

BOOK REVIEW

SUPERCAPITALISM: THE TRANSFORMATION OF BUSINESS, DEMOCRACY, AND EVERYDAY LIFE

BY ROBERT B. REICH

Reviewed By Rebecca L. Lewis*

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On one of my voyages across the Strait of Georgia, I came across the review "The Good Company" in the Business section of the September 8th – 14th issue of *The Economist*, a review of the book *Supercapitalism* by Robert B. Reich. The review highlighted the book's focus on corporate social responsibility. Reich formerly held the view that social responsibility and profits converged over the long term; however, the book outlines the author's shift in view that corporate social responsibility, as commonly defined by the public, no longer exists in the contemporary economic realm. This review tickled my curiosity and I decided to see exactly how and why Robert Reich came to his conclusions in his new book *Supercapitalism*.

Robert B. Reich is a professor of public policy at the Goldman School of Public Policy at the University of California at Berkley. He served as the Secretary of Labor in the Clinton administration from 1993 – 1997. In 2003, Reich was honoured with the Václav Havel Foundation Prize for pioneering work in economic and social thought. *Supercapitalism*, his eleventh book, embodies his view of the ever changing American society, its economy and the nation's democracy.

Supercapitalism consists of a brief introduction and six substantive chapters (the sixth serving somewhat as a conclusion of Reich's opinions). The first two chapters focus on the history of the economy and democracy, and its evolution over the nineteenth and twentieth centuries. Following this in depth account of the journey towards the twenty-first century, the third chapter illustrates the conflict Americans must now face in their different roles as consumers/investors and concerned citizens. Chapter four of the book outlines how the changes in the economy are affecting democracy. This is where Reich focuses on the influence "super corporations" are having on the policies adopted by the American government. Chapter five, the focus of the review in *The Economist*, is where Reich challenges the continued existence of corporate social responsibility. The book concludes with a chapter Reich refers to as a "guide" through this new era of "supercapitalism". This chapter acts less as a guide and more as a summary of his views from earlier chapters.

Overall, *Supercapitalism* is a well thought out work that provides the reader with valuable information and illuminates some important issues affecting American society. It is well written.

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Coming from a non-economic academic background, I found the first few chapters provided me with the knowledge required to understand Reich's proposed "Supercapitalism" model.

Reich starts the book by outlining Milton Friedman's position that free markets are a necessary precondition to political freedom and sustainable democracy.¹ This starting point sets the stage for the presentation of his position that the dramatic increase in the free markets in today's global economy has actually led to a decrease in democracy. The paradox Reich presents is that people now experience more savings and profits as consumers and investors; however, this betterment comes at the price of decreased power of democracy. Increased competition among large corporations forced firms to lower prices in order to raise profits. This resulted in increased pressure by these corporations on the government to aid in corporate endeavours. As a result, Reich argues that Friedman's democratic capitalism no longer exists in our current society.

The story begins in the 1800s when large corporations were monopolizing entire industries in the United States.² Reich lays out the developments in the American economy, highlighting the triumphs of capitalism on a global scale. Reich acknowledges a time when oligopolies controlled the consumer market and a democratic capitalist economy was sustained for decades. During this era, although consumer choice was restricted, citizens were comfortable with this stable system. Moving forward, by the 1930s, unions were powerful entities and compromises were struck between employees and employers. For many years, employees were content with shopping at the corporations which provided them with fair and stable employment. Corporations were run by "corporate statesmen" who considered it their position to balance the profit margins of the corporation with the social responsibility the citizens demanded. It appeared that, in what Reich describes as the "not quite golden age", there was compatibility between democracy and capitalism. However, this lack of competition and forced compromise of the corporations made it not quite golden for their profits.

As Reich moves along the timeline into the era he describes as the "road to supercapitalism", he highlights the shift in power from the large corporations to the consumers and investors. There were no longer strong oligopolies dominating industries and globalization was increasing at a phenomenal rate. The author argues that due to these economic changes consumers were able to find increasingly lower prices, forcing companies to compete for their piece of the consumer pie. The increased liquidity in the free markets forced corporations to increase returns or investors would simply change their investment portfolios. In almost all industries these elements acted as catalysts that took us from a balanced system into an era of "supercapitalism".

According to Reich, this era brought about conflicting world views in each individual. Economically, as consumers we want the best possible price and as an investor we want the greatest returns on our investments. The opposing mind is that of a citizen who does not want to see the social consequences that flow from our actions as a consumer/investor.³

Reich uses Wal-Mart as the exemplar of this phenomenon.⁴ Consumers seek out the lowest price, which Wal-Mart is able to provide by pressuring suppliers to offer goods at lower prices. This pressure forces suppliers to cut costs and the common mechanism is drastic reduction in employees' wages. As a result, millions of people shop at Wal-Mart. To maintain high profits margins, Wal-Mart also minimizes its employees' wages and has minimal benefits packages

1 Milton Friedman, *Capitalism and Freedom* (Chicago: University of Chicago Press, 1962: 2002 ed.) at 10 as cited in Robert B. Reich, *Supercapitalism* (New York: Alfred A. Knopf: 2007) at 3.

2 *Supercapitalism*, *ibid.* at 16.

3 *Ibid.* at 89.

4 *Ibid.* Chapter 3.

for its workers. The effect of this high return to investors was investment in the corporation by almost all pensions and mutual funds. The prices Wal-Mart offered played strongly to our consumer mind; however, the social consequences go to the heart of our role as a citizen. Even though Wal-Mart is the largest retailer and employer in the world, it “has become the poster child for all that’s wrong with American capitalism”.⁵ Wal-Mart is one of the most criticized corporations in the free markets. To challenge his readers, Reich offers the following passage.

Isn’t Wal-Mart really being excoriated for our sins? After all, it is not as if Wal-Mart’s founder, Sam Walton, and his successors created the world’s largest retailer by putting a gun to our heads and forcing us to shop there or invest any of our retirement savings in the firm.⁶

It seems that the citizen has taken the backseat to the consumer and investor within us. As a consequence, decisions made by corporations must now reflect only what gets the best bottom dollar for its shareholders and consumers.

One of the effects of increased corporate competition is an increased interaction between large corporations and democracy. Chapter four focuses on the influx of corporate dollars into Washington and how this affects the decisions made by all political actors. In order to get the best returns, corporations lobby the government to pass bills and policies to protect the corporate interests or inhibit the interests of competing corporations. According to Reich, corporations appear to be representing public interests through their increased interest in democracy but every policy change the corporate lobbyists advocate for has a competitive undertone. As Reich asserts, it seems that “our voices as citizens – as opposed to our voices as consumers and investors – are being drowned out” by this corporate interference.⁷

In the fifth chapter of the book, Reich asserts that corporations are no longer truly socially responsible. In the past, the corporate statesmen were “balancing” the interests of the citizen and the consumer/investor. Now, corporations merely placate the internal “citizen’s” conflicts through their claims of “socially responsibility”.

Reich supports his reasoning by examining where many different corporations are investing their social efforts. He explodes the idea of any corporation acting social responsible for any reason other than corporate gain. Reich returns to Wal-Mart. Here, the corporation claimed to be making environmentally sound decisions by using “green” packaging, launching recycling programs for shopping bags and other items filling landfills that were directly related to the corporation and even planting trees in their parking lots. Wal-Mart appeared to be making socially responsible decisions in order to offset some of the adverse affects it had on the environment. However, this “green” packing was cheaper than the old packaging. Additionally, the small cost and effects of these recycling and sustainability actions served to increase the goodwill of the company and led to overall increased returns for the shareholders.

Another corporation Reich examined was Ben & Jerry’s, the ice-cream company. Ben & Jerry’s was traditionally known for their dedication to social responsibility through their efforts to save the tropical rainforests.⁸ This campaign was a useful marketing tool to increase the sales of ice-cream because the citizen in us wants to support a company that is working to improve the world on a global level. However, Reich argues that if the Ben & Jerry’s Corporation were truly socially responsible they ought to be addressing the issue of obesity which is plaguing the American society and may be directly linked to their product. These are just two of the many

⁵ *Ibid.* at 89.

⁶ *Ibid.* at 90.

⁷ *Ibid.* at 163.

⁸ *Ibid.* at 195.

examples Reich offers in this chapter to discredit the many corporations that claim to be socially responsible during the “supercapitalism” era. He seems to see the current model of “social responsibility” as merely coinciding with increased profits or as a tool used in a successful marketing scheme.

The question that remains is: what is the problem with this convergence of profits and ethics? Though we would like for corporations to return to the times of the corporate statesmen, with the contemporary economic model that is not an option. What we do see is companies doing things that are making some difference (though minor) and this is still better than the corporations who are making no contributions to improve society or global welfare.

Overall, Reich paints a very negative picture of the current role that corporations are playing in the development of public policy and their use of social responsibility as a marketing tool. Though he is quick to criticise, he challenges us to consider whether this is actually the fault of the corporation. Reich argues that the corporations are simply playing by the rules made for them by the governments that we as citizens have elected. If the citizen in us is so appalled by the effects these large corporations are having on society, we need to advocate for a change in the regulation of these corporations. Reich concludes that before corporations will make any changes to their corporate models, the rules by which they are bound must be changed.

Reich offers cogent evidence for all his claims regarding the development of the American economy. Throughout the entire book, all the examples of the different corporations' behaviour is clearly outlined to the reader and referenced. As a reader with limited knowledge of economic arguments, this evidence made it very easy to agree with his position. The evidence offered makes it easy for the reader to follow the historical journey and understand most of the arguments put forward. This book is accessible to readers regardless of their academic background.

Supercapitalism opened my eyes to some critical events in the economic history of North America and even abroad. Reich's arguments challenged me to evaluate my own consumer decisions including things as small as my daily Americano. I do not know whether other economists would find Reich's propositions academically sound and well reasoned. Regardless, I find that any book that stops me as a reader and forces me to evaluate my own actions is worth reading. If the issues and arguments presented in the book are things I should be considering, I can't help but wonder if there are many people in our society that ought to be doing the same. As outlined in his book, Wal-Mart is the world's largest retailer and employer and exists in almost every investment portfolio. On the flip side, it is also one of the most criticized corporations existing in the free markets. Before we blame corporations, we should first look at our own actions.