halliburton switched to a more aggressive accounting method in 1998 under Cheney.

Access to Evil -- Business Dealings in Iraq, Iran, and Libya: News reports suggest that Pentagon is currently using the Iran-Libya Sanctions Act (ILSA) to draw up a blacklist of non-US companies that have done business in Iran. Yet, Halliburton has conducted Business in Iran through subsidiaries. When Cheney was CEO of Halliburton, he inquired about an ILSA waiver to pursue oil field developments in Iran. In 1997, Halliburton subsidiary Halliburton Energy Services paid \$15,000 to settle Department of Commerce allegations that the company had broken anti-boycott provisions of the U.S. Export Administration Act for an Iran-related transaction. Halliburton recently agreed to evaluate its operations in Iran, after the Securities and Exchange Commission rebuffed the company's request to dismiss a New York City police and fire pension funds shareholder proposal for the company to examine its role in Iran.

Also forgotten is that story about how Cheney's Halliburton did business with Saddam. According to the Washington Post, "Halliburton held stakes in two firms that signed contracts to sell more than \$73 million in oil production equipment and spare parts to Iraq while Cheney was chairman and chief executive officer."

Halliburton has also done business in Azerbaijan, Burma, Indonesia, Libya and Nigeria. As Dick Cheney once said, "The good Lord didn't see fit to put oil and gas only where there are democratic regimes friendly to the United States."

Tax Havens: Under Cheney's tenure, the number of Halliburton subsidiaries in offshore tax havens increased from 9 to 44. Meanwhile, Halliburton went from paying \$302 million in company taxes in 1998 to getting an \$85 million tax refund in 1999.

All told, the IRS loses about \$70 billion a year in offshore tax sheltering by corporations and wealthy individuals - almost enough to cover the \$75 billion Bush has asked for to cover the first six months of war.

What to Do About Crony Capitalism?

The Halliburton story is part of a larger dynamic that should not be forgotten in a debate over contractor responsibility. While the Halliburton contracts reek of blatant cronyism, almost all the major firms that provide this kind of work are tied to the administration.

Somebody has to do the job. However, the level of secrecy surrounding the contracts that have been given out so far is troubling, and symptomatic of a bigger problem - the very legitimacy of a reconstruction process controlled by the U.S. military and their corporate contractors. Although the United States has the obligation to pay for the costs of reconstructing Iraq, only the United Nations is the proper body to provide governance and help rebuild a new government, civil society and physical infrastructure if the current regime is overthrown, not the White House, the Pentagon and their corporate cronies.

[next section>>](#)

Lee Drutman is the Communications Director and Charlie Cray is the Director of the Campaign for Corporate Reform at Citizen Works.

Last Updated May 15, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

Session Three: The Military-Industrial-Think Tank Complex: Corporate Think Tanks and the Doctrine of Aggressive Militarism

The Military-Industrial-Think Tank Complex:

Corporate Think Tanks and the Doctrine of Aggressive Militarism

From the Jan/Feb 2003 issue of the Multinational Monitor

By William Hartung and Michelle Ciarrocca

[printer friendly version of session 3](#)

The aggressive first-strike military strategy now animating U.S. policy toward Iraq was developed during the 1990s by a network of corporate-backed conservative think tanks.

Each major element of the Bush administration's national security strategy -- from the doctrines of preemptive strikes and "regime change" in Iraq, to its aggressive nuclear posture and commitment to deploying a Star Wars-style missile defense system -- was developed and refined before the Bush administration took office, at corporate-backed conservative think tanks like the Center for Security Policy, the National Institute for Public Policy and the Project for a New American Century.

Unilateralist ideologues formerly affiliated with these think tanks, along with the 32 major administration appointees who are former executives with, consultants for, or significant shareholders of top defense contractors, are driving U.S. foreign and military policy.

The arms lobby is exerting more influence over policymaking than at any time since President Dwight D. Eisenhower first warned of the dangers of the military-industrial complex over 40 years ago.

War Mongers

The theory behind Bush's war posturing towards Iraq can be found in the administration's September 2002 National Security Strategy. "While the United States will constantly strive to enlist the support of the international community," states the strategy paper, "we will not hesitate to act alone, if necessary, to exercise our right of self-defense by acting preemptively against such terrorists, to prevent them from doing harm against our people and our country."

This preemption doctrine is now the stated rationale for going to war against Iraq, despite the fact that Saddam Hussein and Iraq pose no immediate threat to the United States or its allies.

The preemption doctrine is actually misnamed. Preemption suggests striking first against a nation that is poised to attack. The Bush doctrine is much more open-ended, implying that a U.S. attack is justified if a nation or organization might pose a threat at some unknown future date.

The strategy of "preemptive war" set out in the Bush national security strategy can be traced to the conservative Project for a New American Century (PNAC), whose members have pressed this approach for more than a decade. In the run-up to the 2000 presidential election, PNAC published a report, "Rebuilding America's Defenses" which has served as a blueprint for the Bush-Rumsfeld Pentagon military strategy, up to and including the coining of terms such as "regime change."

PNAC was founded in 1997 and is headed by project directors William Kristol, editor of the Weekly

Standard, Robert Kagan, senior associate at the Carnegie Endowment for International Peace, contributing editor at the Weekly Standard and columnist for the Washington Post, and Bruce Jackson, a long-time Lockheed Martin executive who recently left the corporation to work full time on military policy issues. Its statement of principles recalls "the Reagan administration's success" and urges a return to a "military that is strong and ready to meet both present and future challenges." PNAC's founding document was signed by Paul Wolfowitz, Dick Cheney, Donald Rumsfeld and numerous others who have gone on to become major players in the Bush national security team. Defense contractor Lockheed Martin recently hired PNAC's deputy director and principal author of the report, Thomas Donnelly.

Nuclear Weapons: Here to Stay

Two decades ago, President Reagan unveiled his Star Wars scheme with the intention of rendering nuclear weapons "impotent and obsolete."

Today, the word coming from the Pentagon's recently released Nuclear Posture Review is that nuclear weapons are here to stay. If the recommendations from the Bush administration's review are carried out, the declared purpose of U.S. nuclear weapons could change from deterrence and weapon of last resort to a central, usable component of the U.S. anti-terror arsenal.

The origins of this dramatic shift in U.S. nuclear policy trace to corporate-financed think tanks like the National Institute for Public Policy (NIPP). NIPP's January 2001 report, "Rationale and Requirements for U.S. Nuclear Forces and Arms Control," served as a model for the Bush administration's review. There are a number of parallels in the two reports. Both recommend developing a new generation of "usable" lower-yield nuclear weapons, expanding the U.S. nuclear "hit list" and expanding the set of scenarios in which nuclear weapons may be used.

Three members of the study group which produced the NIPP report are now in the administration. These include National Security Council members Stephen Hadley and Robert Joseph and Special Assistant to the Secretary of Defense Stephen Cambone. NIPP Director Keith Payne -- probably best known for his infamous 1980 essay on nuclear war, "Victory is Possible" -- was appointed head of the Pentagon's Deterrence Concepts Advisory Panel, which will help the Pentagon to implement the Nuclear Posture Review.

NIPP is closely aligned with the nuclear weapons industry. Its advisory board includes Kathleen Bailey, who spent six years as an analyst at the Lawrence Livermore nuclear weapons laboratory, Charles Kupperman, vice president for national missile defense programs at Lockheed Martin, and Robert Barker, a 30-year veteran of Lawrence Livermore weapons lab.

Missile Defense: Ploy or Deploy?

In December, President Bush adopted another of the conservative ideologues and weapons lobbying groups' top priorities: missile defense system deployment by 2004.

Bush made the announcement even though the ground-based missile defense system failed its most recent test, and despite the conclusion of the December 2001 National Intelligence Estimate.

This paper concluded that "U.S. territory is more likely to be attacked" with weapons of mass destruction by countries or terrorist groups using "ships, trucks, airplanes or other means" than by a long-range ballistic missile. Those delivery systems will evade ballistic missile defenses, rendering useless the costly proposed investments in Star Wars technology deployment.

At the forefront of the missile defense lobby is the Center for Security Policy (CSP), a corporate-financed advocacy group with at least eight defense executives on its advisory board at any given time. A sixth of the Center's revenue comes directly from defense corporations.

CSP boasts that no fewer than 22 former advisory board members or close associates in the Bush administration. CSP alumni in key posts include its former chair of the board, Douglas Feith, who now

serves as undersecretary of defense for policy, Pentagon Comptroller Dov Zakheim, Defense Policy Board chair Richard Perle, and longtime friend and financial supporter Defense Secretary Donald Rumsfeld.

Department of Defense, Inc.

It is not just industry-backed think tanks that have infiltrated the administration. Former executives, consultants or shareholders of top U.S. defense companies pervade the Bush national security team.

Lockheed Martin, the nation's largest defense contractor, has more connections to the Bush administration than any other major defense contractor -- eight current policy makers had direct or indirect ties to the company before joining the administration.

Lynne Cheney, wife of Vice President Dick Cheney, served on Lockheed's board of directors from 1994 until January 2001, accumulating more than \$500,000 in deferred director's fees in the process. Former Lockheed Chief Operating Officer Peter Teets is now Undersecretary of the Air Force and Director of the National Reconnaissance Office, a post that includes making decisions on the acquisition of everything from reconnaissance satellites to space-based elements of missile defense.

Northrop Grumman, which is now the nation's third largest defense contractor as a result of its recent acquisition of TRW and Newport News Shipbuilding, follows closely behind Lockheed with seven former officials, consultants or shareholders in the Bush administration. Northrop's most important link is Secretary of the Air Force James Roche, a former company vice president. The company's influence within the Air Force is reinforced by the presence of Assistant Secretary of the Air Force for Installations, Environment and Logistics Nelson Gibbs, who served as corporate comptroller at Northrop from 1991 to 1999. Deputy Secretary of Defense Paul Wolfowitz, Pentagon Comptroller Dov Zakheim and Undersecretary of Defense Douglas Feith all had consulting contracts or served on paid advisory boards for Northrop prior to joining the administration.

Other ties include: Secretary of the Navy Gordon England, a former vice President at General Dynamics, Deputy Secretary of State Richard Armitage, a former member of Raytheon's board of directors and consultant to Boeing, and Senior Adviser to the President Karl Rove, who owned between \$100,000 and \$250,000 in Boeing stock, according to disclosure forms he has filed.

Hogs at the Trough

The overarching concern of the ideologues and the arms industry is to increase military spending. On this score, they have been tremendously successful. In its two years in office, the Bush administration has sought more than \$150 billion in new military spending, the vast majority of which has been approved by Congress with few questions asked. Spending on national defense is nearing \$400 billion for fiscal year (FY) 2003, up from \$329 billion when Bush took office.

In addition to the rapid increases in its yearly budget, Congress has approved \$30 billion in emergency and supplemental spending for the Pentagon since 9/11. Billions more of supplemental funds have gone to the State Department for military assistance for allies and nations supporting the war on terrorism, as well as to the various agencies that have been targeted for inclusion in the Department of Homeland Defense.

Orders for the new high-tech weapons on display in Afghanistan include the Joint Direct Attack Munition, or JDAM, made by Boeing, Raytheon's Tomahawk missile, and Northrop Grumman's \$10 million-a-copy unmanned aerial vehicle, the Global Hawk.

The FY 2003 budget includes approximately \$3.2 billion for more of these systems.

And despite talk of "skipping a generation" in weapons procurement for the past two years, defense contractors will continue to make money off the weapons of yesterday, too. The FY 2003 budget includes more than \$17 billion for Cold War relics that Rumsfeld once said he wanted to abandon. These weapons include: the Air Force's F-22 Raptor (prime contractors: Lockheed Martin, Boeing and the Pratt and Whitney Division of United Technologies; FY 2003 budget: \$4.7 billion); the Navy's F-18E/F fighter

plane (Boeing, General Electric and Northrop Grumman, \$3.3 billion); Joint Strike Fighter/F-35 (Lockheed Martin and Northrop Grumman, \$3.5 billion); the V-22 Osprey (Boeing Vertol and the Bell Helicopter Division of Textron, \$1.2 billion); the DDG-51 destroyer (Bath Iron Works and the Ingalls Shipbuilding Division of Northrop Grumman, \$2.4 billion); and the Virginia class attack submarine (Electric Boat Division of General Dynamics and the Newport News Shipbuilding division of Northrop Grumman, \$2.2 billion).

The centerpiece of the Bush nuclear doctrine, the "New Triad" of long-range strike systems, missile defenses and a revitalized nuclear weapons complex, will involve, during the next five years, at least \$33 billion in spending over and above that projected by the Clinton administration. Missile defense spending for FY 2003 will exceed \$8 billion, while the costs of deploying a multi-tiered missile defense system could easily reach \$200 billion over the next decade -- providing a steady stream of contracts for Lockheed Martin, Boeing, Raytheon and Northrop Grumman.

Spending on the related budget category of homeland security has increased dramatically as well, from \$19.5 billion in FY 2001 to \$37.7 billion in FY 2003, providing yet another source of revenue for the big defense contractors.

Boeing, Lockheed Martin, Northrop Grumman, Raytheon and General Dynamics have all adapted their marketing strategies and are repackaging their products for use in domestic security. Northrop Grumman and Lockheed Martin have received a long-term, multi-billion dollar contract to beef up the Coast Guard, and General Dynamics has been awarded a \$611 million contract to modernize the service's 30-year-old search-and-rescue communications system. Boeing is looking into how its sensors designed to track enemy missiles could be used to locate and identify hijacked planes. Lockheed is trying to adapt military simulators to train local emergency response teams. And Raytheon is pitching its hand-held thermal-imaging devices, designed for the military, as useful for fire fighters searching through collapsed buildings.

A provision in the Homeland Security Act requires government agencies to grant 23 percent of their prime contracts to small businesses, and small companies are excitedly joining the giant corporations in shopping high-tech proposals to the government.

Among others, Air Structures is introducing fortified vinyl domes for quarantining infected communities in the aftermath of a potential bioterror attack, Visonics is looking into designing facial recognition technology and PointSource Technologies is developing a sensor to detect biological agents in the air or water.

For now, the military-industrial-think tank complex is on the ascendancy.

Exploiting the fears following 9/11, and impervious to budgetary constraints imposed on virtually every other form of federal spending, the ideologue-industry nexus is driving the United States to war in Iraq and a permanently aggressive war-fighting posture that will simultaneously starve other government programs and make the world a much more dangerous place.

[next section>>](#)

www.multinationalmonitor.org William Hartung and Michelle Ciarrocca are the Director and Senior Research Associate at the World Policy Institute's Arms Trade Resource Center.

Last Updated May 15, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)
ALL CONTENT © 2004 CITIZEN WORKS



Tools for Democracy

Get Informed

Take Action

Use the Toolbox

SEARCH:

GO

CORPORATE POWER DISCUSSION GROUPS

Session Three: Total Business Awareness: The Corporate Contracting Behind John Poindexter's Total Information Awareness Program

Total Business Awareness: The Corporate Contracting Behind John Poindexter's Total Information Awareness Program

From the Jan/Feb 2003 issue of the Multinational Monitor

By Adam Mayle and Alex Knott

[printer friendly version of session 3](#)

The Total Information Awareness System, the controversial Pentagon research program that aims to gather and analyze a vast array of information on people in the United States, has hired at least eight private companies to work on the effort. Since 1997, those companies have won contracts from the Defense Department agency that oversees the program worth \$88 million.

The Defense Advanced Research Projects Agency (DARPA), which oversees the Total Information Awareness System (TIA), awarded 13 contracts to Booz Allen & Hamilton amounting to more than \$23 million. Lockheed Martin Corporation had 23 contracts worth \$27 million. The Schafer Corporation had nine contracts totaling \$15 million. Other prominent contractors involved in the TIA program include SRS Technologies, Adroit Systems, CACI Dynamic Systems, Syntek Technologies and ASI Systems International.

TIA itself was first proposed by an employee of a private contractor. John Poindexter, who worked on DARPA projects for Syntek, an Arlington, Virginia-based technical and engineering services firm, suggested the program in the wake of the September 11, 2001 terrorist attacks. Poindexter, who headed the National Security Council during the Reagan administration, was convicted in 1990 on five felony counts for his role in the Iran-Contra scandal. The convictions were overturned in 1991 because he had been given immunity for his testimony during the Congressional investigation of the affair. On January 14, 2002, he returned to the government as the director of the Information Awareness Office (IAO).

TIA draws heavily on the private sector. Five of the eight contractors identified by the Center are involved in evaluating future contracts for the program. Grey Burkhart, an associate of Booz Allen Hamilton, identifies himself on his résumé as "assistant project manager" of TIA system implementation. Even the phrase "Total Information Awareness" has a private pedigree -- Visual Analytics, Inc., a Poolesville, Maryland-based software developer and DARPA contractor, has applied for a trademark for the phrase.

In addition, at least 24 universities have received almost \$10 million during the last five years to do research on TIA-related projects. Some of the largest grants went to Cornell University, Columbia University and the University of California, Berkeley and dealt with the TIA's language translation program, Translingual Information Detection, Extraction and Summarization.

"DARPA doesn't do any of its own research," says Jan Walker, a spokesperson for the agency. She also says that DARPA doesn't require private contractors to share their research solely with DARPA. "The government benefits when there are commercial applications [from DARPA research] because it keeps the cost down," she says. Any limitations on commercial use are negotiated "on a case by case basis," she says, adding that, "many of the things DARPA does have commercial applications."

DARPA employs 240 people and oversees a budget of roughly \$2 billion. It relies heavily on outside contractors. Some act as "systems engineering technical assistance," or SETA contractors, who assist DARPA in managing the efforts and representing the program with Congress, the Department of Defense hierarchy and the military services. Typical projects involve five to 10 contractors, two universities, and budgets between \$10 and \$40 million. DARPA's website notes that the best program managers -- the agency's employees who oversee the contractors -- "have always been freewheeling zealots in pursuit of their goals."

A lack of oversight

Congress, which exercises oversight of the executive branch and the military, has not held a single public hearing on TIA and sources on the Hill suggest that members know little about it. In a November 22, 2002 letter, Senator Charles E. Grassley, R-Iowa, asked the inspector general of the Defense Department to "conduct a complete and thorough review of the TIA program." Noting that available information regarding TIA was not sufficient, Grassley wrote that the Defense Department's comments about DARPA "only provide few answers and invite many more questions."

Grassley questioned the parameters and scope of TIA, how Poindexter was selected to head it, and what protections are in place to ensure civil liberties are not violated.

The Defense Department has not begun an inquiry. "They have it under consideration," says Susan Hansen, a spokesperson at the Defense Department. "I have not heard of any final decision about the status."

Senator Dianne Feinstein, D-California, says that she plans to introduce legislation to address any threats to privacy rights that TIA poses.

Despite Congress' lack of knowledge about the program, the overall budget for TIA programs is increasing, and will nearly triple from \$43 million in fiscal year (FY) 2001 to \$110 million in FY 2003. According to declassified budgets released recently from DARPA, some projects that have existed since 1996 will receive similar spending boosts now that the TIA office has been officially created. For instance, a TIA project called "Wargaming the Asymmetric Environment" grew from \$6.8 million in FY 2001 to \$18.5 million in FY 2003.

An ongoing effort

The stated goal of TIA, which began in FY 2002, is "to revolutionize the ability of the United States to detect, classify and identify foreign terrorists -- and decipher their plans -- and thereby enable the United States to take timely action to successfully preempt and defeat terrorist acts." To accomplish this, the program seeks to combine several kinds of information -- financial, education, travel, medical, veterinary, transportation and housing transactional records, and face, finger print and other identifying data -- into databases.

TIA draws heavily on other DARPA research projects that were ongoing long before September 11, 2001. For example, Project Genoa, a computer program designed to rapidly analyze and share data, and develop plans based upon the analyses, began prior to 1997 and was completed in FY 2002. The Defense Intelligence Agency has agreed to use Genoa. A Genoa II project is underway at DARPA.

Syntek was a contractor for the Genoa Project providing "specialized technical and programmatic" advice for more than five years. According to his résumé -- which had been posted on the home page of the Information Awareness Office (which oversees TIA) until November, when it was removed along with the résumés of other IAO personnel -- Poindexter joined Syntek in 1996.

The first documented reference to Syntek's involvement in Genoa indicates that the company began working for DARPA by mid-1996. Since 1997, Syntek received nine contracts from DARPA totaling \$1.18 million. Poindexter worked for Project Genoa via Syntek through 2001 before returning to the

Defense Department as the director of the Information Awareness Office.

According to his financial disclosure documents, before joining DARPA, Poindexter earned \$147,182 a year while working for Syntek. He worked closely with DARPA helping to develop Project Genoa, which is now a component of TIA. Under Poindexter's guidance, IAO will continue to use Syntek as a TIA contractor. He also reports receiving income for acting as a consultant to the U.S. government for Syntek. These days, according to the Transactional Records Access Clearinghouse, Poindexter is receiving a salary of \$138,200 -- the most of any DARPA employee and equal to the salary of DARPA Director Tony Tether.

One month after Poindexter joined the board of directors of Saffron Technology in September 2000, the company announced it had received funding from DARPA for Genoa, which is now part of the TIA program.

Poindexter characterized the mission of IAO as "the integration and assured transition of components developed in the programs Genoa, Genoa II, GENISYS, EELD, WAE, TIDES, HumanID and Bio-surveillance," in an August 2002 speech at the DARPATECH conference in Anaheim, California. Those programs, all of which predate TIA and are under the aegis of the IAO, analyze and extract data, allow the identification of individuals by their characteristic body movements, or automatically translate Arab, Persian and other languages into English. Poindexter explained that TIA is "the overarching program that binds IAO's efforts together."

Many of the components of TIA, such as Genoa, have been ongoing projects since the Clinton administration. In the May 13, 1999, issue of Commerce Business Daily, a now-superseded bulletin board for government contracts, there is a notice from DARPA that it intended to award a company named Integral Visuals, Inc. a purchase order for technical and engineering support for "Project Genoa and Total Information Awareness," suggesting that TIA, like its components, predates the September 11, 2001, terrorist attacks.

In a November 20, 2002 news briefing, Undersecretary of Defense for Acquisition, Logistics and Technology Pete Aldridge disclosed that Poindexter was the mastermind of the TIA project. Noting that Poindexter had "a passion for this project," Aldridge explained, "He came to us with the project after September the 11th and volunteered it to DARPA. Tony Tether, the director of DARPA, came over with John and briefed it to me, and I thought it was a project worthy of pursuit."

The private connection

Last April, IAO published a document with the bureaucratic title BAA 02-08 Information Awareness Proposer Information Pamphlet, which asks private companies to provide "innovative research proposals in the area of information technologies that will aid in the detection, classification, identification and tracking of potential foreign terrorists ... and to develop options to prevent their terrorist acts."

The same document spells out the central role that contractors play in IAO, which will "use personnel from SRS Technologies, Syntek Technologies, CACI, Schafer Corporation and Adroit Systems as special resources to assist with the logistics of administering proposal evaluation and to provide advice on specific technical areas."

DARPA has hired diversified defense industry giants Lockheed Martin and Booz Allen & Hamilton for TIA and related projects. Booz Allen has won what may become the largest TIA contract, potentially worth \$62 million over the next five years if DARPA exercises all the contract's options.

Booz Allen employee Grey Burkhardt's résumé notes that he is the "assistant program manager for the implementation of an advanced collaborative analysis system for the counterterrorism and intelligence communities," which he identifies as "Total Information Awareness (TIA) System Implementation." DARPA spokesperson Walker says that Burkhardt is not an employee of the government.

Burkhart has had more than 25 years of experience in strategic security, intelligence and telecommunications, in both the private and public sectors. He has served as a career intelligence officer, held a CEO position at Allied Communications Engineering, and has become a "recognized expert on the global proliferation of information technology."

Burkhart's résumé also notes that he was a member of Booz Allen's Homeland Security Coordination Center and Tiger Team, for which he "conducted analysis of new legislation and executive orders and assessed their impact on current and future business."

Big brother on campus

Private companies have not been the only players in TIA research. Dozens of universities within and without the United States have also worked on the program's components for years.

Since late 2000, researchers at Georgia Tech have been working on a new computer-based identification system called Human ID that theoretically can take video images from a camera and distinguish people by the way that they walk and their different mannerisms. The applications of this software could have unlimited potential when used with satellite imaging, government video and even security cameras. The theory is that each person has distinctive body movements and that by recording and analyzing these movements, the government could identify suspects even if they are wearing disguises or have altered their appearances.

According to unclassified budget documents recently released by the Defense Department, DARPA spent \$11.8 million during the 2001 fiscal year to develop a "pilot force protection system" for Human ID as well as to create prototype models and develop advanced sensors. DARPA's new budget increases the program's spending to \$30.1 million during the next two fiscal years to identify the limitations of the range and accuracy of the program while fusing multi-modal technologies to derive biometric signatures.

Overall, Georgia Tech has received four federal grants totaling \$1.2 million for the "HumanID from Movement" project, beginning in the last quarter of 2000. The funds are part of a \$50 million DARPA program to identify people from a distance that encompasses 26 research projects including two from Georgia Tech to analyze movement.

In addition to recognizing people by body movement, Human ID is working on facial recognition and iris recognition software. These uses have been tested on subjects at a distance of 25 to 150 feet, but future DARPA plans anticipate distances as far as 500 feet.

"I do computer vision research," says Aaron Bobick, an associate professor at Georgia Tech researching HumanID for DARPA. "Part of it is to see how to get computers to see things. One of things that I am working on is understanding motion and recognizing people from a distance."

Bobick says that his research is still preliminary. "We've found it to be successful in a limited number of cases but gait recognition is really in its infancy. We don't know how successful it will be. We are still at the point where we don't know what will be possible."

DARPA projects on identification go well beyond "naked eye" visual appearance. The defense agency is currently trying to identify potential suspects by their unseen traits using plumes of odorant molecules, spending more than \$427,000 on four grants to the University of Arizona for this purpose, dating back to 1998. Like gait recognition, the smell test is still in development.

[next section>>](#)

www.multinationalmonitor.org Adam Mayle is James R. Soles Fellow and Alex Knott is a writer with the Center for Public Integrity, for whom this story was originally prepared. Center for Public Integrity Research associate Ben Coates, database editor Aron Pilhofer and executive director Charles Lewis

contributed to this report.

Last Updated May 15, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS

The Activist's Library: Books on Corporations and Related Topics

[printer friendly version of book list](#)

General Books on Corporations

When Corporations Rule the World by David Korten

Corporation Nation and People Before Profit by Charles Derber

The Tyranny of the Bottom Line: Why Corporations Make Good People Do Bad Things by Ralph Estes

The Corporation Inside & Out by the Aurora Institute (www.aurora.ca)

Defying Corporations, Defining Democracy: A Book of History and Strategy by Dean Ritz, ed.

Unequal Protection: The Rise of Corporate Dominance and the Theft of Human Rights by Thom Hartmann

Taming the Giant Corporation by Ralph Nader, Mark Green and Joel Seligman

Cutting Corporate Welfare by Ralph Nader

Corporate Irresponsibility by Lawrence Mitchell

Challenging Corporate Rule by Robert Benson

Selling Out: How Big Corporate Money Buys Elections, Rams Through Legislation, And Betrays Our Democracy by Mark Green

Corporate Crime

Corporate Crime and Violence by Russell Mokhiber

Corporate Predators by Russell Mokhiber and Robert Weissman

Corporate Crime by Marshall B. Clinard and Peter C. Yeager

The Rich Get Richer and the Poor Get Prison: Ideology, Class, and Criminal Justice by Jeffrey Reiman

Pigs at the Trough: How Corporate Greed And Political Corruption are Undermining America by Arianna Huffington

Pipe Dreams (Enron) by Robert Bryce

Corporate Governance

The End of Shareholder Value by Allan A. Kennedy

The Divine Right of Capital by Marjorie Kelly

Take on the Street: What Wall Street and Corporate America Don't Want You to Know by Arthur Levitt

The New Global Investors by Robert Monks

Books on Corporate Globalization

Alternatives to Economic Globalization (see www.ifg.org)

Whose Trade Organization? by Lori Wallach and Michelle Sforza,

Vanishing Borders: Protecting the Planet in the Age of Globalization by Hilary French (Worldwatch)

Unequal Partners by William Tabb

The Silent Takeover: Global Capitalism and the Death of Democracy by Noreena Hertz

Other Corporate Related Books

Global Spin: The Corporate Assault on Environmentalism by Sharon Beder

Toxic Sludge is Good for You: Lies, Damn Lies and the Public Relations Industry by John Stauber and Sheldon Rampton

Trust Us, We're Experts by John Stauber and Sheldon Rampton

Digital Capitalism: Networking the Global Market System by Dan Schiller

Rich Media/Poor Democracy by Robert McChesney

Silent Theft: The Private Plunder of Our Common Wealth by David Bollier

World Hunger: 12 Myths by Peter Rossett et al.

Wealth and Democracy by Kevin Phillips

One Market Under God by Tom Frank

Christianity, Inc. by Michael Budde et al.

Campus, Inc. by Geoffry White (ed.)

Magazines

Multinational Monitor (www.essential.org/monitor), Covert Action, Z Mag, the Nation, In These Times,

Corporate Reform Weekly, Rachel's Environment and Health Weekly, www.Commondreams.org

For more reading suggestions, see Citizen Works' [progressive reading list](#).

Last Updated March 25, 2003

[About Citizen Works](#) | [Contact Us](#) | [Privacy Policy](#) | [Jobs/Internships](#)

ALL CONTENT © 2004 CITIZEN WORKS