Overcoming the Corporatist Economy, Restoring the Market Economy
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The original text was published as “Machtwirtschaft Nein Danke! Für eine Wirtschaft die uns allen dient” by Campus Verlag (Frankfurt, 2014)

Published June 2015

The Heinrich-Böll-Stiftung is a political nonprofit organisation striving to promote democracy, civil society, equality and a healthy environment internationally.

www.eu.boell.org

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Can we honestly say that we live in a market economy?

Is it really acceptable for our economic system to undermine the environmental sustainability of the planet? The same economic system that time and again falls victim to financial collapse and causes ever-increasing inequality?

It is very clear that something is seriously wrong – demonstrated not only by the climate, finance, and inequality crises of recent years, but also by the presence of new economic structures in which the rules are dictated by power and money.

Clearly, this economic order can no longer be identified as a market economy, the central drivers of which are our needs and preferences. Instead, I call this new economic order the ‘corporatist economy’. A small number of large multinational corporations are gaining more and more control over society. Instead of competing for the favour of consumers, corporate oligopolism dramatically reduces competition. Rather than being guided by consumer demand, big business manages and manipulates our tastes and preferences. In consequence, competition over goods and services for the benefit of consumers has become less important than financial power and market control.

With a few huge corporations controlling production, the variety of products available is severely restricted. Small businesses and local initiatives find themselves pushed up against the wall. Furthermore, these large multinationals’ purely profit-focused approach seriously hampers the sustainable and equitable development of our societies.

So what are our options? There is very little that we can do as individuals to fight this trend. While buying local does of course help, this is clearly not enough to fend off the big companies. Often, their market power has already led to dramatic market consolidation, thus severely limiting our options as consumers. We often find ourselves with no choice but to buy from these companies.

Instead, we have to face up to big business on equal terms. The state alone has the ability to restore the market economy. Of course, companies shy away from competition and prefer policies that do not tear them out of their comfort zones. But if we want to counter the negative effects of the corporatist economy experienced over recent years, we desperately need state regulation in order to turn back the clock to real competition – competition that in the end benefits us, the consumer.

Faced with global corporations, individual states are often too small to really make a difference. The global web of connections (both finance and production) creates systems and symbioses which can no longer be tackled at a national level alone. Moreover, with the advent of the European internal market, individual member states are no longer in any position to engage with major companies on an equal footing. This is why going it alone may not be enough – and why we need a strong EU. As long as legal frameworks are established at a national level while transnational companies operate across national borders, our interests as citizens will be ignored. If we want to defend our sovereignty as consumers and citizens, we need to make sure that big business faces competition. Genuine sovereignty as regards economic policy can only be achieved if we push through legislation to counter the ‘corporatist economy’. We need to work together on legal frameworks that are capable of effectively setting a limit on the grip of global corporations.

This is also important from an environmental point of view: when all that matters is shareholder profits, environmental issues become less relevant. Any attempt to establish environmental guidelines for the economy will fail in the face of large-scale lobbying. Small regional enterprises and fair trade will be marginalised. Innovative environmental solutions have little chance of getting off the ground as long as markets are controlled by a handful of buyers in large commodities markets and all-powerful global trading centres. The only way to achieve a sustainable society that serves the wellbeing of all is through a return to a market economy. Similar to the ‘progressive movement’ in the USA at the turn of the last century, we need to close ranks against an economic system that serves the few to the detriment of the many.
2 Our Corporatist Economy

Many people assume, as if it were self-evident, that we live in a market economy. We like to believe that markets are guided by collective intelligence. Supply and demand set prices and the scale of production. Markets aggregate the decisions of many thousands of actors who, independently of one another, buy and sell goods and services.

There is, however, an important precondition: no one player can be so powerful as to impede other players’ freedom of choice. As soon as a few individuals hold sufficient power to gain advantages at the expense of others, whether alone or in concert with others, this ideal model becomes flawed. For example, when a few large corporations exert such power over the market that they are able to dictate to both customers and competitors, this is no longer a functioning market economy. It is not possible for all market players’ interests to be taken into account through a process of free exchange; only the interests of the strongest count.

2.1 The Concentration of Market Power in Various Sectors

A perfectly functioning market economy has almost never existed in reality. Throughout economic history there have been periods with varying degrees of power concentration. Recent decades, however, have seen the development of a structure dominated by global corporations that increasingly threatens not only our democratic society and the effectiveness of the economy in meeting our needs, but above all the freedom of the individual. The image of the market economy peddled in official speeches is starting to bear less and less resemblance to reality, while corporatist economic structures are becoming increasingly evident. Let me outline a few examples.

2.1.1 Increasing Concentration in Financial Markets

Between 1997 and the crisis in 2009, the world’s 25 largest banks increased their share of the total capital held by the 1,000 largest banks from 28% to 44%. Since then, numerous takeovers have led to further concentration. In the USA, the top three banks’ capital share rose from 10% in 1990 to about 40% in 2007. In the EU, the top five financial institutions increased their market share from 43% to about 48% between 2009 and 2013. Even Josef Ackermann, former head of Deutsche Bank, spoke in an interview of ‘oligopolistic structures’ in the banking sector. Rather than increasing productivity, concentration in the banking sector tends to have a negative effect on efficiency. Furthermore, less competition means higher interest rates on loans and lower interest rates on savings. The customer loses out both ways. The Global Alliance for Banking on Values comes to a similar conclusion in a comparison between ‘sustainable banks’ and major banks. The return on total capital, i.e. the profit derived from both their own and borrowed money, is significantly higher for the former and at the same time subject to less fluctuation. They also lend rather more credit as a proportion of their total balance: 73% as opposed to 43%.

In markets trading high volumes, such as the derivatives and currency markets, business is concentrated around just a few players. During the banking crisis in 2009, after derivatives were widely recorded and published for the first time, it was found that more than 80% of the risk on derivatives in the USA was borne by only five companies. The concentration is even more pronounced in the case of credit default swaps (CDS), a subcategory of derivatives that insures the buyer against credit risks. The 15 largest dealers conduct 87.2% of the CDS trade, while the six largest
organisations account for an unbelievable 99.6% of the total sum of credit covered by these agreements. The investment bank JP Morgan Chase alone was responsible for 52.8% of all default swaps. The French economics expert Anne-Laure Delatte, whom I invited to a hearing of the Finance Committee in the German Bundestag, drew an important conclusion from this:

“They play with each other. The price amongst traders is influenced by only a very small number of people. Given this fact, collusion cannot be ruled out. It is possible that many of the price changes of credit default swaps on sovereign debt can be traced back to traders changing the price without anyone having bought any credit default swaps.”

A number of regulatory bodies around the world are currently looking into this. Banks have already been forced to pay huge fines for manipulating key interest rates and currency exchange rates. Many financial markets are so strongly concentrated that it is easy for traders to manipulate prices in their own interest.

Increased market concentration promises less competition – to the advantage of large companies with sizeable profit margins, but to the detriment of customers who have to put up with lower returns on their savings and investments.

2.1.2 Power Over Our Data

The concentration of power in the hands of a small number of Internet companies is equally problematic. Social and economic life has been shaped to a large extent by Internet and IT innovations during recent decades. Apple, Google, Facebook, Amazon, eBay, and Yahoo are emblematic of the corporations that have created the virtual world on which we rely so heavily in our modern societies.

I write these words on an Apple computer and use Google for research. As a modern politician I obviously use Facebook to inform people about my political work. I find both my tightly scheduled diary and my emails on my smartphone. And of course I use its navigation functions to get to meetings in cities that I don’t know.

For our generation, therefore, it is almost impossible to avoid getting caught in the claws of these large corporations, the business models of which are based on their dominant position in the market. It is just as difficult for Google to compete seriously with Facebook as it is for Microsoft, in partnership with Facebook, to establish an alternative search engine – not to mention competition from smaller companies.

Even if we were to go to great lengths to protect our own personal data by refusing to send emails or use mobile phones, our friends or business partners would divulge telephone numbers, photos and other personal details on Google or Facebook. This usually happens without any conscious intent when importing our address books into webmail or putting captions on our holiday snaps. Progress in the development of face recognition software is so rapid that I often imagine how, in a few years’ time, we will only need to point our smartphones a fellow passengers on the underground in order to have immediate access to their personal data – which would be publicly available whether they liked it or not.

The power of these corporations is therefore no longer a private matter – for the simple reason that it is so easy to abuse the information infrastructure they are creating. Apple, for example, produces complete profiles of a person’s movements and behaviour for advertising purposes. Apple’s data protection guidelines literally say: “To provide location-based services on Apple products, Apple and our partners and licensees may collect, use, and share precise location data, including the real-time geographic location of your Apple computer or device.” There is no note in the privacy policy to indicate that users are able to withhold their consent to the sharing of their data.

Frequently an exchange takes place: we receive discounts in return for our personal data. Most people have no idea how much their data is worth. Corporations, however, commercialise it. Anyone who collects Payback points will find that all their purchases have been recorded – which also means that it is possible to predict their future purchases.

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11 Loyalty scheme in which customers are awarded points each time they spend money at participating retail outlets. Points can be exchanged for money-off vouchers or special services. The data collected allows the customer’s shopping behaviour to be tracked in detail over time using data mining.
This has led some to liken the current trading of personal data to the Gold Rush. The more companies know about us, the better they can control us as consumers. Advertising can be tailored exactly to our profile of interests, because our consumption patterns are clear – thus altering the balance of power in favour of companies and away from the customer.

The balance of power is also shifting within markets. When Apple and Amazon provide the infrastructure for a trading platform that brings together buyers and sellers, they find themselves in a very powerful position. These private, profit-making companies are in a position to either grant or deny access to customers (and sellers) via their platforms. In this way, technology is facilitating the development of unregulated private monopolies.

It should not surprise us, therefore, that Amazon is exploiting its powerful position in the market in order to gain an economic advantage and increase its dominance. For instance, the online retailer is misusing its market dominance in negotiations with publishers in order to monopolise the e-book market. A recent example is the dispute with Swedish media group Bonnier. At the heart of the conflict is Amazon’s demand for an increase in its discount on e-books from 30% to between 40% and 50%. Amazon has put forth no plausible reason to justify such huge discounts (such as internal innovation or improved service, for instance). The online retailer simply uses its dominant market position to try to “convince” publishers: books published by the Bonnier group were held back for several days in order to exert greater pressure on the company during negotiations. Resistance has begun, however. In July 2014, the German Publishers and Booksellers Association lodged a complaint with the federal Monopolies Commission. Not only publishers but also prominent authors such as Ingrid Noll, Günter Wallraff and Elfriede Jelinek joined forces to protest against these practices in an open letter. To date, however, the online retailer has remained unimpressed by complaints from these and other prominent interest groups.

Amazon employs aggressive negotiating tactics not only in Germany but also (in a targeted fashion) in other countries such as the USA. In a similar dispute with publishing house Hachette, Amazon not only announced delays in delivery but also increased the price of books published by Hachette and suggested other books to customers as alternatives. As a result of these measures, Hachette’s publications suffered a dramatic drop in sales – to the detriment of its authors.

These negotiating tactics are applied systematically, and fit into the company’s broader strategy. There are more than just discounts at stake. Amazon’s declared aim is to become the new middleman between authors and readers. Publishers and booksellers are to become obsolete.

Nobel Prize winner Paul Krugman warns us that the online retailer already has far too much control over the book market. Amazon controls around 30% of the market in the USA, meaning that it is an incredibly powerful ‘buyer’ of books in direct competition with publishing houses. Krugman compares Amazon to Standard Oil, the American oil company which was broken up by the Supreme Court in 1911 because of its excessive power. Given the market dominance and the business practices of the online giant, Krugman has a clear demand: “Break up Amazon!”

2.1.3 The Origins of Our Wealth

Oil shale, coltan, chalcopyrite, magnetite, lepidolite, bauxite, quartz, gold – most of us carry these raw materials around in our pockets, packed inside our mobile phones. Access to resources is essential to the global economy. Raw materials make up about two thirds of world trade, measured by weight. The concentration of economic power in this sensitive area is an even more serious threat. Take iron ore, for example, the raw material for steel and the second most important raw material in world trade. The market is dominated

Glencore provides another example. This company, which employs 190,000 people and is based in the Swiss canton of Zug, controls the lion’s share of the global trade in raw materials: 60% of the trade in zinc, 50% of the trade in copper, and 45% of the trade in lead²² to name just a few commodities. The following quotation from a share prospectus is an indication of the company’s claim to power: “There is no comparable company or conglomerate that would be in a position to enter into direct competition with Glencore.”²³ In May 2013, a merger took place between Glencore and Xstrata, another mining company also based in Switzerland, which strengthened their global dominance.

The Financial Times has painstakingly collected data relating to this market.²⁴ The result is mind-blowing: over the past decade, traders in raw materials earned 250 billion US dollars. That’s more than the profit of the three big banks (Goldman Sachs, JP Morgan Chase, and Morgan Stanley) or the five car giants (Toyota, Volkswagen, Ford, BMW, and Renault) put together. Furthermore, in 2011 the total shareholdings of the six top managers of Glencore amounted to more than the gross domestic product of any one of the 96 poorest countries in the world in that year.²⁵ Traders complain of a significant growth in competition, but the top 20 nevertheless made a profit of 33.5 billion US dollars in 2012.²⁶ One of the reasons for this is the extremely low tax rate in countries such as Switzerland and Singapore, where the traders have their headquarters. While other companies pay between 30% and 45% tax, and even the big banks pay about 20%, commodities traders get away with paying between 5% and 15%, according to the Financial Times.

### 2.1.4 The Power of Agribusiness

In the agricultural sector too, many problems and challenges are due to the size and power of a few corporations. The top 10 companies in this sector control around 74% of the market between them.²⁷

In particular, global agricultural giant Monsanto has become an unpredictable, powerful force.²⁸ Monsanto is now the world’s largest seed producer, with a market share of around 27%. In the course of its aggressive expansion there was increasingly fierce competition with other big players, especially DuPont, which held the number one position for a long time. But then the two giants realised that competition was bad for business and instead opted for strategic cooperation.²⁹

The real secret of Monsanto’s power lies in patenting. As a result of stubborn lobbying, the company succeeded in extending patent protection to genetically modified (GM) plants – first in the USA and then in Europe. Now the company patents not only seeds but also their harvest, and even processed products. Absurdly, it is even possible to patent biscuits made from GM wheat.

But Monsanto has gone even further: the company has even patented animals; the failed attempt to patent the pig genome is just the tip of the iceberg. At a demonstration against this move, the apposite assertion was made that

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“Only pigs patent pigs”. Fortunately, the European Patent Office put a stop to these plans, at least temporarily, in 2010.

The company maintains its market dominance by means of tough sales contracts. Any conflicts must be kept secret; legal battles may not be discussed with third parties. Monsanto forces farmers to face expensive legal action over the smallest infringement of their contracts. The strategy behind this is, of course, to deter any individual claims.

Opposition to GM crops is growing, especially in Europe where this has traditionally been strong. Germany’s fields are actually GM-free. This contrasts with horrifying statistics from the USA, where as much as 81.1% of maize, 94.5% of soya beans, and 78.9% of the cotton planted is now genetically modified. Monsanto’s greatest success was in April 2013 when, during tense negotiations over the US federal budget, a clause was inserted into the legislation which practically removed the power of the federal courts to ban the sale or planting of GM crops, in spite of justified public health fears.

Little by little, Monsanto is trying to replicate the situation in the USA across the rest of the globe. In developing countries in particular, where the balance of power has long been tilted in favour of multinational corporations, all the signs are pointing towards further expansion. Under the guise of sustainability and the fight against hunger, new dependencies are being created. But for decades there has been pressure on Europe too to relax legislation.

2.2. The Global Corporate Network

There are more examples of market concentration. In auditing, for instance, the market is dominated by the “Big Four”: PricewaterhouseCoopers, KPMG, Ernst & Young, and Deloitte. The German Federal Cartel Office has also warned of excessive concentration in the retail sector. Companies such as Apple and Amazon take advantage of special regulations in tax havens such as Luxembourg, the Netherlands, and Ireland in order to reduce their tax burden – leaving the funding of public services to smaller enterprises and employees. The concentration of market power has huge negative consequences in a long list of sectors. Is this just a snapshot of several individual phenomena, or is there something more systematic behind it?

Researchers from the Swiss Federal Institute of Technology in Zurich discovered that in fact that the latter is true. They set out to draw an objective picture of transnational corporations and, in doing so, revealed the true extent of this disastrous development. Instead of comparing companies’ revenues and the gross domestic product of countries, the Swiss researchers employed a network analysis approach. By analysing the shareholdings of the companies, they revealed a network of direct and indirect ownership. While large corporations are immediately recognisable, networks between capital owners are far less visible. The research team began with data collection, identifying 43,060 transnational corporations from a database of 30 million economic entities. In a second step, they investigated the ownership relations between these corporations. Does a particular company hold part ownership of other companies, or is it itself controlled (perhaps partially) by another company? This analysis produced a model consisting of 600,508 nodes, each of which represented a company, and more than a million connections representing ownership. Using computer algorithms, the researchers teased out a number of small entities with no connections to each other. A large “bundle” remained, however, containing two thirds of the nodes and accounting for 94.2% of the total income of all transnational corporations.

When examined more closely, this image resembles a bow tie. One wing of the bow tie is much smaller than the other, however. The smaller wing contains companies that own other companies in other parts of the bow tie. The larger wing represents companies that are owned by companies in the knot of the bow tie – accounting for as much as 60% of the total income of all transnational corporations.

The researchers paid most attention to the knot of the bow tie. They found 1,318 corporations to be active in a complex web of 12,191 connections. These companies each own parts of other companies in the knot, and are themselves owned directly or indirectly by other companies in the knot. Most surprising is that, in the whole bundle of just over 600,000 nodes, there is a single core where one might have expected to find several centres of power. Similar analyses of national markets are also interesting: such concentrations of power have rarely been found at the national level. And where they do exist – in Anglo-Saxon countries, for example – then the concentration is less marked.

This web of economic connections raises the question of who exactly is in control. Even though company A may not directly own company B, it may nevertheless be able to dictate company B’s actions via its stakes in third companies. This is where the research team came up with some remarkable results. Within the network as a whole, control is even more unequally distributed than capital. The top actors exercise ten times as much control as one would expect in relation to their total capital. In this way, a group of only 147 corporations, dubbed the ‘super entity’ by the research team, has control over nearly 40% of the worth of all international corporations worldwide.

The power of transnational corporations and their respective control over revenues is very concentrated. There is a super entity in which 147 companies manage to exercise influence over nearly 40% of the capital worth of all transnational corporations worldwide.

**Percentages:** Proportion of total revenues of all transnational corporations accruing to this part of the complex; proportion of total number of transnational corporations in this part of the complex.


These results have caused a major controversy – and rightly so. After all, the researchers have done important and pioneering work by completing the first truly global analysis of economic networks. It is clear to me that this structure is not the result of some sort of conspiracy, but has grown gradually as a result of the natural tendency towards concentration. Nor is it a form of global government; even a close-knit circle of 147 units cannot form the basis of a political strategy for world domination.

Nevertheless, the dangers represented by such a network are very real. For one thing, such concentration does not foster efficient competition. Even small-scale cross-shareholding, i.e. mutual ownership of each other’s shares, can lead to distortions and market dominance in sectors such as air transport, car manufacture, and finance. In their study, the researchers conclude that competition is weakened by this type of concentration – whatever the causes.
Secondly – and this danger is no less serious – global networks simply function as channels for infection. A local problem can quickly get out of control, as seen in the case of Lehman Brothers. At the time of its collapse, this institution was ‘only’ in 34th place. One cannot imagine what would have happened if a more widely connected company had gone bankrupt.

Above all, the question arises as to the level of political influence exerted by such a centre of power, created as a result of companies having the same interests, exchanging data, or coordinating some of their activities. Each single company within the core of the conglomerator is enormously powerful on its own. These corporations are often larger and richer than a single country, meaning that they are able to gain enormous influence over markets in relation to governments, or when restricting individual freedom in some way. Several of the widely connected global corporations acting together already have huge power over the markets in which they operate. When they are interconnected across several markets, the power gained is probably so great as to be beyond control.

2.3 The Costs of the Corporatist Economy

So how did this corporatist economy come into being? Is it the result of a process driven deliberately by a small number of people? Not at all. From the companies’ point of view, these tendencies are in line with theories of economic behaviour. Most large companies pursue further growth to acquire market dominance and, in doing so, eliminate competition. Taking over other companies has important consequences in the competition for customers and market share by reducing, as it does, the importance of the quality of goods or services as a factor in the success of the enterprise. Size and market power becomes an important production factor, along with the cost of labour and raw materials. Companies therefore seek to optimise this as a means of increasing profits. A corporation that has gained market dominance no longer needs to convince customers primarily with the price and quality of its products. Step by step, growing companies gain advantages not through innovation, but simply by means of their size and market power, so that a small business is unable to catch up through greater efficiency alone.

This vicious circle degrades the market economy, and it does so to our disadvantage. Size matters for market power, and promises increased profits. Even innovative business projects or more efficient production processes can no longer gain a foothold if they run counter to a dominant company’s profit maximisation strategy. This is a serious threat to the existence of small and medium-sized enterprises.

Profits only partly depend on entrepreneurial know-how. Large companies win a premium as a result of their concentration on the market, not because they make better products. Companies succeed with this strategy because consumers and the state are paying higher prices. These are processes which redistribute wealth from the bottom to the top.

In this unequal battle, we consumers are the losers. We are becoming more and more dependent on the decisions of large corporations. A small number of producers offer only a limited range of products. They force us to buy products we do not really want. We might prefer a sustainably manufactured mobile phone, but Telecom, Vodafone, and O2 offer no such thing in their shops. Our choice becomes limited to a narrow range of products, but we also have to pay far too high a price for them. It costs about 200 euros to produce an iPhone 6, whereas we have to pay about four times as much in the shops. With only a few suppliers on the market, these oligopolists clearly abuse their market power to their advantage.
3 And Other Things are Going Wrong

In this way, it took only a few decades for the market economy to transform into a corporatist economy. The financial, raw materials, agricultural products, and data collection markets have all become more concentrated. In each case power has taken over the market. This problem has yet to be tackled politically, however. Indeed, a significant proportion of policymaking is in fact going in entirely the wrong direction.

3.1 Antitrust Legislation

Cartels are harmful because competition is undermined by agreements on prices or supply volumes. Companies rake in profits at the expense of society by systematically undermining market forces. The cement cartel in Germany is a particularly prominent example. During the 1990s, cement suppliers succeeded in charging prices around 20% higher than under competitive market conditions.33

Cartels are now also subject to scrutiny beyond the national level. With the advent of the internal market in the EU, companies are now also making agreements at a European level. The EU Member States are now cooperating in order to effectively counter this. After the European Commission started the process with a White Paper in 2008, the EU decided on a directive that regulates cartels across Europe.34

This directive provides the foundation for claiming full compensation for losses, as laid down in the EU treaties. This is a step forward in some areas: national courts can require the defendant to supply documents and information, and contact with witnesses is strictly regulated. But there is still much to be done, particularly as the directive needs to be much stronger if it wishes to effectively regulate collusive behaviour.

The directive also addresses the “passing on” of cartel damages. Someone who has suffered losses because of the actions of a cartel can claim compensation – even if they have only suffered indirectly. If, for example, a customer buys a product at an inflated price because of a price-fixing agreement, a claim for compensation can be made against the producers who were involved at an early stage of the value chain.

While this sounds enticing, it also carries risks: cartels now have another argument to use against compensation claims. Claimants have a right to compensation, but only if they can prove that they did not pass on manipulated prices. Cartels therefore have an important argument against claimants who are not really end users, but who use an item as an input for further processing. In practice, therefore, proving private damage is not at all simple.

It is also interesting to note that an important exception found its way into the documents at the last minute – even at the cost of diplomatic turmoil. Those companies that have no more than a 5% share of the market at the time of proceedings, and that would be bankrupted if they had to pay compensation, are not liable for losses caused by the cartel. A market share of 4-5% is not insignificant. The grounds for making this exception are questionable. In effect, this regulation gives carte blanche to any company operating just below the 5% limit.

3.2 TTIP

The free trade agreement currently being negotiated between the European Commission and the USA is a matter of great concern. Traditionally, free trade agreements sought to remove tariff barriers, but this is not really the aim of TTIP; the tariffs between the two economic regions are already at only about 3%. Instead, the negotiations are focussing on non-tariff trade barriers, the harmonisation of product standards, and the security of foreign investments.35


Most of the negotiations take place behind closed doors. This policy has slowly changed, but only in response to persistent protests.36 The Commission argues that secrecy is crucial for successful negotiation, but the exclusion of the public leads to systemic disadvantages for consumers. It was recognised long ago that interest groups that foresee enormous benefits from a change in policy are especially adept at presenting their concerns effectively in these kinds of negotiations.37 The idea of institutionalising the influence of interest groups by means of a Regulatory Cooperation Council is therefore a step in entirely the wrong direction. A forum in which companies can regularly communicate their wish lists to the Commission away from public scrutiny clearly contributes to an increase in the power of those who are already powerful.

Another important criticism is the investor-state dispute settlement mechanism. This intends to resolve conflicts between investors and states by secret arbitration in private tribunals. Such institutions have been part of investment protection agreements since the early days of such treaties.38 One of the main concerns was to protect the investments of rich creditor countries – regardless of the government or political system that might happen to be in place at a particular time in the countries in which investments had been made. The experience of recent years shows that arbitration has been used especially as a means of promoting the interests of corporations when they conflict with government policy, and these arbitration arrangements have facilitated billion-dollar claims. According to UNCTAD, the number of cases (known to the public) rose to more than 600 by the end of 2014; there were 42 new cases in 2014 alone.39

Figure 2: Known ISDS cases

Source: UNCTAD, ISDS database.
Note: Preliminary data for 2014.

The composition of the tribunals indicates that companies’ interests prevail. Arbitrators are chosen by agreement between the two parties to the dispute from a small pool of expert lawyers. They might serve in one case as an arbitrator and then in other cases as an advocate for a company. Some law firms in the US have chosen to specialise in this lucrative business.

The German Association for Small and Medium-sized Businesses highlights the consequences of this practice for small and medium-sized enterprises: “Due to the high average cost of arbitration proceedings (the OECD puts this at 8 million US dollars per case), small and medium-sized enterprises are, in practice, unable to use the conflict litigation mechanism. The mechanism favours large corporations – meaning that they can undermine national laws and state regulation.” Once again economic power is being transferred to large corporations.

Another problem is the transfer of judicial power to private actors who lack proper legitimation. The settlement of legal conflicts is often a matter of clarifying regulations left vague or unclear. In this way, the power to make legal judgements is taken out of the hands of the state: private tribunals meeting in secret become responsible for interpreting international law. And since international law takes precedence over EU law, final legal authority over 500 million EU citizens lies with a handful of private arbitration firms. This is an incredible transfer of state competencies into private hands.

And it also has very practical consequences. Most companies’ claims are made on the basis of very broad (alleged) infringements. Proceedings are often brought for ‘indirect expropriation,’ ‘unfair treatment,’ or ‘non-discrimination.’ These terms are not clearly defined, leaving even more room for interpretation. It is often abundantly clear that a company’s profit motive is the key issue. Improving the protection of groundwater can be declared as ‘indirect expropriation,’ for example. Such special ‘prosecution’ rights for international corporations dangerously bolster the concentration of power in the economy and in society.

40 Bundesverband mittelständische Wirtschaft (BVMW).
4 What Can We Do?

There is a clever idea behind the concept of the market economy which has maintained its appeal since the days of Adam Smith. An individual can realise their wishes only if they do something for someone else. Smith exemplifies this with the baker selling bread not out of love for their neighbour, but because selling bread serves their own interests. This is why the baker seeks to meet the needs of their customers. This idea was developed further and quantified, and the importance of price as a control mechanism was clarified. But, at the end of the day, the fundamental reason for preferring a market economy is that suppliers and producers have to orient themselves towards meeting the needs of consumers. We speak of “consumer sovereignty” – it is consumers who steer the economy. Control is decentralised; production is guided not by a central plan made and imposed from on high, but rather by the myriad individual decisions made by consumers and producers. This is a liberal approach; rather than someone else deciding what is good for us, we can decide for ourselves within the bounds of sensible market regulation. In my opinion, decentralised guidance of the economy is key; freedom and self-determination are important to me.

The problem is that an unregulated market economy eventually becomes a corporatist economy. Power trumps the market. This process is not due to a conspiracy by a small group of people; instead, it happens whenever corporations act in an unrestrained market. We must get away from cartels and oligopolies and return to competition.

The problem is that if we act alone, our hands are tied. I find it very pleasing to see people buying their vegetables from the corner shop and books from their local bookseller, rather than ordering them from Amazon. But given the tax advantages which large corporations enjoy and their control of the relevant market infrastructure, individual shopping decisions will not restore the balance of power in the market. Deutsche Bank is not frightened by small cooperative banks; Monsanto is unafraid of small organic cooperatives. Individuals acting in isolation cannot defend themselves against the corporatist economy – we can only really change things if we face up to it on an equal footing. The only way to tackle this imbalance of power is through state intervention with the goal of creating greater competition. We need effective oversight and control of a competitive market.

4.1 Bringing Competition Back

Some developments are peculiar to a particular sector of the economy and can be corrected by the regulation of that sector. Take, for instance, the financial sector. The issue of the balance of power between the financial markets and the rest of society, including the real economy, remains unresolved. We, society, must actively decide on this issue. The inherent risks of the financial markets are the consequences of societal choices. Or take the banking sector, where on top of concentrated market power the big banks are also backed by the state. Gabor Steingart is quite right when he writes of the financial sector: “It is not about untangling a sector of the economy; it’s about untangling a relationship.” Banks and the state too often form a hybrid “market-state economy.” This untangling can only be achieved if banks can actually fail. Banks should have a “last will and testament”, i.e. emergency plans for what should be done with the bank if it goes bankrupt. It is not realistically possible to dismantle an institution with hundreds of subsidiaries in a short space of time. Consequently, if we want to ensure that banks can actually go bankrupt, their structures need to become less complex.

The huge size of banks is costly – to us as a society because of the unconditional underwriting of their risks. We must therefore ensure that banks and their creditors are held liable for their costs. An interesting idea in this context is proposed by Andrew Haldane and Daniel Tarullo, board members of the US and UK central banks respectively. They suggest limiting the size of banks according to the size of the economy of the country in which they are based.
I could not agree more: we need to limit the growth of banks. Size must be costly to the banks, so that it does not become costly to us! A medium-sized bank should not have to finance the same proportion of its balance sheet from its own resources as a large global institution such as Deutsche Bank or Barclays. In the end, the huge systemic risk would finally be borne by those who should bear it: the banks’ shareholders, not taxpayers.

In other sectors there are further ways of limiting the attraction of size and market dominance as a means of increasing profits. The market for tax auditing is divided between the Big Four: PricewaterhouseCoopers, KPMG, Ernst & Young, and Deloitte. Small and medium-sized enterprises have little chance of competing successfully against these giants and securing suitable contracts. France has an interesting approach: since 1966, there has been a legal requirement for audits to be conducted by two independent auditors. Each carries out a different share of the audit, but they are jointly liable for the audit as a whole. In this way, medium-sized enterprises can act as “joint auditors” for large companies, dramatically reducing the market entry barriers for smaller companies.

Liability is one of the basic principles of the market economy. Those selling good products should be allowed to profit from them, but those who harm others must be held liable. Hardly any sector has strayed so far from this basic principle of the market economy as the finance industry. A sizeable number of large banks were rescued by the taxpayer; falsified accounts promised profit and only minimal penalties had to be paid; customers were duped and had to live with the consequences. Very few bankers were required to account for their mistakes, and rating agencies were able to survive the crisis with their business model largely intact. Not only were their forecasts wrong in many cases, they often also skipped the analysis of important factors and failed to conduct a rigorous assessment of market conditions. They neglected to properly assess the systemic risks associated with financial markets, and were often far too optimistic about the defaults on structured financial instruments.

### 4.2 Strengthening Competition Policy

Besides regulations governing particular sectors, we need to strengthen the instruments of competition policy across the economy as a whole. If necessary, we even need to be able to reduce the size of large corporations.

“But… has this actually ever been done before?” you may ask. Indeed it has! There was a time when state structures were too small and weak in relation to large companies. I am referring to the domination of the US economy by large trusts towards the end of the 19th century. Large oligopolistic corporations had developed by that time, but the political structures were incapable of controlling them. Those who were disadvantaged by this development were much more numerous than those who benefitted from it.

The progressive movement led the way out of this crisis. This movement united middle-class citizens, who on the one hand felt that they had been duped by big business, but on the other hand had no desire for revolution. The common concern of this alliance of teachers, lawyers, scientists, and business people was to save democracy and the market economy, and to create a society in which everyone could benefit from technological developments. The movement sought broad-based support, and this was the secret ingredient of their success. The Progressives formed a broad alliance and established their place between the company executives and the radical ideas of a leftist revolution. The movement was never opposed to business, but it did oppose big business and fought for fair competition.

The Progressives were locally organised to start with, but finally succeeded at the federal level in 1901. Republican Theodore Roosevelt won the presidential election as a self-declared Progressive in opposition to the laissez-faire policy of his own party. He then took firm action. He was the first to apply the Sherman Antitrust Act and instructed his Attorney General – in the USA the Attorney General is also the Minister of Justice – to take all cartels to court. Following Roosevelt’s instructions, the Attorney General launched a total of 44 cases. JPMorgan and its railroad cartel, Northern Securities Company, were split up in 1904, for example, while Standard Oil was broken up into 33 companies.45

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Now, one hundred years later, we find ourselves in a situation that is very much the same. We need a similar movement from the broad centre of society to support the market economy and to correct the negative developments of the past. We must ensure that competition prevails over oligopolistic collusion.

We need to strengthen antitrust regulations. The state has to be able to actively break up corporations that have built up excessive market power; this needs to be an instrument that can be used in general terms to limit market power, not just in isolated or exceptional cases. In the USA there is already a solid legal basis for breaking up large corporations. We need this in Europe too.

But this should be only one of many instruments. Another possibility would be to tie companies more strongly into the jurisdiction of the realm in which they operate. Corporations are legal entities which can only operate within a legal jurisdiction, but in many respects this does not exist at the global level. If societies want to bring corporations back under control, they must ensure that there are clear limits on business operations beyond the borders of the relevant legal jurisdiction. Corporations must be forced to operate through structures that are genuinely able to function independently. With regard to big banks, for example, this means that each subsidiary in the US or the EU must have sufficient capital of its own rather than simply being able to point to the total capital of the global company, which in some cases may not be available because it is tied up elsewhere.

Another possibility is to exercise greater control over mergers. Since the creation of the new framework for mergers in 2004, the EU Commission has effectively acted as a European competition authority. Until now, however, it has held back from taking action. During the first five years 1,665 mergers were announced, but only two (!) were vetoed by the Commission. There are legal as well as political reasons for the Commission’s self-restraint. Since any decision has to stand up in a court of law, the Commission needs an unequivocal mandate.

In the future, all legal hearings related to competition should take the new findings resulting from network analysis into account, as they reveal the dangerous concentration of power in the markets. Given the levels of interconnectedness between relatively few corporations, it would be wrong in the case of individual takeovers to limit investigations to their effects on a single national market. It is essential to look at the overall situation in the global economy. Furthermore, it is always necessary to bear in mind the power relationships between states and corporations. The corporations that are in the centre of the knot described above, and either directly or indirectly control a large number of other global enterprises, must be prevented from growing further. Their ability to exert control over other companies needs to be restricted.

Manipulation of the market by cartels should carry harsher penalties. Initial steps may well have been taken in this respect, but much more still needs to be done. In a study for the EU Commission, economists from four European research institutes measured the losses to the European economy due to the action of cartels. Their results show that annual losses amount to more than 260 billion euros. Various markets are affected by this manipulation: coffee and detergents, cement and chemicals, flat screen TVs and DVD players, glass and wiring harnesses for cars, and even fire engines and shrimps. How does this damage to the economy happen? Consumers pay higher prices than they should because there is no effective competition in these markets. Cartels do have to pay fines, but these are so small that it is still ultimately worthwhile to take the risk of being discovered. Even though the fines have been increased significantly and now stand at 10% of the company’s turnover, the question remains as to why the total illegal profit is not confiscated. It does not make sense to me that deterrence is given as a reason for the state to punish individuals but hardly figures when it comes to sanctioning companies.

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4.3. TTIP – Not Like This!

A trade and investment partnership between the EU and the USA is a good thing. But it has to be an agreement which benefits people – and does not help corporations to gain even more power. In its current form, TTIP is concerned with cementing the influence of lobbyists and protecting investors. Instead, we should be reducing technical trade barriers and strengthening the international legal framework. What we need is a new negotiating mandate which stimulates competition rather than inhibiting it. Moreover, the TTIP negotiations must be open to the public. The European Commission is negotiating with the USA on behalf of more than half a billion EU citizens in 28 Member States. The Commission should therefore act as a trustworthy representative of the interests of EU citizens and not become a tool of big business.

There is no place in an agreement between the EU and the USA for an investor-state dispute settlement mechanism. Secret proceedings in which private arbitrators pronounce judgements capable of taking precedence over European law are unacceptable. Legal certainty, so the argument goes, is one of the main aims of TTIP. But this will not be created by hurried proceedings behind closed doors. The way in which negotiations are currently being conducted seems to be excessively hasty – this is the shared view of several experts. In its current form, TTIP poses more questions than it answers and therefore leads to greater legal uncertainty.

In short, we need a negotiating mandate capable of promoting competition instead of hindering it. There should be limits to further liberalisation and privatisation. They lead us into a world where a small number of corporations gain power over the market, and concentrated economic power is a threat to society.

5 A Progressive Europe that Pushes Back the Power of Corporations

Since corporations operate globally, states need to work together. Even today, the great power centres within the economy are stronger than states. This is especially true in Europe. Similar to the situation in the USA over 100 years ago, when political power was primarily exercised at state level while large corporations operated nationally, we in today’s Europe exercise many political competencies at the national level. Corporations, on the other hand, have long been operating at a European level, if not worldwide. Just as the State of Ohio was unable to control the power of Standard Oil, the giant company which had its headquarters in state capital Cleveland, it is equally impossible for Shell, Nestlé or Vodafone to be brought to heel within Europe’s present governmental structure. European Progressives must now face up to similar power-related issues as those that challenged Roosevelt and Wilson almost exactly 100 years ago. With the EU, Europe has created institutions capable of taking decisive action. Now it is a question of actually using them! We want a Europe with citizens’ interests firmly at its heart – and in which we are not pitted against each other by large companies pursuing their own financial interests.

People seem to be waking up to the threats they are facing, particularly in relation to certain issues. TTIP is facing strong opposition, while the market dominance of Google and Amazon is being discussed across the political spectrum. But the real challenge cannot be met by a few specific measures taken in isolation. It will not be enough just to stop TTIP. Existing bilateral investment protection measures form the basis for current investors’ claims against states. This requires correction. And though it may be right to consider how to limit the market power of search engines, it would be short-sighted to pick out one company at a time. We need to strengthen all of the instruments of competition policy in order to tackle the market power of large corporations systematically.

Breaking up the corporations and regulating the markets may sound like a radical left-wing utopia, but in fact it is not at all. If we want to make sure that our democracies and societies continue to function, we must once again correct the balance of power between society and corporations. Society should set the framework within which corporations can operate, not vice versa. Against the backdrop of the political power of large corporations, this is not an easy task.

In order to push through anti-trust legislation together with important political reforms, we now need a joint, progressive movement in Europe - similar to the one in the USA 100 years ago. We have to push back or dismantle existing economic and political power structures. And we citizens must join together across Europe so that we cannot be played off against each other. Similar to the situation in the USA at the turn of the century, support must come from the broad centre of society. The struggle cannot be won by a few scattered radicals. It is those who are economically active but who are being pushed against the wall by big business in both the marketplace and the state who should form the core of such a movement. The Progressives have shown us that such a movement, born from the centre of society, is not just a utopian dream. Let us follow their example and shape a progressive Europe!