

UNCOVERING THE TRUE COST OF WHAT WE BUY PART I: CORPORATIONS AND GOVERNMENTS¹

Introduction

Why do things cost what they do? A question not often asked by consumers in this day and age. But the recession, which is still upon us, has shown us that:

“the smartest mathematical minds on the planet, backed by some of the deepest pockets, had not built a sleek engine of permanent prosperity but a clown car of trades, swaps and double dares that, inevitably fell to bits. The recession has not come from a deficit of economic knowledge, but from too much of a particular kind, a surfeit of the spirit of capitalism.”²

The dazzle of free markets has blinded us from other ways of seeing the world. The 2008 financial collapse happened in the same year as crises in food and oil, and yet we seem unable or unwilling to value our world except through the faulty prism of markets. One thing is clear – the thinking which brought us to this point is unlikely to rescue us.

So, how are we to heal ourselves? How can we right our floundering economic ship, a ship which at times has appeared to be wrought with ignorance, foolishness, and narrow-mindedness; a ship indeed which has fostered economic and social inequity. History has shown us that the solutions cannot come from government alone but require change from within market society. We must fight for a different and sustainable world. The future will be shaped by our will to imagine a different kind of market society, and new ways of valuing the world without resorting to the tic of free markets. We are seeing global social movements and organizations which are limiting the power of markets and its most powerful agents, and, in so doing, are re-defining how democracy might work.

The Corporation

Every civilization has had traders and markets, but modern market society has produced the corporation, a novel human creation motivated by the search for profit, and which has in its short history come to dominate our planet. In most countries, corporations are defined as legal entities, enjoying the same kinds of rights and obligations that normal humans do. In the fine documentary film, “The Corporation,” Achbar et al.³ found that many corporations exhibit the behavior which is used to define psychopaths. The film-makers found that corporations do indeed behave in psychotic ways, breaking the law if they can, dissembling and hiding their behaviour, sacrificing long-term welfare for short-term profits, being aggressively litigious, flouting health and safety codes, reneging on payments to suppliers and workers, and never once feeling a pang of remorse. Think of the number of times we have we heard corporations state, “It’s just business...” and “We have nothing to be ashamed of...”

¹ Excerpted from: Patel, R. 2009. The value of nothing – why everything costs so much more than we think. HarperCollins Publishers Ltd., Toronto, ON. 250 p.

² Patel, R. 2009. The value of nothing – why everything costs so much more than we think HarperCollins Publishers Ltd, Toronto, ON. 250 p.

³ Mark Achbar, Jennifer Abbott, and Joel Bakan. The Corporation. (www.thecorporation.com/)

Corporations do not have to break the law, however, to do damage. The normal operation of market society means that there are everyday forms of ‘nothing to be ashamed of,’ and they come from the way profit-driven markets value the world. When companies make decisions about what they can produce and at what price, their motivation is almost exclusively profit. In order for profits to be high, corporations organize workers, raw materials, capital equipment, and rents so that their costs are as low as possible. A company with a mission to return profits is keen to squeeze down what it pays for the things which go into making their products (including labour); the more it can drive down costs below those of its competitors, the more money it stands to make. If corporations cause environmental damage, e.g., emissions of pollutants such as CO₂, methane, and nitrous oxide, without having to pay for it, then the costs to the firm are not the same as the broader social costs (termed ‘externalities’ in modern economics). These are the costs which somehow slip through the net of prices. Almost every country has failed to value the natural world in the production of goods for the market. Ecosystem services such as pollination, water filtration, erosion control, soil fertility, and regulation of water and climate systems are valuable.

This is why food grown through industrial agriculture (a business which doesn’t pay the full price of its ecological misbehavior) appears cheaper at the supermarket checkout. What the hidden costs show us is that this is not, in essence, *cheap* food, but *cheat* food. What is true for food is no less true for every other consumer item. Sustainably-produced goods and services appear to cost more, because their cheaper equivalents are cutting corners in the short run but generating long-term costs which we’ll all have to bear. This systematic distortion in valuation is a direct consequence of profit-driven markets. Because they are looking to reduce costs, corporations are hard-wired to wriggle out of paying social and environmental costs if they can possibly avoid them. Corporations rationally and without malice try to increase their profits by any means, legal and occasionally illegal; corporations not following this cardinal law of the business jungle will go out of business. The end result is that whatever else a corporation makes, it invariably produces externalities.

If prices truly reflected environmental and social costs, then prices truly could telegraph the relative abundance and scarcity of things. And, if some goods produce positive social and environmental benefits, and if that is reflected in prices, then the market can successfully use prices to allocate resources to their most efficient use. If products do generate costs and benefits, then those need to be reflected in the price in order for the economic logic of markets to work properly. Otherwise, this is corporate subsidy on a massive scale, and there’s nothing free marketers claim to like less than a subsidy. Is this ongoing bailout from nature and society to private enterprise what puts the ‘free’ in free market? Despite its protests, corporate capitalism has yet to prove that it can operate without these kinds of subsidies.

When negative externalities are not paid for, the beneficiaries are in effect engaging in theft from those who bear the cost of their behavior. Everyone suffers from these externalities. Add up the health impacts from losing the ozone layer and from air pollution, the loss of fish stocks, the loss of ecosystem services provided by trees, the contamination of water by industrial agriculture, and the adjustment to a world with more floods and drought because of climate change – the result is quite a substantial tab. Another aspect of this is that not only do middle- and high-income countries pollute themselves but they also out-source their pollution, costing poor countries trillions of dollars in ecological damage.⁴ This unevenness, the systematic tilt of

⁴ U. Thara Srinivasan, U.T., S.P. Carey, E. Hallstein, P.A.T. Higgins, A.C. Kerr, L.E. Koteen, A.B. Smith, R. Watson, J. Harte and R.B. Norgaard. 2008. The debt of nations and the distribution of ecological impacts from human

costs from rich to poor, from powerful to disempowered, helps explain why these externalities are allowed to continue – because wealthier consumers are complicit in the theft.

Artificially low prices are the consumers' dividend from this system of profit making, which has given us clothes which are cheaper to buy than clean, and phones which are cheaper to replace than repair. It is through these 'bargains' that we are conscripted into modern consumer capitalism. Consumers might well want to buy better, healthier, tastier food where the price really does reflect the full cost, but with many households earning less than a living wage, bargain hunting has become a form of social policy.⁵

How did we become consumers? Market society doesn't simply turn things into commodities – it makes its own culture and ideas about human nature and social order. While we may have been seduced by the flood of cheap goods whose real costs are either deferred or paid by others, a more important factor is the social construction in which we learn how to consume, and how to value our time, our happiness, and each other. Corporations may be the creatures of modern market society, but in order for profits to flow, corporations need to conscript consumers to the market – prices are part of the recruitment material.

The Free Lunch – Marketing 101

What happens when the price of goods and services is zero, when we are faced with accepting a 'free lunch?' There is a systemic answer: that is, a consistent consequence of what happens when coolly rational corporations meet irrational human beings whose irrationality becomes even more pronounced when things are being given away for free in supermarkets and malls, on television and online. The company has a business model which involves making a wager: by offering you, the consumer, something for nothing, you'll be enticed back again into the store in the future, and, while you are picking up your free item, you will shell out for something which is a little bit pricier, consume a little more than you otherwise would, and nurture benign feelings about the particular brand paying for you.

So what's wrong with this scenario? This is a win-win situation is it not? Looked at more closely, one can see that this free exchange is in fact an attempt to change your buying decisions and preferences. Economics deliberately turns a blind eye to the question of why people like what they like. Corporations are constantly trying to adjust our tastes and we ignore this at our peril. It seems that our choices are much less the product of rational contemplation, and much more subject to manipulation than we might like to believe. It appears that the 'free' turns out to be a gamble, in which our hunger for something for nothing is flipped back into a profit for the corporation. But the real bottom line is that the free good must have cost something and someone had to pay for it.

Externalities are partly a function of size of corporations. Although they are taught as the exception in economics classes, monopolies and oligopolies, such as Google, Apple, Coke and Wal-Mart, are the rule in the world of consumer products. One of the things which distinguishes a monopoly from a small business in a competitive market is that, while a competitive business has to sell at the price the market dictates, monopolies are so powerful that they have a choice: they can either fix the price at which they wish to sell, or fix the quantity

activities. Proc. National Academy of Sciences 105 (5) 1768-1773; published ahead of print January 22, 2008, doi:10.1073/pnas.0709562104

⁵ Mishel, L. and J. Bernstein. 2007. Economy's gains fail to reach most workers' paychecks. Economic Policy Inst., Washington, DC.

they wish to sell. In the longer term, the monopolies can influence both how much they sell and how much they you are prepared to pay for it.

In sociology as in economics, there is rarely anything which comes free from expectations of reciprocity and respect. Under market society, the social bonds of exchange fall under the sign of profit. Whether something is free or costs several millions of dollars, it will share the same features which arise from the profit-driven markets which make the goods possible in the first place.

'Free' can be a way of press-ganging us into behavior which we wouldn't otherwise choose had we been confronted with the full costs before we chose to pay nothing. Free becomes all the more seductive when our budgets are tight, but this is why 'free' also bursts the bubble of our pretense that we are rational economic agents, and conscripts us into the role of consumer. 'Free' might well open up new possibilities, but when it happens at the intersection of irrational people and for-profit corporations, particularly corporations with market power, there is invariably a hidden cost. The paradox of 'free' corporate giveaways is how much they can enchain us.

Economic Power and Government

In poll after poll around the globe, citizens wish their governments not only to fix economic problems but also to be active in almost every domain, e.g., preventing discrimination against women and the poor; providing food to the hungry and homeless; providing health care; and providing public education. In other words, citizens wish their governments to be champions at alleviating social and economic inequity.

This is not a surprising result, especially for health care and education. In theory, at least, left to its own devices, the free market would settle on prices which would be higher than many could afford, and almost every culture finds distasteful the notion that poverty should exclude anyone from medical care or education. The task of correcting this falls to government, which oversees the exchange as one not between consumer and producer, but between citizen and state. This distinction is important because we expect governments to be anti-corporation, driven by quite different motivations from modern economic man, using non-market means to fix market failure (or deficiencies), recognizing value where the private sector sees none. Such actions by government provide positive externalities. Contrast this with the negative externalities, those ecological and human footprints we observe in pretty much any economic activity. Just as markets are bad at valuing social harm, they are also bad at valuing social benefits, the 'positive externalities.'

The public benefits of health care far outweigh the social costs of not having available health care. The same can be said about education – the public benefits of an educated population are greater than the private costs of educating children. Free education is a good way to ensure that each child is educated. As has been demonstrated in many countries, the availability of public education results in reduced levels of crime, increased productivity, and healthier and more engaged citizens.

It seems, then, that governments and their institutions can indeed correct the failings of the market by behaving in ways which maximize the welfare of their citizens and not profits, and by decommodifying the things which society deems valuable. Governments are able to shape the rules of the economic game and mobilize gigantic budgets in order to provide for their citizens.

Governments do not, however, exist in a sphere separate from modern capitalism. Thus, when corporations and governments collide philosophically or operationally, there's no explosion of energy – instead, one conforms to the other. Nevertheless, the fathers of capitalism saw a very strong role for government: for example, punishing dishonesty and crime; regulating finance; and providing education, health care and public order.

Education and health care are goods which have a higher social benefit than the individual private benefit to the person who receives them. In the economic literature, there is a class of goods which not only have a higher social than private benefit, but which by their very nature need non-market means to provide them – these are called 'public services.' Such public services include health care, education, welfare, resource stewardship, public order, and national defence. It is a repeating fact that, when economic times face some stresses and constraints, the public services are the object of government cost-cutting measures.

Defence is one of the very few places in which free marketers will acknowledge some role for government, but military spending is also a poster child for the kind of corruption which happens when public and private sectors collide. In the last five decades we have seen how the spirit of capitalism could hijack governments all over the world, by using public money to line private pockets while using democratic institutions to camouflage the crime. The military-industrial complex, as predicted by Dwight Eisenhower, is not subject to public control. For example, in our contemporary world, the biggest crises facing the planet require education, training, health care, and investment in sustainable energy and agriculture, governments are plowing record sums into armaments.

Is the merging of private interests and government in the provision of defence a symptom of a more widespread phenomenon? If it is, then it is harder to imagine that governments might effectively rein in profit-driven markets and that they might regulate the forces which seek to transform the world into a theater of profit. We are seeing more and more evidence of governments being dominated by the wealthy sectors of society. This is no accident – democratic governments the world over have been designed so the wealthy would dominate them. The predominant thought at the time was that members of a certain class, the business class (the bourgeoisie), could represent the interests of society as a whole. A quick look at the upper houses of legislatures around the world suggests where the balance of power lies. Upper houses are often justified as a way for calmer and wiser heads to prevail in government decision-making. But what is the qualification which confers wisdom? It seems to be owning a lot of property or operating businesses. These have turned out to be little more than venues in which the wealthy can oversee and veto the demands of those lower on the social ladder.

What are some of the symptoms of government branches having been taken over by industry and finance. Two of the most obvious are (1) the lower classes pay higher marginal rates of tax than do the wealthy; and (2) corporations escape taxes more effectively than do people. Other corporation-favouring breaks include: bailout of the banks, anti-worker employment regulations, carbon cap-and-trade systems, weakened environmental review processes, subsidies for various industries, and privatization of public resources.

Change

The world is ready for change – we are on a path of exclusions and national chauvinism – economic collapse will only speed up our journey. There is a critical need to transform the international and domestic economic systems before everything collapses around us. The

citizens' desire for change cannot be unthinking because we, as citizens, will feel the brunt of the impacts of the change. There are no everlasting truths or magic bullets available to us to guide us to a brighter future. We must use the community as the basic building block for a new sustainable economy.

We need to concern ourselves with social change, not as a retreat into a politics of exclusion, but as an assessment of how our supposedly democratic government has been captured by corporate interests. We need to stop thinking of ourselves not as consumers but as citizens. We need to remember our humanity and the importance of social values. Institutions, organizations, and governments will always be with us, and are vital because they help socialize us into achieving more collectively than we might as individuals. These entities can be dangerous when their appetites run unchecked. There is no timeless politics which we can conjure from human nature to generate change (a counter-movement) to the self-regulating market, no holy place from which to launch a political response. Instead, we have to start from where we stand, with the politics we have in hand.

We need to think about where markets do and do not belong, and return once again to the creation of modern market society. Markets are born as twins, conjoined to their own forms of government, but in order for that modern market society to thrive, other forms of economics and government have been smothered. There has been a very long battle to control and value the basic materials needed both to sustain life and to thrive. Those who thrive will have figured out how to make governments manage 'free' goods in ways which are both sustainable and equitable. Insofar as tomorrow's governments succeed, they will owe a debt to yesterday's politics of the public domain, to older ways of valuing and sharing the world, which were once thoughtfully called 'the commons.' The commons are slowly beginning to be more widely remembered as a way to govern our world