CONSEQUENCES OF THE GROWTH OF THE POWER OF LARGE COMPANIES AROUND THE WORLD: EFFECTS ON EMPLOYMENT AND SMALL COMPANIES

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Abstract
One of the important reasons to explain the growth of world unemployment is related to the great power of large companies that dominate many industries around the world. The objective of this paper is to show how this process works and what are the consequences. In recent years, and even before COVID-19, there was an incredible concentration of strength and wealth in the hands of few companies. They are responsible for the main sectors of the world economy, such as automotive, technology, banking, retail, and pharmaceutical industry. These super large companies present in almost all sectors are always growth-driven, as the objective is permanently to increase their scales. This market concentration should theoretically make companies more efficient and once a scale economy is achieved they can charge lower prices and offer better quality for their merchandise. However, this is not what we see. What we see is that companies using robots, 3Dprinters, A.I. reduce their cost and eliminate employment and competitors. Therefore, the question is if there will be competition in the next few years in the major sectors of the world economy or if the main sectors will become monopolies headed by one very powerful company. To sum up, we have reached the point where modernization needs to be deeply questioned by society. Is it worthwhile to eliminate jobs and consequently consumption?

Keywords: *unemployment- large companies- technology- scale economy- competition.*

Introduction

The issue of poor distribution of income and wealth has been much discussed in numerous countries lately. Curiously, there is a much worse type of income concentration and strength that receive the same attention neither from scholars nor from the society or the media: It is the concentration of strength and wealth in the hands of few companies or other words a monopolistic or oligopolistic regime, that are responsible for the main sectors of the world economy, such as the automotive, technology, banking, retail, and pharmaceutical industry. These super large companies present in almost all sectors are always growth-driven, as the objective is to permanently increase their scales. Their executives live under what is called "economy of scale dictatorship". It is to be sought after all costs and, surely, for that purpose they fire workers and increasingly have more robots, computers, artificial intelligence, etc.

Just to cite a few examples: Google and Apple together have 90% of the operational system market for smartphones. Intel has 85% of the market for integrated circuits of the world. The five main North American banks have half of all the banking assets in that country. In emerging countries, the concentration is even greater and, in Brazil, for example, the five largest banks have 80% of the total banking assets of the country.

The fact is that the world is being dominated by an increasingly smaller number of giant companies, and for now, there is no solution in sight. Vitali, Glattfelder, and Battiston (2011) carried out a research in which they found that only 1,318 large multinational companies represented 60% of the revenues of all the companies in the world and that there was a hardcore where 147 mega-companies controlled 40% of worldwide revenues. A more recent study would certainly prove that concentration is even higher now.

Market concentration

Every week a large number of mergers take place in the most varied sectors, from pharmaceutical laboratories and beer manufacturers to telecommunication operators and cable TV. This market concentration should theoretically make companies more efficient as once a scale economy is achieved they can then charge lower prices and offer better quality for their merchandise. But this is not what we see: As a result of their growth, large companies dominate the markets that they are in, and they not only define the prices but also block any competitor that could offer the same merchandise at a lower price or a better quality form entering the market.

The "Council of Economic Advisors to the United States Government" published a report in 2016 showing that the profit of the companies was growing, which could be considered positive. However, the same report emphasizes that companies had been growing at the cost of market concentration. In other words, profits increase but in a small number of companies, and not as in the past, when increases in any given sector would permeate to all companies in that same. As a consequence, even in the most innovative sectors, there is an enormous market concentration, and the profit remains in the hands of one or two large companies. What we see is that profits have grown throughout the years, but most of the companies that were not giants in their sectors no longer either exist or are struggling to be alive.

The problem gets worse because these large companies are reverting to not such praiseworthy gimmicks to preserve their lead. They are the ones who can get banks to loan them huge amounts of money at the lowest interest rates. And also the ones that discover mechanisms to find the loopholes to avoid paying taxes, or at least lower taxes than small or medium-sized businesses. Besides, they have armies of lobbyists to arrange any changes in the law when they need it. These facts happen when they are not influencing governors or politicians for special favors being hired by fraudulent manners, as so often seen around the world.

According to David Korten (1995), "corporations have emerged as the dominant institutions on the planet, with the largest among reaching into virtually every country of the world and exceeding most governments in size and power". Moreover, "it is the corporate interest more than the human interest that defines the policy agendas of states and international bodies" (Korten, 1995). According to the author, there is a tendency for large corporations to develop their institutional agendas aligned with their imperatives of protecting themselves from the uncertainty of the market. These agendas mean restructuring rules and institutions of governance in the countries where they have operations.

Brian Roach, a North American professor and author of the classic *Corporate Power in a Global Economy*, is one of the most studied authors regarding the reasons that some companies have become the leaders in their sectors. For him, a scale economy is no longer the main factor because what really matters now is the massive use of new technology aiming to reduce operational costs and the size of the payroll (Roach, 2007). The magazine *Economist* mentioned in 2014 that the share of nominal GDP generated by the Fortune 100 Biggest American Companies rose from about 33% of GDP in 1994 to 46% in 2013. In other words, in less than 20 years the strength of the 100 greatest companies had increased incredibly (Economist, 2016). The magazine points out that in 1990 the three largest automobile manufacturers in Detroit had a capital of US$ 36 billion and employed 1, 2 million people, but looking at the Information Technology sector during 2014 you see that only the capital of the three largest companies reached US$ 1 trillion but the number of employees of these was no more than 137,000 employees. Look at Exxon's case, a company with more than 60 years and an important leader in the petroleum sector. Although it has grown significantly since its foundation, having even bought Mobil, in 1960 it had 150,000 employees, whereas it currently employs only 75,000, that is, half the workforce of 58 years ago.

The US Census Bureau has presented especially worrisome data showing that from 1997 to 2012 the participation of four of the largest companies varied from 22% to 33%. But this is the general average, in sectors that most affect the economy such as manufacturing and information technology the four largest companies already had almost half the market share in 2012. The problem gets worse when we consider that despite their strength and wealth the 500 largest companies in the United States employ only 10% of the entire labor force of the country.

As Tepper (2019) mentions there are dozens of studies that show that high industrial concentration leads to higher profits for firms, higher prices for consumers, fewer startups, lower productivity, lower wages, and greater inequality. The fact is that in most industries the largest companies are buying smaller competitors and cutting their costs. Even start-ups that are frequently highly innovative with the potential to grow prefer to sell their companies to a mega-company because by doing so their partners become millionaires overnight. That is perhaps the greatest contradiction of the capitalist system: To increase the profits companies, need to eliminate their competitors. But would it be possible for capitalism to exist without there being a competition among companies?

Economic theory and reasons for the concentration

One of the greatest difficulties in solving this problem is that the very Economic Theory has not yet advanced these questions and that the predominance of the ideologies from the classic and neoclassic economists preach that the market always knows best, which we all know is not true: If we leave it to the market, we will see increased growth of the largest companies, which would mean even fewer jobs and fewer consumers. Why the large companies? Because competition is very fierce and the only winner is the one able to develop and buy new machinery and robots. This makes them even more productive, and they end up acquiring or eliminating smaller competitors.

One of the first authors to deal with this subject was undoubtedly Karl Marx (1894). In Chapter XIII of *Capital,* he had already stated that "...the alternative of using technological innovation, modifying production techniques through the introduction of labor-saving machines so that each operator could work with more capital and the production per worker would increase, as always, from the point of view of businessmen, the best alternative, as in this way the accumulation of capital, freeing labor, allows the capitalist to expand his production with the same number of employees, or even less…". Marx also forecasted another phenomenon mentioned at the beginning of this article, that the mechanisms of the large companies would inexorably and gradually absorb small companies, and from that point on the tendency for declining interest rates would be developed.

In 1776, Adam Smith, the father of Modern Economics, launched his classic *an Investigation about the Nature and Causes of Wealth Among Nations*, in which he preached the wonders of competition in the free market, consisting of the basic ideology of capitalism for at least 200 years. But does that remain true nowadays? Could capitalism exist without competition? (Smith, 1776/1982). Using a completely different reasoning Peter Drucker (1999) raised in the mid-1990's the possibility that those mega-companies would collapse in the 21st century. He stated that entrepreneurship would triumph and that the world in the 21st century would show the importance of agility in the creation of new products or services that, according to him, only small and medium-sized companies could offer. It seems that Drucker was wrong because what we saw is that new company that could differentiate themselves and offers completely new products truly appeared, such as Skype or the Israeli Waze for example, but both were immediately bought by two giants after their initial success, Microsoft and Google respectively.

So, the question is if there will still be competition in the next few years in the major sectors of the world economy or if the main sectors will become monopolies headed by one very powerful company. This fear is not recent: Schumpeter (1939) had predicted that the very success of the capitalist system would undermine the social institutions that protect it, and inevitably create the conditions under which it cannot survive. In other words, the Austrian economist predicted more than 60 years ago what we can observe today. More recently, Arrighi (1994) named his book's *The Long Twentieth Century* epilogue chapter as "Can Capitalism Survive Success?", in which he comments that Schumpeter was right because every successful condition for capitalism's own survival is eliminated or impaired.

As Harvard professor Dani Rodrik (2011) stated, the problem is related to the fact that globalization weakens states and governments of nations because according to him the only way to implement hyper globalization is by weakening states' governance mechanism of individual countries. The reason is due to the necessity to harmonize laws and regulations across countries. More recently, some important "expert" economists pondered that there are three main reasons for this unequal concentration of strength in the hands of so few companies: first is technology, as it permits the substitution of workers for machines, computers, or robots; globalization is the second because now companies can easily transfer their respective productions to countries that offer lower costs; and finally, the third factor is the weakening of unions in the developing world.

From the point of view of the company, it is inconceivable not to employ the most modern technology. Competition is severe in most sectors, and companies today need to be obsessed with increasing productivity, which implies investment in robots, drones, and total automation of their production lines. If economic growth does not increase the number of jobs, what will happen to the unemployment rate? The answer is difficult, but it is certainly about time for society to act since it is an irreversible tendency that everything becomes totally automated. As a consequence, the creation of new jobs will drastically fall. We had reached more than 200 million people unemployed in the world before the COVID-19 epidemic, according to ILO- International Labor Organization (2018), and in the future, how many will lose their jobs?

The solution involves large companies directly like the ones that most benefit from the use of new technology. At the same time, they should be worried: if all of them dismiss their employees, there will be no consumers to purchase the products that they will produce!

Jobless growth

The real issue is that companies are becoming increasingly computerized and using even more powerful software and artificial intelligence in such a manner that they continue to grow and continue selling but using fewer employees. Americans call this phenomenon *jobless growth*. It is time for society to be awake to the problem and think about attenuating measures.

In fact, this time society will probably be alert, because something different is occurring. There have always been reactions against automation throughout the history of humankind. Many lost their jobs in agriculture when equipment began to be used. The reaction was huge. The Luddites in the 19th century in England fought against the sewing, and Henry Ford was considered the great enemy of the carriage riders and horse trainers. Technology had always won because increasing the productivity of the economy as a whole only affected low qualifying jobs. Herein is the difference: High-qualified jobs are the ones being greatly affected now. Watson, the robot developed by IBM based on artificial intelligence is capable of reading a hundred tomographies per hour, and doctors evaluating its diagnoses and results have concluded that they were correct 99% of the time. In other words, the most-valued and intellectualized jobs, as a medical doctor, are already being affected. Summarizing, the middle class is leaving heaven. The interesting thing is that whoever is on the top or the bottom of the pyramid is less affected. Studies carried out by researchers in the area of Labor Economy like Michael Osborne and Carl Frey (2017) have shown that functions that normally involve creativity and the capacity to solve problems, for example, specific areas of engineering or science, cannot be harmed. Machines are still not able to compete with them in these areas, luckily. These professionals are normally located on the top level of companies. The same occurs at the other end of the spectrum, workers without any qualifications such as janitors or carpenters will not be affected; not because technology has not reached them yet, but because economically it is not worth it.

Wolfgang Streeck (2016) is very clear in this matter and calls attention to the fact that this time the process of substitution by technology not only reaches its peak but also for the first time it contributes to the destruction of the middle class, which was always

considered the indispensable basis for the growth of capitalism. For Streeck (2016), automation will do to the middle class what mechanization did to the working class from the 19th to the mid-20th century, and the few ones that benefit from this from now on will be the owners of robots and new equipment that is being increasingly used. But there is another aspect that will bother middle-class life mostly in emerging countries. It is a fact that when robots become cheaper the foreign multinationals tend to rethink the question of taking part in their respective productions to other countries. From now on, it will be more advantageous for a North American multinational to set up an automated factory on American territory, instead of opening a unit in another country where labor cost is cheaper.

Michael Osborne and Carl Frey (2017) are responsible for studies where they forecasted that by the year 2030 approximately 45% of the North American jobs will have been eliminated by automation]. Evidently, this problem has already been thought about and discussed to exhaustion in some important European countries, mainly Germany, France, and Italy. The most important recommendation is to reduce the number of hours worked per shift. Today in France and Italy the working week is already down to 34 hours, against 40 or 44 in the majority countries of the world. This measure was not easily implemented at first, and it took many years to somewhat succeed. The problem is that after some years all those countries noted that the reduction of the weekly hours would only be effective if one day every country in the world implements the same measure. Due to globalization and companies wanting to increase their productivity, corporations no longer seek these countries that have reduced their working hours, but they rather go to countries where there is no limit on hours worked. They most commonly go to Asian countries. More than a hundred years ago, Leon Trotsky (1982) forecasted this possibility when he made his famous statement: “Binding all countries together with its mode of production and its commerce, capitalism has converted the whole world into a single economic and political organism.”

The reduction in the number of hours in the weekly journey is considered one of the best measures to attenuate the elimination of jobs. Therefore, many unions around the world adopt the expression: “working fewer hours so that all can work”. The most advanced countries in this discussion as always are the Scandinavian ones, for which a program of national low income could attenuate the unemployment issue. That is to say, every citizen would receive a monthly income to guarantee minimum subsistence, whether or not he or she is employed. The premise supporting this idea is that unemployment will frighteningly grow, and all society needs to be protected. Numerous other measures such as unemployment salary or technological moratorium have been considered, and some even put into practice to fight unemployment. But the danger of the greatest problem was always turned around because the unemployment generated by the new technology was always greater than the number of jobs that were being eliminated; except that now the context is much more complicated for two reasons: Firstly, the lowering prices of robots, artificial intelligence software and other equipment is shocking; ten years ago robots were unthinkable devices for a medium or large-sized company, and today even small-sized company can start to afford them. Secondly, there is still hope that post-industrial society can create new occupations and jobs in new service-related sectors to absorb the workers displaced by the manufacturing industry. This notion was totally demystified because the service sector is the one that uses new equipment the most. Contrary to popular belief, more and more jobs are being

eliminated. Moreover, jobs created for new functions coming from this new equipment are in a decreasing number.

Final considerations

As mentioned before, Dani Rodrik (2011) is probably right when he says that today's problems need international solutions, shared by all the countries. For the present matter, this is becoming more and more evident as no country alone can solve this problem; as happened when working hours were reduced and companies went to countries that had not adopted this, the same will happen with countries that place restrictions on the use of robots or artificial intelligence. This time the solution will have to be shared by all countries at the same time.

To sum up, we have reached the point where modernization needs to be deeply questioned by society. Is it worthwhile to eliminate jobs and consequently consumption? The most affected by unemployment crises and lack of consumption are as always the developing countries, for which there is a crucial dilemma to be solved: if they don´t computerize and employ the most modern robots, they will certainly lose competitiveness, and their companies will probably shut down resulting in higher unemployment. On the other hand, if they allow massive "modernization" their companies will cause unemployment as well. In both cases, the level of consumption will be reduced and consequences could be daunting. Which is the worst? A real dilemma.

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