of the role of self-interest and institutions, and her misreading of the causes of the financial crisis combine to leave little of value to people who really are familiar with modern economics, especially those who have actually read Smith. It is true that economics has not always done a good job in incorporating the work that women do, and it is also true that the discipline can and should do better. Marçal's book, however, does more damage than good to the cause of figuring out a path forward.

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The Vanishing American Corporation: Navigating the Hazards of a New Economy
Gerald F. Davis
Oakland: Berrett-Koehler, 2016, 222 pp.

In his Introduction to *The Vanishing American Corporation*, Gerald F. Davis, the Wilbur K. Pierpont Collegiate Professor of Management at the Ross School of Business at the University of Michigan, succinctly expresses the core theme of his book: "Today, the compact between corporations and employees is increasingly under siege by low-cost alternatives that *make the traditional corporation unsustainable* [emphasis added]." Davis spends the first three of the four parts of his book explaining the rationale behind his conclusion, beginning with an evolutionary history of the corporation in America, proceeding to the "why" behind the impending "disappearance" of the American corporation, and concluding with the consequences resulting from the demise of this American legal and economic institution. The final part of the book is his take on a postcorporate America and how future Americans should educationally prepare to navigate this emerging economy.

In Part I, Davis reviews the legal and economic foundations of the modern American *public* corporation (the legal form that Davis focuses on) and its organizational variation among many developed economies. Throughout most of the 20th century, public corporations, such as General Motors, Exxon, and ITT, controlled the majority of economic activity in the United States. Yet public corporations (hereafter "corporations") differ globally by both board make-up—in Germany, for example, half of the supervisory board is elected by

employees—and by the development of stock exchanges—the Netherlands has only 130 publicly traded companies listed, while half the world's economies do not even have operating stock markets. By the early 20th century, the structure of the American corporation resembled what it would look like for the remainder of the century, yet it would grow larger through the continued application of mass production technology and the emergence of post-World War II conglomerates, such as ITT.

Davis notes that "taming the American corporation" was a primary goal of the American Progressive movement in the early 20th century. The federal government's enactment of the Clayton Act of 1914, the Glass-Steagall Act of 1933 (addressing the banking sector), and the National Labor Relations Act of 1935 were considered crucial for restricting the growing power and political influence of the American corporation. Subsequently, the "Treaty of Detroit"—negotiated between General Motors and the United Auto Workers in 1949—was considered an apex point for U.S. labor management relations. That new "social contract" established an employer responsibility to provide health and guaranteed retirement benefits for *all* employees (unlike in other countries, such as Canada and Great Britain, which operated government-run nationalized health care systems). Moreover, President Richard Nixon continued the Progressive vision (begun by Teddy Roosevelt) when he established such federal regulatory agencies as the Environmental Protection Agency and the Occupational Safety and Health Administration in 1970, and the Equal Employment Opportunity Commission in 1972, all preceded by the Tax Reform Act of 1969, the purpose of which was to create a more progressive tax system.

So why does Davis believe the American corporation is disappearing? In Part II, he lays out his case. Importantly, argues Davis, the Reagan presidency allowed for American shareholders to act upon their claim that "bloated, incoherent, and undervalued" conglomerates of the 1960s and 1970s were of diminished financial benefit to them. Federal antitrust authorities loosened restrictions on horizontal mergers (a result of the "Chicago School" predominating in antitrust policy circles) and state laws were largely eliminated that had made hostile takeovers difficult, resulting in hostile takeovers being the rage in the 1980s. By the end of the 1980s, nearly one-third of the Fortune 500 had merged or were acquired. Moreover, from the early 1980s onward, an increasing number of companies were

moving employees from defined pension plans to portable 401(k) plans invested in stock mutual funds, with more than half of all U.S. households invested in the stock market by 2000. Thus, by the early 1990s, as shareholders became increasingly organized and influential on corporate boards, the obligation of the corporation was clearly to create shareholder value. Today, even "blue chip" corporations can be targeted by hedge fund activists.

The 1990s also saw the rise of the "virtual corporation," whereby American corporations outsource segments of their supply chain, usually manufacturing and distribution functions. Nike became the "poster child" for this new business model by focusing its efforts on design and brand management (its "core competencies") while contracting out manufacturing to East Asian suppliers. The advent of the World Wide Web has accelerated the spread of the virtual corporation, and manufacturing outsourcing has spread to other industries, including computer technology, pet food, pharmaceuticals, and government services. However, there are downsides to the virtual corporation. For example, this business model has resulted in the loss of significant numbers of good-paying manufacturing jobs across America. Furthermore, "Nikefication" means that companies have little understanding of their own supply chains, leading to what Davis calls the "responsibility paradox": "Companies are increasingly dispersed and 'virtual,' yet we ask them to be responsible for the actions of their suppliers, employees, and even the countries where they do business."

The 21st century, says Davis, has unveiled the "pop-up" company (i.e., needing only "a web connection and a credit card" to start up), as the economies of scale responsible for the birth of the modern corporation have disappeared in many business sectors. These so-called lightweight entrants can scale up (or down) rapidly by renting rather than buying capacity, and their low costs translate to superior choices for consumers—in 2007, for example, Vizio (with 200 employees) sold as many televisions in the United States as Sony (with 150,000 employees). The decline of the public corporation, with all its regulatory costs, has resulted in the increasing use of a legal hybrid, the limited liability corporation (LLC), by entrepreneurs and established corporations. The LLC is inexpensive to establish, flexible in design, its tax returns are submitted by owners, and it has regulatory advantages because Congress often passes legislation that applies only to corporations listed on the stock exchanges (which LLCs are not).

Davis also notes that the market for initial public offerings (IPOs) hit its high-water mark in 2000, and through 2014, there have been approximately 1,600 IPOs in the United States. Many 21st-century companies simply do not need the capital to build capacity. Moreover, Davis found the number of full-time jobs created by these IPO companies is quite modest, as the median IPO firm grew its employment by 51 jobs—certainly not qualifying them as an "engine" of American employment growth.

In Part III, Davis evaluates the consequences of the collapse of the American public corporation. First up, he discusses the public policy consequences of the disappearing social safety net. As mentioned earlier, corporate employers began shifting employees from defined retirement benefits to "defined contribution" 401(k) pension plans and further streamlined their health benefits. As Davis notes, "the 401k plan has been . . . a miserable failure that is destined to leave many retirees in poverty," making them dependent on Social Security and Medicare. Davis quotes Teresa Ghilarducci, professor of economics at the New School for Social Research: "Seventy-five percent of Americans nearing retirement age in 2010 had less than $30,000 in their retirement accounts. Almost half of middle-class workers, 49 percent, will be poor in retirement, living on a food budget of about $5 a day."

When Davis approaches the topic of income inequality in the United States, he offers a novel observation: it is not the increasing *power* of corporations but their *collapse* that is causing this inequality. He notes that the link between corporate size—that is, employment concentration—and income inequality (using the Gini coefficient) in the United States for the 10 largest companies since 1950 (through 2006) reveals a remarkable correlation of almost −0.9. This correlation means that when American companies grew larger (say during the 1960s), income inequality went down; when companies reduced in size (as many did in the merger wave of the 1980s), income inequality went up. The resulting paradox is that while larger corporations are more unequal internally than smaller ones, those economies with a higher volume of larger corporations tend to have more national income equality.

Furthermore, Davis argues that the flattening of corporate hierarchies in recent years has eliminated the once-stable pathway for career advancement and upward mobility for Americans. As he puts it, "Careers were replaced by jobs, and now jobs are being replaced

by tasks." He concludes that we now are in a "chutes-and-ladders" economy where the "connection between effort and outcomes is often obscure." But there are "silver linings" to corporate decline. Davis sees many entrepreneurial opportunities in service industries utilizing what he calls "platform capitalism" (descriptive phraseology that Davis characterizes as "more accurate" than the popular "sharing economy"), where there are a variety of organizational forms enabled by new technologies (such as the World Wide Web) and based in networks of collaboration. Moreover, in manufacturing, where computer numerical control (CNC) machine tools have continued to drop in price over the last 20 years, less costly CNC technology allows for smaller, low-cost, on-demand production facilities to now be re-shored to the United States.

Yet the public corporation will not vanish completely, says Davis, as they will continue to exist where there are greater risks, economies of scale continue to predominate, and there is a reasonably long time horizon (usually involving infrastructure capital budgeting decisions). With private sources of funding emerging ("alternative platforms for intermediating capital") for new ventures, Davis sees Wall Street's role in the economy receding, perhaps returning to its more traditional, pre-IPO functions.

In Part IV, Davis offers his forecast of two possible scenarios of the American "post-corporate future": one dystopian and the other localized and dynamic. The dystopian scenario is an American economy based on the "uberization" of labor, with tasks and jobs digitally bid on demand, thus eliminating much of the daily interactions of traditional employment. A less onerous alternative scenario has the promise of new technologies favoring distributed manufacturing—small plants with low-cost CNC equipment or 3-D printing can be operated efficiently at the city or neighborhood level. Lastly, Davis recommends that anyone preparing for this postcorporate future would be best prepared by undertaking a strong liberal arts education, as a liberal education creates enduring value beyond specific subject content. It is very difficult to predict which firms or industries will be the winners a decade in the future, so a strong foundation in logical thinking, communication skills, and an understanding of human cultures can go a long way to prepare one for future employment.

In *The Vanishing American Corporation*, Davis offers a compelling look at the past and present and offers a glimpse of what the American public corporation might look like in the future. The

present status of public corporations in America should be an "eye opener" to the reader. This is where Davis shines. Technological innovation, reduced restrictions on international trade, and the increasingly "heavy hand" of the regulatory state can lead to the emergence of alternative organizational forms. In the case of the American public corporation, the last quarter century has led to "virtual corporations" focused on core competencies and the increasing use of the LLC legal form to reduce public scrutiny. I am an agnostic as to how a business should organize (as management has the advantage of superior contextual insight), but the public policy consequences of the decline of the American public corporation are chilling for American workers.

American society will have to come to grips with the results of what Davis sagaciously identified as the fallout from the "collapse" of the traditional American public corporation: the failure of 401(k) plans to ensure a humane retirement for many retirees; the elimination of stable opportunity and upward mobility offered to new college graduates by the "tall" hierarchies of the traditional public corporation; and a future for American workers that offers increased employment unpredictability and its resulting social manifestations (which Davis does not fully explore, but touches upon in his reference to long-term labor force participation and social security disability trends). With new opportunities come new hazards, and Davis offers sufficient grist for Americans to actively discuss in thinking about their economic future.

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