Let’s Compost Capitalism

Commentary Session 8

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Compost Session 8 Your data, their profit

In this session we’ll travel back behind the everyday experience of life lived through phones and brands. We’ll see how the rapidly changing global network of corporate power and finance works to extract value from you – your identity, your activity, your labour, your data.

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Pick up your phone. What do you see? Samsung? Apple, Xiaomi? Wake up the screen.

Chrome? iOS? Android? Check your messages. Messaging? WhatsApp? Instagram? Snapchat? Need new shorts? Mango? River Island? Asos? Amazon? Get The Label? Have something to sell? Ebay? Want some food? Deliveroo? Just Eat? Uber Eats? Need some work? Task Rabbit? Glassdoor? Fiverr? Uber (again!)?

Many people’s immediate experience of the world is through phones and brands.

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By July 2021, out of nearly 8 billion people, almost 67% of people in the world used a mobile phone. That’s 5.27 billion people.

4.8 billion or almost 61% used the Internet. And almost 4.5 billion used social media.

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It’s a strange, upside down world in which the vast majority use the global infrastructure owned and controlled by a small group of profit-seeking corporations, accountable only to their shareholders.

Whilst much of it seems seductively free to use, what they’re after, what they seek to exploit and sell on is data about You! Your identity, and your activity.

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Behind the immediate lies a global network of buyers and sellers, and behind them are the companies that make and distribute the phones and everything else they hope you want. Their marketing gets more sophisticated with every click you make as they capture your every move, every visit to every site.

24 hours a day they’re feverishly assessing the cheapest and best place on the planet to site the next factory or warehouse, the cheapest – and most reliable source of raw materials and components, and the fastest, cheapest route for distribution. They’re always improving their online presence driven onwards by the competition for your attention, your money or your labour. The bottom line, the profit, drives every decision.

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Further back again, in the dark shadows, lie the networks of corporate ownership through parents and subsidiaries that optimise the location where they are registered for the reporting of profits. Like Google they all use havens and accounting tricks to minimise the payment of taxes.

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Rather than get involved in the messy business of production,

Much of it is sub-contracted to companies many which use cheap and forced labour is hidden from view behind a veil of fake investigations and outright denial.

Tax havens and forced labour. That's the real truth of capitalism today.

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And even further in the darkness lie the tentacles of the evolving global financial network holding the whole system in its malevolent embrace.

That's a quote from Matt Taibbi about Goldman Sachs in 2011 during the Occupy Wall Street movement X, but it's even more true today about BlackRock as we shall see.

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To understand capitalist society in the 21st century you really need to know something about the changing relationships between nation states, transnational or global corporations, investors and recently, the index providers – a small number of companies which produce indices that track the markets, guiding the investments the big fund managers make.

During the latter part of the 20th century, the drive for growth saw many corporations expand beyond the borders of their home countries, setting up subsidiary operations around the world. The bigger and more mobile they got, the more they started to challenge the power of governments. The world of countries began to be outgrown and overshadowed by the world of corporations.

They learned how to locate their operations so as to optimise investments – in countries with low employment costs, and low taxes on corporate profits, close to sources of raw materials and to the markets for their products.

As they leapt across continents they ramped up a global competition between countries eager to attract investment, jobs and taxable income.

The hope of tax revenue has often proven illusory, however as the competition meant countries' governments paying to educate and train workers and paying companies to take up leases on factories in low or zero tax enterprise zones.

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Instead of companies making taxable profits which yield income for countries, the countries found themselves subsidising the companies' profits which were exported, made to disappear.

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The income from sales of many corporations grew to dwarf the tax revenue of many of the world's countries. By 2017, 71 of the top 100 economic entities by revenue were corporations. Walmart the biggest of them all dwarfs all but 9 countries.

New relationships between countries and corporations developed into a transnational capitalist class.

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As one report put it…

> 'The people who ran, and run, transnational corporations can be thought of as a transnational elite in that they share increasingly strong social, political and cultural networks. But now we can also speak of a true transnational class: a group that, sometimes directly, sometimes indirectly, sometimes consciously and sometime unconsciously, controls the exercise of economic power across and within national boundaries. Their power is exercised in part through individual agency but even more so through the collective structures of ownership of very large corporations.' [D. Peetz and G. Murray]

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To feed their hunger for growth, the expanding corporations wasted no time in seizing hold of and exploiting the publicly-funded and open source research and development like UNIX and Android which contributed to the digital revolution.

Every single sliver of technology that makes a smartphone instead of a stupidphone – internet, GPS, touchscreen, battery, storage, voice recognition – was developed by researchers on the government payroll.

Computers, and networks coalesced. Communications gave us mobile then smart phones. All of this became the infrastructure for the accumulation of giant databases. And with the analytical power of Big Data came new sources of profit.

You and your identity became valuable commodities for minutely targeted marketing strategies. The global technology infrastructure morphed into a universal digital marketplace enabling Platform Capitalism.

New types of companies emerged and a very few like Google became dominant. Rather than selling commodities to consumers, they provide the marketplace where everybody sells everything to everybody. Players like Amazon's Mechanical Turk match companies offering gigs or tasks to workers in a global auction house that drives pay rates downwards. The whole thing became a machine for turning you, your identity and your activity into profit.

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Big data can also be used to help understand what's been going on.

Using complex systems science researchers have been exploring the largest database on ownership and control covering over 100 million firms.

They show

How companies using willingly compliant countries to launder money

especially how five countries became safe conduits for multinationals shifting funds around the world to minimise tax payments, often but not always via so-called off-shore havens.

And they are - the UK, Ireland, the Netherlands, Switzerland and Singapore -

The explosive growth of the financial markets and the networks through which corporations and investors operate came as the result of the creation of credit meant to encourage investment in the production of commodities bearing real value – the labour of real workers and profit.

But that exploitation of human labour has its limits. There's only so much that can be squeezed out.

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And the operation of the law of the tendency of the rate of profit to fall that we saw in an earlier session, meant that investment or 'fixed capital formation' in the production of real commodities became less and less attractive.

It's rate of growth fell too. From the high point around 1975, its been downhill ever since.

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In ever more desperate attempts to stave off repeated crises, governments and central banks pumped increasingly greater amounts of cheaper and cheaper credit into the market, hoping to stimulate demand and production. They created new money in the form of quantitative easing and reduced interest rates to historically low levels . They were even forced to plunge into the territory of negative interest in which investors are paid to take money away.

It's an era which now looks like its ending.

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As you can see here for the UK, even as bank credit to the private sector rose, the rate of investment in fixed capital fell.

It created a disconnect between stock markets and the real economy.

Investors preferred to take the handouts and invest in property, and with fund managers who bought shares on their behalf, tracking the markets.

Share values rose not because the companies were investing in capital and producing more profits but, madly, because more money was available to spend. The process generates a kind of positive feedback spiral. More credit feeds into rising stock market values which attract more investment which drives company valuations higher …….

Until the bubble bursts.

Back in the real world every additional pound or dollar of new credit encouraged less and less investment.

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And as the vast accumulation of debt accelerated away from the real value being produced - measured in GDP, - the gap known as fictitious value increased.

So the value represented by every dollar, or euro, or pound shrank.

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It couldn't last. Cheap credit had to end sooner or later. Prices had to rise. Sooner or later.

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If we're going to deal with inequality and build a sustainable society, it's crucial that we understand the evolution of the power that share ownership in the global economic network gives.

And it's far from the myth of individual property ownership rights… … upon which the capitalist ideology supposedly rests.

Ownership is nothing like the classical model of a dispersed group of individual small investors with shares in a portfolio of companies. Mainstream economic theory is based on that model of 'democratic' ownership, which has faded into history if it ever existed.

Control via voting rights is increasingly in the hands of the Big Three index fund managers—BlackRock, Vanguard, and State Street Global Advisors who by 2022 collectively cast approaching 50% of the votes at S&P 500 companies.

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Some have even questioned whether recent changes add up to the end of capitalism.

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Big data analytics has its uses other than as a marketing tool or to influence opinion and voting :

According to 'the first comprehensive analysis of the entire global ownership network over time' by physicist , complexity researcher and philosopher James Glattfelder and colleagues using the Orbis database…

The recent period of capitalism saw the development of

a complicated web of cross-ownership relationship chains where multiple, previously competing corporations own shares in each other.

By 2012, through the spiders' web :

only 737 top shareholders controlled 80% of the value of all TNCs

a group of 147 TNCs in the core of the global network controlled over 40% of the economic value of TNCs in the world.

This they say is a 'tiny but highly interconnected group of individually influential shareholders, commanding vast cumulative influence' over the global economy

governments and natural persons are only featured further down the list

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Within this core is a stable 'super-entity', a small highly-entangled group of 70 shareholders including these

Name	Country
BLACKROCK INC	US
STATE STREET CORPORATION	US
BARCLAYS PLC	GB
ROYAL DUTCH SHELL PLC	GB
JPMORGAN CHASE & CO	US
AXA	FR
BANK OF NEW YORK MELLON CORP	US
BP PLC	GB
FRANKLIN RESOURCES INC	US
T. ROWE PRICE GROUP INC	US
MITSUBISHI UFJ FINANCIAL GROUP INC	JP
JAPAN TRUSTEE SERVICES BANK LTD	JP

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This anti-competitive interconnectedness amongst the 70 members of this super-entity leads to a paradox:

While individual economic actors become more resilient, the overall failure probability in the system increases.

Against this backdrop, the highly interconnected core of the global ownership network—and the super-entity nested within—looms ominously

This tight-knit group of important actors appears like an ideal precondition for financial distress to propagate through the network by spreading like an epidemic, infecting major financial institutions node by node.

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At the centre of it all is Larry Fink's BlackRock, the superstar of 'passive' financial asset management. From a standing start in 1988, BlackRock came to occupy the top spot following the 2007/8 global economic shock. Astute footwork found it riding the wave of new credit imagined into existence by governments desperate to avert a meltdown of the entire system.

It has assisted the US Federal Reserve,

handling the assets of giant, too-big-too-fail shadow banks Bear Stearns and AIG which neared collapse during the 2007-9 crisis. More recently the Fed used BlackRock to assist with the emergency programme of credit-issuing response to Covid.

And like its predecessor Goldman Sachs, BlackRock works the revolving door – the flow of personnel from government offices to financial entities and vice versa - with the US and other governments.

BlackRock's former executives work as top advisers to President Biden and Vice President Kamala Harris.

After leaving government George Osborne, former UK Chancellor and First Secretary of State worked four days a month for BlackRock between 2017 and 2021 for a paltry £650,000 annual salary.

By 2022, BlackRock managed investments largely on behalf of institutional investors like pension funds, foundations and trusts had risen to $10 trillion. That was equivalent to more than 10% of the value of all companies listed on the New York Stock Exchange or around three times the value of all companies listed on the London Stock Exchange.

BlackRock's risk management software Aladdin, is used by companies managing more than $26 trillion. That's more than US GDP of $23 trillion for 2021. Through its funds' ownership of shares and therefore voting rights in the majority of the world's major corporations, and its influence over governments, the power it wields is staggering.

And it has made billions out of Covid.

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Another more recent study of power using a different method which includes governments amongst the shareholders found that 'some sovereign governments possess a large but hidden capacity to control corporate activities through the global network'.

Their method leads to this list of top influencers through the network.

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The industry of wealth and funds management bloomed. Now Vanguard owns shares in BlackRock and BlackRock owns shares in State Street which are the three biggest operators. But don't forget other big players like Warren Buffet's Berkshire Hathaway or David Booth's Dimensional.

This is far from being just an insane game of imaginary numbers.

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These fund managers buy the shares of all the 'real' companies exerting immense pressure on them to squeeze their workers for the profits that are passed to the investors.

These mega-asset managers control large stakes in multiple competitors in the same industry. The same investors hold shares in both CocaCola and Pepsi. And every other company.

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The insistent drive for profit demands innovation, accumulation, concentration, consolidation. It demands that corporations either destroy their competitors or eat them up through the process of mergers and acquisitions.

To increase scope for exploitation, it extends control and ownership to intellectual property and to every aspect of nature.

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You can see the whole process at work in the growing of food in this report from ActionAid. What could be more important?

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Do any of them care about the state of the planet, or the conditions in which people are forced to work?

Maybe they do, but only if they see a profitable opportunity, as the pace and pressure of the competition makes them blind ....to anything else.

It's the system. The capitalist system.

Which brings us to the question we'll be considering in the next and final session – what can be done?