Inequality and Finance-Dominated Capitalism: Recommendations for Further Reading

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An adequate religious response to growing income inequality in the United States (and other developed nations such as the United Kingdom) presupposes a correct understanding of its causes and conditions. Proposed solutions, religious or otherwise, depend, that is, upon a proper diagnosis of the problem. A growing number of books suggest that a fundamental structural change in the organization of capitalism since the 1970s is a significant factor behind income and wealth concentration. In this review article I offer a synthesis of some of this literature regarding what is often called finance-dominated capitalism, discuss its disciplinary effects on corporations, governments, and individuals, and then draw out some consequences for income inequality.

Contemporary capitalism can be said to be finance-dominated in several senses. First, it is so simply in the growing importance for contemporary capitalism of finance-generated profit. Profit in the financial sector (for example, banking, insurance, real estate) is a growing percentage of national income when compared with the industrial or service sectors. Profit from financial dealings is also of increasing significance to non-financial firms. For example, car companies routinely make more money from loaning money to buy cars than from selling them. Contemporary capitalism is marked, furthermore, by increased financial activity. That is, the amount of money and frequency of transactions in finance dwarf those in other economic activities. It is not uncommon, for instance, for the money changing hands on foreign currency exchanges in a single day to equal that of the whole of world trade in a year.

This shift to finance is no doubt propelled by the oversized profits to be made there, when compared with industrial production or non-financial service provision. While clearly aided by tax policy and reserve requirements for investment banking, financial dealings in principle are far more profitable than other ways of making money; one can literally, for example, triple one’s money overnight. This is partly a function of volatility in financial markets: the prices of assets on financial markets typically rise (and fall) quite sharply and rapidly (for reasons that will be discussed in a moment). But it is also a result of the common use of leverage in financial dealings. If I buy a stock with my own money for $100 and the price of that stock goes up by $1 to $101 the next day, my rate of return is obviously far smaller—1 percent—than if I had initially borrowed $99 to buy it. In the latter
case I would have doubled my money, from $1 to $2 (minus whatever interest and principal were paid on the loan of $99 in the meantime).

This comparatively greater rate of return in finance often figures in reasons given for the shift to a finance-dominated form of capitalism to begin with. For a variety of reasons—depending on whom one asks—the rate of profit by other means (say, industrial production) tends eventually to fall or simply historically did fall for exogenous reasons beginning in the 1970s. In the latter case, the culprit might be deemed increased competition from overseas, combined with the wage inflexibility that strong unions brought about. In the former case, changes in the composition of capital in production (for example, more capital sunk in equipment or in technological advances permitting greater productivity with fewer workers), and/or falloff in demand relative to productive capacity and surplus accumulation, might be faulted. Whatever the exact reason, at a certain point—since the 1970s—there is nowhere for profits from production of goods and services to be invested very profitably aside from finance. In *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, Greta Krippner offers a critical review of these explanations; like the theories she criticizes, her own emphasis on political decision-making assumes non-cyclical stagnation as the underlying problem.

In order to be an easy remedy for a declining rate of profit elsewhere, finance needs to bypass any direct link with the production of goods and services. This is the second sense in which capitalism is finance-dominated: finance is no longer directly in service of production elsewhere, but takes on a life of its own, so to speak. Finance is a helpful, even necessary aid to the industrial and service sectors. For example, a company might need a loan to purchase equipment or a retailer might require a loan to stock shelves, especially when just starting up, with the money to pay back these loans coming from profits made through the actual sale of goods. A declining rate of profit from such sales would, presumably, hurt profits from finance too—businesses might have difficulty paying back these loans, the demand for them might fall, and so on.

Loans for consumption purposes—credit card loans, payday loans, home equity loans—are one way of making the dependence on profit from sale of goods and services less direct. In a stagnating economy demand for such loans as a supplement or replacement for wages only goes up rather than down. Presumably if businesses are having
trouble paying back their loans, consumers would be having trouble too since wages typically used to pay off such loans are also ultimately dependent on corporate profits; but consumers can be squeezed in ways that less flexible corporations often cannot be. Short of “ceasing operations”—which in the individual consumer’s case means losing one’s ability to sustain one’s existence—consumers often can (and denied the same generous bankruptcy protections afforded corporations, they often must) cut back their other expenditures to the bone in order to service a debt. When their terms are not so onerous as to sap the consumption they are purportedly for the sake of, consumer loans could also presumably help to resolve any profitability problem with continuing loans for production. Consumer loans, by fueling demand, might help make the production of goods and services more profitable, thereby indirectly supporting the profitability of loans for production purposes.

But better yet, as a way to avoid being dragged down by stagnation in the industrial and service sectors, is profit generated through the circulation—the trading—of financial instruments themselves, that is, the creation of secondary markets where loans, stocks, and so on are themselves subject to sale. (André Orléan provides a very clear, albeit controversial, description of their operation in his Empire of Value: A New Foundation for Economics.) Such secondary markets (in principle) make for instant liquidity: one doesn’t have to hold onto a financial instrument but can sell it to someone else at any time (unless of course every other market participant wants to sell at the same time and there is no one left to buy it). Stock markets are the most familiar form of secondary market for financial instruments, but secondary markets now exist for just about anything with a claim on future revenue. Mortgages, for example, are almost always immediately sold, enabling the initiating party to unload the risks of default and of declining returns through interest rate hikes or inflation, and providing through their very sale a source of capital for new mortgages (rather than through old-fashioned commercial bank deposits). This is one way that finance frees itself from dependence on, and from being adversely affected itself by, an otherwise stagnating economy: “finance mostly finances finance.”

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The way prices are set by secondary markets has the same finance-financing-finance effect, freeing profits generated there from being limited by tepid growth and low employment in the rest of the economy. While prices of a company's stock, say, are no doubt influenced by current and likely future profitability of that company, they are directly set by current and expected demand for the stock, which need not be at all proportionate to the former. Demand for stocks generally might be heavily influenced, for example, by institutional investors such as pension funds, by tax policy favoring capital gains, and so on—by anything that affects the volume of purchases on the stock market, such as redirecting funds away from other investment opportunities. A shift to finance as the privileged site for profit generation arguably leads itself, then, to inflation of the value of financial assets such as stocks.

More specifically, the value of any one stock tends to become uncoupled from "fundamentals" (the quotation marks reflecting suspicion by Orléan and others that no such assessment of fundamental value is possible) just to the degree that expectations about the behavior of other investors establishes demand. If one bought a stock with the expectation of making money through the distribution of dividends from company profits over the long term, the profitability of the company should reasonably be the basis for one's decision to buy it. If one buys a stock in order to sell it for a higher price sometime later, increased demand for it at the moment of sale is all one is reasonably counting on in purchasing it. The effect of every investor doing this is captured nicely (albeit somewhat unfortunately) by Keynes's analogy of the beauty contest: picking the most beautiful contestant, based on one's assessment of her (or his) loveliness, isn't at issue; instead one is trying to predict the contestant that most of the other judges will pick, with every one of the judges, as well as oneself, trying to do the same thing. Opinion simply chases opinion then, with the likely effect of a self-fulfilling prophecy decoupled from objective attributes. To return to the stock market, expectation of greater demand for a stock—perhaps prompted by some good news about profits that quarter—itself fuels greater demand for the stock; the price of the stock goes up accordingly—perhaps way up, depending on the number of people convinced that other people hold such a favorable opinion of the stock—thereby confirming the expectation of a price rise and fueling even greater demand. The value of financial assets on secondary markets can for these reasons shoot up (and down) rather
wildly from day to day in ways that simply do not reflect any comparably dramatic changes in, say, a corporation’s bottom line.

The mass of new financial products that repackage financial instruments—derivatives—and the secondary markets for them are perhaps the means by which finance-generated profits become most indirectly related to the production of goods and services, often nearly decoupled from it. Derivatives are commonly defined as financial instruments whose value is indexed to other financial instruments and often serve the purpose of hedging against risks stemming from movements in the value of currencies, and therefore interest rates, with the demise of the Bretton Woods agreements that pegged all national currencies to the dollar backed by gold. Some of these risks have the potential to adversely impact the bottom line of non-financial corporations, and therefore to this extent such financial products would remain in service of the production of goods and services. For example, because of international outsourcing and transnational operations and sales, the profitability of corporations is increasingly affected by currency exchange-rate fluctuations; derivatives provide a way of limiting exposure to such risks, of limiting the damages when, say, because of such fluctuations, the costs of the inputs one buys overseas balloon, while the prices for the goods one is trying to sell on other foreign markets become uncompetitive because they are too expensive for people there to be willing to buy. One gains such protection by in effect betting against oneself: one buys a derivative that will provide a pay out to one’s company in the very circumstances that would otherwise hurt it.

Credit default swaps—those most toxic of assets in the recent financial crisis—provide another example of derivatives functioning as insurance; in the subprime mortgage crisis they were a (failed) form of insurance policy against the loss in value of the mortgages that formed the basis for another sort of derivative, collateralized debt obligations, or CDOs. If one owned such a CDO and were concerned about its possible decline in value, one could insure against that through a credit default swap whereby a second party would assume the risk, by guaranteeing the value of the CDO in case of default in the underlying mortgages.

The CDOs insured against here, like a great many other forms of derivative, are clearly designed to be profit-generating in themselves, apart from any benefit provided to non-financial corporations. CDOs repackaged mortgages, especially subprime mortgages with high
interest payments attractive to investors looking for higher than normal yields, into bonds made up of separate tranches or slices of those underlying mortgages, the varying interest rates of such tranches being determined by investors’ willingness to assume risk—investors in the higher interest tranches would be paid back last in the case of default. It is the repackaging here, along with the existence of secondary markets for what has been repackaged—and the capacity for what has already been repackaged to be repackaged in turn, without any apparent limit (CDOs squared)—that is itself profit-generating, in ways that are therefore set loose from sagging profits through production. For example, for CDOs to be profitable, a million new houses do not need to be built in an otherwise booming economy (although that might help): existing houses simply need to recirculate, or, short of that, people currently owning houses need to refinance. Simple circulation—repackaging, reselling—of financial instruments in the case of derivatives means that here (in Marx’s famous shorthand) M–M holds—money making money—rather than M–C–M—money making money by way of the production and sale of commodities.

But even where derivatives serve insurance functions they are commonly decoupled from the sort of ownership interests that are of help to non-financial corporations; they thereby become nothing more than bets on the part of otherwise disinterested parties. Corporations buy derivatives because they have an ownership interest in products and services denominated in different currencies, that is, because of what they otherwise buy (say, equipment) and sell (their company outputs). But, as the volume of the market in them suggests, derivatives with insurance functions are purchased to be profitable in their own right, independent of any ownership interests in what underlies them; they become in effect like insurance policies taken out on other people’s lives and property rather than one’s own. Whether one was willing to buy or to sell a credit default swap on a certain CDO or pool of them, and at what price, became in the recent financial crisis simply a way of betting on the likelihood of widespread sub-prime mortgage default. Those betting rightly—for example, those investors who shorted CDOs (that is, bet on their decline in value due to widespread mortgage default)—could come out ahead even as the economy otherwise crumbled.

Betting, indeed, is a common feature of derivatives, accounting for the decoupling of profit there from the rest of the economy. Derivatives that involve arbitrage, or profit generation by way of disparities
in the value of similar assets across different markets, are a prime case in point. One takes advantage of a difference in interest rates among different currencies, for example, by taking out low-interest loans in one currency to fund the sale of higher-interest loans in another. Derivatives like this become, in effect, nothing more than a bet on the spread between different asset values.

The sort of decoupling I have been describing brings with it unusual effects, then, if compared with industrial capitalism or a service economy—that is, with capitalism geared to the production of goods and services. Unlike finance-dominated capitalism, the latter is demand dependent—there have to be people around with the money to buy those goods and services—and therefore capitalism of those sorts cannot make do with an immiserated workforce or massive unemployment. Finance-dominated capitalism is not similarly dependent. Enormous profits can be made in finance in the midst of deep recession or depression. For example, the lower the general wage level, the more people will be forced into debt in order to make ends meet, the more valuable those loans will be to them, the more they will be willing to pay for them. Or, in keeping with the example previously noted, one can simply bet on economic decline, by, say, shorting stocks or CDOs on secondary markets.

This decoupling of finance from the production of goods and services does not mean, however, that finance and such production go their separate ways. Finance instead comes to discipline all other forms of economic activity—corporate, state, and individual—and this is the third sense in which contemporary capitalism is finance-dominated. Finance disciplines corporations through corporate efforts to bolster shareholder value. That is, the point of corporate management is to return value to the owners of the corporation, understood as the holders of its stock. The sphere of corporate responsibility—comprised of those parties to whom a corporation is responsive and accountable—is restricted to these owners of its stock and includes neither employees (unless they are also stockholders) nor the community in which the corporation is located. Corporations are to be run with the primary intent of simply increasing the value of their shares on the stock exchange. (For a fine description of what shareholder value involves, see Karen Ho’s *Liquidated: An Ethnography of Wall Street.*)

What such discipline means in practice is a relentless drive toward maximum profitability—not just profit sufficient to pay one’s workers
and overhead costs with enough left over to ensure necessary future investment in equipment and some charitable outreach to the community (as typified by previous owner-managed small businesses), but maximally efficient use of as few workers as possible with minimal unnecessary expenditures. Furthermore, this maximum profitability must be demonstrated quarterly (that is, continually, in as short a timeframe as is possible for non-financial institutions that require extended time to produce and sell things), in order to influence the secondary market for stocks where value is under constant assessment. In short, discipline by finance—in this case, the stock market—means downsizing, working that much harder the employees one retains to ensure their maximum productivity, outsourcing and shifting operations to lower cost sites regardless of community fallout, and doing all this in ideally rapid sync with changing market conditions, without the time or space to look very far down the road.

This demand for maximum profitability is specifically a market form of discipline (and not simply corporate self-disciplining that happens to align with market imperatives), in that many such management strategies, it has been argued, are simply not conducive to the long-term health of corporations. For example, rapid turnover of employees, along with management refusal of long-term planning where it might bring temporary declines in profitability, are likely to be corrosive of corporate profitability over the long haul. But that does not really matter if the financial profits from such management strategies are taking precedence over (non-financial) corporate profits. One can cash out one’s stock, which (for secondary market demand reasons) has increased in value far more than simple quarterly profits might warrant, before any damage done to the future profitability of the corporation becomes clear. CEOs paid in stock options apparently do this all the time before leaving to be hired elsewhere.

One of the primary mechanisms for enforcing shareholder value also helps make clear that this is a specifically market discipline at potential loggerheads with non-financial corporate interests: fear of hostile takeover. Whether they like it or not, companies have to be managed to keep their stock values high; if the total stock value of a corporation were to fall below, say, the value of its assets, it might easily be bought up with the intent of just stripping those company assets by selling its real estate holdings and equipment out from under it. In a hostile takeover, moreover, a controlling interest in a company’s
stock is often gained by borrowing money for purchase of that stock using the company to be acquired as collateral (that is, by issuing corporate junk bonds, whose purchase is itself lubricated by the creation of secondary markets for them). These loans then go on the company’s own books once it is acquired, putting immediate pressure on the profitability of the company by adding to its costs. In addition to its other expenses, the company now needs to pay off the debt to junk bond investors, and that means instituting all those cost-saving measures that, besides coming at the expense of workers and the wider community, might ultimately do even more harm to the company’s bottom line. Aside from money made on the bonds (at the company’s expense), the financial interests of the now private company’s owners are also served: they can take the company public again by selling shares at the inflated prices supposedly warranted by the greater efficiencies that come by way of corporate layoffs.

National (and state and municipal) governments are also increasingly disciplined by bond holders, to similar effect. Especially since the 1970s, when many burgeoning welfare states faced crippling economic stagnation, nation states have been unable (or unwilling) to fully fund government operations through taxation. One very significant reason is their desire to attract mobile company operations through lower corporate tax rates; every country (and subsidiary government) tries the same thing, prompting a race to the bottom in those rates. Nations turn to private investors to make up the shortfall by issuing public debt: Treasury bonds and bills in the case of the United States. Servicing those debts increases government costs and forces cost-cutting measures elsewhere in much the same way debt servicing works in corporate takeovers using borrowed funds. Cost-cutting means decreasing the size of government: firing employees, working them harder to increase productivity, refusing to use any revenue surpluses to increase wages or workers employed, and so on. But, unlike the case with corporations, lowering costs of government also means lowering output, that is, cutting service provision, which, unlike the products and services of corporations, amounts to a cost rather than a source of revenue for governments. The state might decrease its funding of infrastructure and education. It might in general renego on previously accepted obligations to guarantee the welfare of the population, through medical or unemployment benefits, for instance. Some of its usual operations oriented toward welfare, education, and
infrastructure can be handed over to private companies, on the assumption that greater efficiencies are likely there (given the fact, for example, that employees of private firms are less likely to be unionized). But many of the tasks and risks that governments used to take direct responsibility for managing can simply be made the responsibility of individuals; individuals must now assume the costs.

The need to attract private investors for funding of government operations and the need to keep the cost of such borrowing low promote the same sort of disciplining of government policy. Nation states are credit worthy only if their other expenditures—costs of operation and service provision—are low, making it more likely that they will have the funds to service their debt. One might think that government policy encouraging economic growth—for example, government investment in education and in roads and bridges, and government efforts to keep interest rates low to encourage corporate investment in equipment—would attract investors to one’s bonds; a healthy economy brings with it greater tax revenues and those might also be expected to increase the likelihood that funds will be available to pay back government debt. But a number of these government measures to encourage growth would cut into the profit of investors in government bonds: low interest rates, for example. And their overall intended effect—a hot economy at full employment—might be similarly damaging to bond holders, since a hot economy brings inflation with it and inflation decreases the value of the interest paid out to bond holders over time. State action to promote economic growth is therefore taken to make that state less rather than more credit worthy; investors are therefore less likely to want to purchase that state’s bonds and will demand a higher rate of return on them. In short, especially in times of recession and high unemployment, when tax revenues fall quite short of expectations, government policy can easily be taken hostage, one might say, by foreign investors and the increasingly few rich among its own citizens with the ability to make significant purchases of government bonds. Government policy is disciplined against, in other words, the interests of the majority of its citizens. And this is a self-sustaining spiral: the more that government policies to placate bond holders encourage further economic decline, the more dependent government operations become on the rich within and (especially given the amount of money involved) without that state’s borders, so that the responsiveness and responsibilities
of government are narrowed to a growing few with interests contrary to those of its own population as a whole. (Wolfgang Streeck gives an extended discussion of the trade-off between government policies encouraging economic growth or placating financial interests in his *Buying Time: The Delayed Crisis of Democratic Capitalism*.)

The disciplining of corporations and governments by finance has the effect of disciplining individuals. Individuals employed or laid off by the corporations and governments disciplined by finance are also so disciplined. In the former case, they are worked harder and live in fear for their jobs. In the latter case, they face the discipline of economic hardship made harder by a state reneging on its previous dedication to the well-being of its people. Out of work or underemployed by disciplined corporations and governments, and without alternative sources of aid to ease their impoverishment, they may be forced to take out loans to sustain themselves—payday loans, credit card debt, secondhand car loans to make up for lack of public transportation, and so on—thereby coming under the direct disciplining by debt themselves.

Indeed, attempts to direct the conduct of individuals become increasing important in both finance-disciplined corporations and nation states. (See *The New Way of the World: On Neoliberal Society* by Pierre Dardot and Christian Laval for more on this.) For example, maximizing profit through efficiency measures, whether in private corporations or government offices, means getting the most out of every worker. Those efficiency measures therefore target individual workers (rather than groups of workers identified, say, by job description) in any number of ways: by constantly evaluating performance, for example, not just against shared team benchmarks, but against the performance of every other worker assigned to the same task. In order to lower the costs of directing them, both corporations and nation states increasingly demand that employees become self-managing in line with corporate and state interests; they are to direct themselves and assume responsibility for their own lives, whether at work or outside it, thereby saving both corporation and state the efforts that would otherwise have to be expended to get them to toe the line as healthy and productive workers. Individuals in this way become a target of interest not only in their economic activity but in their lives as a whole, so that it becomes increasingly difficult to distinguish the character of one’s conduct at work and outside it. One must be
self-managing of one’s assets in an attempt to maximize performance not just at work but in the effort to lead a happy, healthy life. Or, thanks to one’s indebtedness, the careful calculation of costs necessary for work efficiency is extended to one’s patterns of consumption: one has to count every penny in every arena of life if one is not just to survive but to service one’s debt.

Contrary to the welfare state’s concern for the well-being of the population as a whole (in which individuals are considered under the guise of statistical averages), and contrary to a liberal state agenda of laissez-faire, where state action is to be limited to allow for the free operation of individuals in civil society and economic relations, the state here becomes the active arm of international finance. As such it manages society to ensure competitive relations among individual units viewed as independent enterprises, each dedicated to the maximally profitable use of its capacities. (This is the argument of Michel Foucault’s *Birth of Biopolitics*, now extended to finance-dominated capitalism, as in Dardot and Laval.)

I have gone into some detail here about matters that do not immediately concern income inequality because the complete picture of finance-dominated capitalism adds to its force and plausibility, but the implications for the concentration, rather than widespread distribution, of wealth and income should already be clear. The more money that circulates in financial transactions with capacities for outsized profits, the greater the impact on the gap between the rate of return on capital and the rate of growth in the economy as a whole that Thomas Piketty has made so much of: financial players make an enormous amount of money and pull away from everyone else. Both public and private debt servicing have the effect of redirecting accumulated funds for the benefit of bond holders. An increasing percentage of corporate profits and tax revenues goes to pay off debt rather than to raise wages or hire more employees. Debt-saddled corporations and countries simply have fewer resources to meet their payrolls or to redistribute in the form of benefits. Debt-riddled workers, already pinched in their wages by debt-pressured firms and governments, have to make do with less; an increasingly high percentage of their increasingly meager incomes is extracted by way of credit card bills, payday loans, car payments, and student debt. Their wealth, measured by savings, real estate equity, and property, declines accordingly.
But it is the capital markets’ demand for maximum profitability via cost reductions that has perhaps the greatest effect on inequality, pushing people out of the workforce altogether, reducing their wages and benefits when employed, making them work harder for less, extracting much greater value from them than they are paid. When companies are under pressure from capital markets to be as profitable as possible, workers come to be treated more as costs to be reduced than assets producing value. Maximum profitability, in other words, demands ever decreasing payroll, and therefore profits concentrate as a matter of course at the top, leaving behind most workers contributing to the production or service chain. Where maximum profitability is the aim, increasing profits simply cannot be distributed widely within a corporation in the form of increasing payouts for wages; doing so would have the immediate effect of increasing costs, thereby signaling to punishing capital markets a company’s negligence in achieving the maximum degree of profitability possible. Profits are no doubt generated by such cost-cutting tactics; those profits just go into fewer and fewer hands.

Further discussion of the particulars of finance-dominated corporate management helps make the mechanisms of wealth concentration here clearer. Take the case of companies controlled by private equity firms—companies both owned and directly managed, that is, by financial interests. (See the fine discussion by Eileen Appelbaum and Rosemary Batt in their *Private Equity at Work: When Wall Street Manages Main Street*.) Private equity firms use investor money to buy up corporations, which they then manage to generate profits for those investors and themselves, the owners of these private equity firms, the general partners. Like the leveraged buyouts mentioned earlier, private equity firms typically use a small proportion of their own and their investors’ money when buying companies; they borrow most of the money for such purchases by issuing bonds, using the companies to be purchased as collateral. Those debts then go on the purchased companies’ books. The use of leverage, as mentioned earlier, increases the possible return on investment. The primary intent of a private equity firm is to make money by selling the company for more than the private equity firm paid for it in three to five years, with 20 percent of any profit over 8 percent typically going to the general partners. The use of debt makes such hefty profits easier to reach. And here the risks of indebtedness—that one won’t have the money to pay back
the loans—have been transferred to the companies, now under private equity management. The loans are to be paid back out of corporate revenues. The additional revenues to pay them back can be generated most expeditiously by layoffs and pay cuts. Making do with fewer, lower paid workers is also taken to be a sign of good management and increases the likelihood of a higher price for the company when sold. In the meantime, however, there are plenty of ways to manage such companies for the direct profit of private equity firms—their investors, but most especially their general partners. General partners are paid hefty fees by investors in their funds to manage their money but they are also paid management fees by the companies they acquire, irrespective of the profitability of either the equity firm itself or the companies under general partner management. In managing a company, a private equity firm can, moreover, separate off its assets (say, its real estate) and, as the owners of the property, either sell it for its own profit or simply charge the company to rent it; either way, the company now owes rent, either directly to the private equity firm or to the property’s new owner. Prior to a company’s sale to other investors, private equity can also direct a company under its management to take on more debt to purchase ownership back from it at a higher price than originally paid or to pay increased dividends to its current private equity owner. While not universal (many private equity firms try to make money primarily by enhancing company performance), all these financially-engineered tactics to increase private equity returns put increased pressure on company revenues. The money for all these increased payouts has to come from somewhere, and usually, because it can be done very quickly, it comes from cost-cutting on payrolls. In cases like these, companies are run to be maximally profitable for private equity but at the expense of the companies themselves, which with disturbing frequency go bankrupt. Profits are simply drained from the companies, and not just from their workforce, into the pockets of private equity firms.

Cost-cutting by firing workers and lowering their pay and benefits can only go so far; somebody needs to be doing the work of making things and providing services, and low pay and benefits often make for disgruntled, unproductive employees, which harms profit margins, at least in the long run. Other management techniques, now commonly used by both private and public companies, step into the breach. (See the helpful discussion by David Weil in his *Fissured Workplace*. )
Corporations now typically hive off all inessential operations, leaving only a core group of employees on payroll who are essential to the design and marketing of the brand. All other operations (including, for example, production of components, their assembly and sale) can be outsourced or subcontracted or delegated to franchises or supplied by temp agencies for in-house operations. What would otherwise be a cost rather than a directly value-producing operation for the company—for example, work done by general maintenance and cleaners, payroll and clerical services, and the sales force responsible for getting the product to the consumer—can now be performed by employees paid by someone else. Indeed, the people performing most of the work for a company are now no longer on the company’s own books; the necessary services and inputs are purchased from other companies on the open market. They still need to be paid for and amount to corporate costs, but those costs, for competitive market reasons, are now cut to the bone. Internal job markets, for example, tend to pay workers more across the board, because a company has a long-term commitment to that worker and establishes pay scales comparatively in-house; the lower tier worker, with room to advance within a corporation, is likely to be paid more than a temp worker brought in from the outside to perform the same job.

When searching for services or components on the open market, corporations, moreover, can simply hold out for the best deal. Every supplier is in a race with every other to land the deal, to produce the best for less. Big corporations also simply have the ability to set the prices they will accept from suppliers; if a subcontractor wants the big contract it will have to meet low-cost demands. The result is a squeeze in profit margins along the supply chain, as one moves farther away from the lead corporation and its core operations. The lead corporation makes very large profits, in great part because its costs have been significantly reduced. Those costs are now borne by its suppliers or sub-franchisers, who have to manage and pay the salaries and benefits of the workers contributing to the lead company’s products and services. In order to make much of a profit at all, given the competitive pressures and lead corporation’s demands for low costs, they pay their workers next to nothing, overwork them, and skimp on benefits, often in violation of labor laws. The few employed by the lead corporation make decent wages, while the vast majority of the workers under
them do not; indeed, they end up paying for the lead corporation’s profitability.

If interlocking structural forces like these are at the root of wage stagnation and increasing inequality, castigating individuals for their greed or lack of charity loses much of its point and force as the focus for religious concern. Without significant changes in the way money is made and work organized, religious calls for personal reformation do not go far enough in addressing the economic problems we face. Religious opposition to the present order could perhaps contribute more by helping to raise the bigger questions of “for whom?” and “for what purpose?” Should our economic lives be organized, as they presently are, for the benefit of only a few? That is the major question our society needs to ask, as the starting point for fundamental structural change.
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