

Two Cheers for Vertical Integration:
Corporate Governance in a World of Global Supply Chains

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Garment factory fires, building collapses, and other tragedies in East Asia and the Indian subcontinent have become endemic within the far reaches of the supply chains that put clothing and other consumer goods on the shelves of thousands of big box stores in Europe and North America. Even before the collapse of the Rana Plaza garment factory complex near Dhaka in April 2013 – killing 1,124 souls – the death toll from Bangladesh factory fires had risen to more than 700 over the previous decade. As recently as November 2012 a devastating fire killed 112 people at the Tarzreen garment factory, which had been churning out goods for Wal-Mart without the company’s knowledge.

Two things are notable even in the headline news. First, the system of subcontracting and outsourcing that constitutes the bottom of the supply chain remains opaque, not only to the government, the public, and the workers, but even to the retailers who pay for the product and set standards for its price, quality, and production schedule. Such was the backdrop to the Tarzreen fire. The factory was working flat-out to meet the Christmas rush in the West. Wal-Mart had terminated its relationship with the factory due to safety concerns, but one of its sub-contractors continued to use Tarzeen without its knowledge, and clothes for the huge American retailer were still being produced there months later. Smoldering remains of the store’s “Faded Glory” brand were found in the embers. ¹

But if even corporate headquarters in Bentonville could not quite determine the set of

manufacturers who actually produced all the product designated for company stores, there was little doubt, either among outside observers or corporate insiders that Wal-Mart and other retail giants bore some sense of responsibility for the tragedies, if only because they were the ultimate paymasters and orchestrators of the production and distribution chain that sustained nearly 5,000 Bangladesh garment factories. Echoing longstanding demands from anti-sweatshop organizers and South Asian unionists, the *New York Times* editorialized that only stiff government safety regulations and a renewed sense of social responsibility on the part of the big garment buyers could avert future tragedies. “Lawmakers began improving industrial safety in earnest after the 1911 fire at New York’s Triangle Shirtwaist factory,” noted the *Times*. “The collapse of Rana Plaza should play a similar galvanizing role now.”²

We have before us a failure of corporate governance, not just in terms of any individual set of companies doing business in South Asia, but systematically, as a function of the nature of the supply chains that combine two seemingly contradictory phenomena: a high level of integration between manufacturers and the brands and retailers that source their product from these far flung vendors, combined with a legal regime which absolves those who command the various links in the supply chain of the kind of responsibility, moral as well as economic, that attached to those in formal leadership of the vertically structured corporation which once seemed so central to the American polity.

This essay explains some of the reasons, often labor-related, for the erosion of the vertically integrated corporation, not just in terms of their global sourcing strategy but from a domestic perspective as well. From the 1950s onward, the attempt to elude the burden of the New Deal era regulatory regime, including the encouragement it offered to trade unions, proved a powerful incentive for management in many heretofore highly integrated firms to outsource

labor, disaggregate production, and franchise their products and services. This has created a regime of “fissured employment,” to use the phrase coined by management theorist David Weil, in which executives and the firms over which they preside have sought to absolve themselves of the legal and economic responsibilities that were once thought intrinsic to the managerial function.³

In the final section of this essay, we explore two examples of how such fissures in the employment relationship have been and can be reassembled, reintegrating the supply chain to once again create the semblance of a vertically integrated corporation in which the legal responsibility of top management parallels the operational control they never fully relinquished. The first example of this sort explores the way in which “jobbers agreements” in the mid 20th century U.S. garment industry created a triangular bargaining relationship between unionized workers, contract manufacturers, and the jobbers – larger retailers and branded clothing firms – who were the most powerful economic actors in the industry. The second example explores the contemporary effort, arising out of the Rana Plaza tragedy, to recreate a legal construct not dissimilar from the jobbers agreements in their heyday. This is the Accord on Fire and Safety, signed by more than 120 brands and retailers, mainly European, along with the main Bangladesh unions and the key industry association in that country.

Two Cheers for Vertical Integration

During first half of the 20th century the large, vertically-integrated corporation seemed the template for business organization and an engine of economic growth. The radical decrease of transport and communication costs in the 19th century created conditions for a collapse of geographical barriers and the increasingly integration of the domestic market. Larger markets

allowed a shift to higher-fixed-cost methods of production and distribution, which in turn lowered unit costs at higher and higher levels of output. As this paper will discuss below, not all firms and markets underwent this transformation, but many of the most iconic firms, employing large and growing workforces, underwent a transformation in which wholesalers, vendors, merchants, and other market makers were marginalized in favor of a visible managerial hand. With its own rubber plantations, glass plants, and steel mills, and a dealer network that was formally independent but under Dearborn's thumb, Ford took vertical integration to an organizational extreme; likewise United Fruit with its own Central American banana plantations, came to define the imperial corporation; while U.S. Steel, with its captive coal and iron mines seemed an industrial autocracy. AT & T advanced corporate research and development (Bell Labs) even as women manufacturing operatives at Western Electric served as research subjects for innovations in what we would today call human resource management. For these companies and all those who sought to emulate their vertical structure, supply chains and labor markets gravitated toward an internalization and bureaucratization during these decades. Even Sears and A & P took ownership control of some heretofore independent supply firms in their respective supply chains.

In the late 1920s when Ronald Coase, then a young British socialist, first spent time in the United States, he visited Detroit and came up with a puzzle: How could economists say that Lenin was wrong in thinking that the Russian economy could be run like one big factory, when Ford, General Motors and other vertically-integrated firms seemed to be doing very well indeed. They were privately-owned planning bureaucracies, a point Peter Drucker would later make in his own far more extensive study of GM management. But not all corporations were gigantic. Some were small, highly competitive, and limited to but one part of the value production chain.

In his seminal essay of 1937, “The Nature of the Firm,” Coase answered his own query with an insight about why firms exist in the first place. They were “islands of conscious power” like lumps of butter coagulating in a pail of free-market buttermilk . Outside the firm, price movements direct production, but within a firm market transactions are eliminated and in its place is substituted the entrepreneur-coordinator, who directs production. ⁴

So firms are in part planning bureaucracies, but unlike in the Soviet Union, where coercive methods were the norm, in a capitalist economy differential market or transaction costs determine the degree of vertical integration of any given firm in any given market. If markets were costless, reliable, and transparent, firms would not exist. Instead, executives would build product or sell services through a plethora of arm’s-length transactions. But because markets, both for goods and labor, are costly to use, which is a function of transport and communication expenses on the one hand, and custom, expectations, and regulation on the other, the most efficient production processes often takes place in a firm, which requires a managerial strata necessary for non-market coordination. Alfred Chandler would later historicize this insight in his masterwork, *The Visible Hand: The Managerial Revolution in American Business*, published in 1977. ⁵

From the Populists and Progressives through the waning years of the New Deal impulse, the accommodation of the vertically integrated corporation to a more democratic and republican ethos has, of course, been a central hallmark of political and economic reform. What is not so obvious, however, is that the very subordination of the market to the bureaucratic management of these corporations greatly strengthened the hand of the early 20th century reformers. If managers rather than markets guided the fate of these large institutions, then their legitimacy, or at least that of their governance structure, might well be called into question.

The key text for this effort, the book that a contemporary described as “the law, the logic and the philosophy of the New Deal,” was *The Modern Corporation and Private Property*, published in August 1932 by Adolf Berle and Gardiner Means. Berle was a lawyer and Means an economist. Both were the offspring of Congregational ministers, and both were familiar with the practical operation of the American corporation. Their collaboration began before the financial crash; indeed, when the book appeared three years later, they hardly took note of the Great Depression, because their argument hardly depended upon the existence of an immediate economic crisis.

But the book, which instantly became a controversial classic, provided an ideological rationale for New Deal planning, consumer activism, labor organizing, and financial regulation of the large corporation and by extension of all American capitalism. Berle and Means argued that America’s two hundred largest corporations, which then controlled one-third of the national wealth, had themselves abridged the fundamentals of a liberal capitalist order. Berle and Means were not Brandeisian “small is beautiful” trustbusters. The giant corporation was “the flower of our industrial organization.” Concentration was a problem, but not for its own sake. Something more fundamental was wrong in that the immense power of those who ran America’s largest corporations was essentially unfettered, not only by the state but also by those who were their ostensible masters: the shareholder themselves.⁶

Not only had oligarchy replaced competition, but also, and of even more consequence, management usurped the prerogatives of traditional ownership. If the shareholders had therefore lost control of the corporation to a set of unelected, self-perpetuating managers, then the modern corporation could best be understood not in terms of “the traditional logic of property and profits . . . not in terms of business enterprise but in terms of social organization.” And like the church,

the military, and the state, such power had to be either regulated or democratized if a republican government were to exist. The rise of these illegitimate controlling elements, with their potential for abuse, have now “placed the community in a position to demand that the modern corporation serve not alone the owners or the control but all society.” Over and over again they wrote, the American corporation has “ceased to be a private business device” and has become “a major social institution.”⁷

Although historians have subsequently demonstrated that in the early 20th century there were relatively few firms in which a dispersed range of stockholders were effectively disenfranchised by professional managers, this critique of the corporation nevertheless exemplified a turn toward the “socioeconomic” mode of reformist thought identified by Howard Brick in his *Transcending Capitalism: Visions of a New Society in Modern American Thought*. With Thorstein Veblen, who denounced the “make-believe” property rights of modern shareholders, and Rudolf Hilferding, who postulated a new era of “organized capitalism,” many reformers in the middle decades of the 20th century rejected the vocabulary of Smithian competitiveness.⁸ Private property, private enterprise, individual initiative, the profit motive, wealth, and competition have simply “ceased to be accurate” ways of naming the most important features of modern business.⁹ As Roland Marchand has pointed out, large corporations themselves adopted some of this same rhetoric, if only to accommodate reform impulses, by describing themselves not so much as a competitive business entity but as an “institution” infused with all of the connotations of civic beneficence characteristic of other non-market entities, including hospitals, universities, foundations, and even government agencies. Colby Chester of General Foods admonished fellow industrialists that the American businessman could no longer “consider his work done when he vies the income balance in black at the end of an

accounting period.” Now it was “necessary for him to demonstrate the social virtue of these accomplishments to the public.” Likewise, Owen D. Young of general Electric remarked in 1936 that as “a great public institution,” General Electric had to accept “more and more obligations for public discourse and public activities.”¹⁰ And this was the era, as Julia Ott reminds us, when the New York Stock Exchange and big, investor-owned corporations such as American Telephone & Telegraph declared themselves the harbingers of a new era of shareholder democracy.¹¹

If big, vertically integrated corporations were not market mechanisms themselves and if shareholders were thought to exercise neither proprietary nor popular control, then the door was open to outside regulation and internal reform. As a Roosevelt brains truster, Adolf Berle and other like-minded reformers played a large role in writing some of the key regulatory laws of the early New Deal, laws designed to correct the specific abuses illuminated by *The Modern Corporation and Private Property* and the many books, investigations, and congressional hearings that followed.

Even more important, and important for the thesis of this paper, was the rise of labor. Corporate reformers of the New Deal era wanted a labor movement, first to serve as a Keynesian mechanism whereby aggregate demand might be enhanced without an even greater dependence upon government spending and public employment projects. Without a broad income tax, a welfare state, or a large military, the state capacity for such countercyclical Keynesianism simply did not exist.¹² But even more important and at the time far more popular, was the effort to get inside the black box of the corporation to constitutionalize its internal operations, equalize wages, and make top management responsible and responsive to other stakeholders, of which organized labor seemed the most significant. Such a labor movement would police the new wage and hour laws, rationalize and make more equitable wages throughout every stage in the

corporate value chain, and make corporate executives accountable for decisions once thought the exclusive prerogative of management.

During World War II and the generation that followed experiments in tripartite governance – labor, management, and public/government – were frequently proposed and sometimes instituted. Corporatist arrangements of this sort almost always faced bitter opposition from the private sector, but a sizable slice of top executives did, reluctantly, accommodate themselves to collective bargaining over wages and the quaintly named “fringe benefits” that would loom so large on corporate account books from the 1950s onward. These New Deal/laborite reforms had a large impact on the internal structure of the working class and of the corporation itself: real wages more than doubled in the era 1939 to 1973; wage inequalities between working-class occupations declined, internal labor markets, often with formal systems of seniority promotion, became highly validated, and during a mid century era that economists have called the great compression, income inequality declined. The pay gap between executives and line workers shrank, but of equal import, so too did the distance between the incomes of janitors and office workers, between garment workers and auto workers, and between retail clerks and truck drivers.¹³

The heyday of the vertically integrated firm coincided with the rise of a social democratic reformism in the United States that promised to marginalize the market and subordinate the profit motive to institutional growth and stability. This may have been wishful thinking in the long run, but for several decades it offered Progressives and New Dealers a powerful sense that history was on their side.¹⁴ Berle and Means thought that if capitalism were to survive, “the control of the great corporations should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the

income stream on the basis of public policy rather than private cupidity.”¹⁵ Indeed, many students of postwar management now saluted the separation of share ownership from management control. It would not lead to the hegemony of an overweening and self-interested executive strata, but instead to a more rational business technocracy. . “We now know that management is a generic function of all organizations, whatever their specific mission,” wrote Peter Drucker in *Post-Capitalist Society*. “It is the generic organ of the knowledge society.”¹⁶ Since the vertically integrated corporation had, in effect socialized production, corporate managers could pursue goals other than profits, including sales, growth, and the prestige that came from producing high-quality products of advanced technology. “Progress Is Our Most Important Product,” asserted General Electric in one of its midcentury advertising campaigns. And as Ralph Dahrendorf put it, “Never has the imputation of a profit motive been further from the real motives of men than it is for modern bureaucratic managers.”¹⁷

All of this seemed antiquated by the end of the 1970s, a decade characterized by a chronic profit squeeze and stock market slump. The rise of foreign competition began to put major U.S. firms under enormous pressure while at the same time depriving reformers of the idea--and perhaps the reality--that the top two hundred corporations monopolized so much of the market. In any one country that might still be true, but now the playing field was truly global. There were no longer three car companies with an oligopolistic grip on one continental market, but nearly a dozen global competitors in this key industry, thus for the first time in decades subjecting the once insular managers at Ford and General Motors to real competitive pressures and an insecure hold on power. When the GM board, frustrated by the Japanese competitors who had stolen market share, actually fired CEO Robert Stempel in 1992, the shock waves spread far and wide.¹⁸

Indeed, many firms now seemed ripe for a takeover by another set of managers who could, in the parlance of the time, boost “shareholder value,” now increasingly seen as the essential *raison d’être* of the firm. By the end of the 1980s, nearly one-third of all companies on the *Fortune* 500 had received takeover bids during the previous decade.¹⁹ In recent decades a new economic theory of the firm has shifted the focus of corporate law and analysis from questions of social and economic power to the maximization of value for investors--from collective concepts to individualist ones, thus sharply devaluing the message Berle and Means offered three-quarters of a century ago. As Dalia Tsuk put it in a recent history of the rise and fall of their influence, the law and economics scholars of the 1970s and 1980s turned the corporation--a social, economic, and political organization--into a “contractual arrangement, a tool of making profits for investors.”²⁰

Naomi Lamorieux and her co-authors have argued that the integration of mass distribution with mass production in large Chandlerian firms may have enabled producers to lower the cost of goods dramatically, but the tradeoff has been a significant loss of flexibility.²¹ Much of this arose from the long lead times and high capital requirements necessary to generate high levels of productivity in a vertically integrated firm, but this inflexibility was also the product of that set of social democratic structures that once seemed intrinsic to the New Deal era vertically integrated firm. While businessmen have sometimes thought such a regulatory order necessary in times of depression and war – or Cold War - economic recovery and social stability invariably evoke a search for new strategies designed to once again enable American capital to enjoy the managerial flexibility that seemed essential once the most oppressive economic and political threat had lifted. Asserting that “market forces and the information age” that had beaten the Soviets *Forbes* columnist Peter Huber argued that such impulses would soon dissolve America's largest economic

organizations. "If you have grown accustomed to a sheltered life inside a really large corporation," he advised, take care: "The next Kremlin to fall may be your own."²²

The unionized, regulated, vertically integrated firm is well into the process of disaggregation. All the big automakers have either spun off or kept commercially separate the parts production infrastructure which remains essential to their businesses. Apple makes no computer products, but purchases them from Foxconn and other Asian vendors. Nike operates in similar fashion when it comes to the hundreds of millions of shoes it sells each year. FedEx uses independent contractors to drive its fleet of red and blue trucks. Amazon hires labor contractors, including Schneider Logistics, Roadlink Workforce Solutions, and Skyward Employment Services to staff and supervise scores of new fulfillment centers.²³ The franchising of hotels, motels, and restaurants is now a pervasive way to off load risk and generate virtually capital-free growth. In 1999, Wyndham Corporation, which owns Ramada, Howard Johnson's, Super 8, and Days Inn brands, franchised all of its 6,383 properties.²⁴ Cash-strapped municipalities outsource a remarkable ranges of services once thought core functions of government, while even the most secretive and sensitive federal agencies contract with a vast array of outside vendors for the most important work. In an essay entitled "The Vanishing Hand," economist Richard Langlois wrote, "Vertical disintegration and specialization is perhaps the most significant organizational development of the 1990s."²⁵ And there is little evidence to say that the process has ceased in subsequent years.²⁶

It would be a large mistake to think that the transformations outlined above means that the hand of management has become any less potent or that the market now governs decisions once made on a command and control basis within the firm. Coase's buttermilk remains highly coagulated because even when supply chains exist in a formally free market economy, firms at the apex of those chains retain enormous power amounting to defacto operational control. What

has changed are the power relations within the supply chain and the legal, political, and moral imperatives that once governed and constrained the administration of the vertically integrated corporation.

Integrated Production, Fissured Employment

Two consequential examples of the process are offered here. The first explores the rise of temporary employment firms whose enormous success in transforming employment relations within many heretofore vertically integrated corporations required a minor revolution in New Deal era employment law. The second traces the way in which giant retailers came to create a series of global supply chains that while composed of a disparate set of legally and organizationally autonomous “vendors” have in fact been as well controlled and as hierarchical as the most vertically integrated corporation of the old economy.

In the Progressive Era and for many years afterward, reformers thought private employment agencies hardly a step above the exploitative *padrones* who herded immigrant laborers to construction projects and truck farms in order to skim wages, win kickbacks, and sell jobs. As a consequence, most states strictly regulated employment agencies while making the job-search function an integral part of the services provided by state unemployment compensation agencies. Many state laws required employment agents to register, obtain a state license, and post bond. They capped fees charged to workers and prohibited fee sharing between agents and employers. Many even banned the practice of sending scabs to replace union workers on strike. For example, in 1955 the Supreme Court of Nebraska ruled that Manpower, Inc. was not an employer itself, but “obviously” an employment agency which must comply with state licensing laws.²⁷

But Manpower and other early temp agencies resisted such a classification; instead they argued that they were themselves employers of labor who performed a service, like a painting firm whose employees worked at the direction of the homeowner or an accounting company that provided bookkeeping services for a corporate customer. Temp agencies did not charge fees to workers as employment agents did; instead they made money on the “mark-up” – the difference between what temp agencies charged firms and that which it paid to workers. In the late 1950s and throughout the 1960s temp agencies advanced this organizational theory in all the key state legislatures, their case materially advanced by the Kelly Girl imagery they propounded, a cultural trop designed to convince the public that glamorous female office workers, whose relationship to the paid employment was advertised as episodic and voluntary, in no way sought to undermine existing wage standards, employment ladders, or union power.

Temp agencies waged a two-pronged fight: avoiding the classification of employment agency would satisfy the industry’s own desire to be free from unwanted state regulation, while gaining designation as the actual employer of temporary workers would satisfy its clients desire not to be so designated, thus giving their clients access to labor without the obligations or expectations which had been politically or culturally embedded in core industry and office jobs. While the former goal was important, the latter was absolutely essential for unless the temporary help firms were accepted in practiced as legal employers, their *raison d’etre* would disappear.²⁸ They won a sweeping victory, both judicial and political. By the 1980s the U.S Employment Service began to refer job seekers at its free public offices to private employment agencies; and indeed the federal government itself greatly expanded its own use of part time and temporary workers in the 1980s.²⁹

But if the Kelly Girl ideal provided a cultural opening for the temporary employment agencies, the engine powering their vast expansion in the 1970s and 1980s arose out a corporate determination to subvert or displace New Deal era labor regime by severing the employer-employee relationship between workers and those user firms on whose premises they work. As the recession of the mid 1970s exacerbated corporate anxieties, *Management Review* catalogued the advantages of hiring what were now often called permatemps: “The employees do not affect the unemployment insurance rate if they have to be terminated, they do not add to the cost of fringe benefits or payroll maintenance, and they are outside the company’s normal policy requirements for personnel.”³⁰ This arrangement allowed the clients of temporary employment firms to utilize labor while avoiding many of the specific social, legal, and contractual obligations that have increasingly been attached to employer status since the New Deal. By giving user firms almost absolute control over the duration of a worker’s stay and over what tasks workers could be directed to do while on the job, the “temporary” solution enabled large firms to “downsize” their labor force and deprive it of “voice” without actually reducing labor input or limiting control and direction of that workforce.³¹ New Deal employment relations – of the sort expected at vertically integrated firms – have therefore been utterly fissured and then rhetorically scrambled. In this new frame, all the terms in the resultant triangular employment relationship are given new meanings. The employment agent becomes an “employer”: the client employer becomes a “customer”; the work performed becomes a “service”; and the worker becomes a “consumer” of the services of the temporary employment firm.³²

Thus, when in a recent lawsuit Wal-Mart and its labor contractor, Schneider Logistics, were charged with depriving some 568 workers at a California distribution center of nearly five million dollars in wages, the big retailer declared itself disinterested and innocent. Although the

warehouse was partially owned by Wal-Mart and all the goods therein were destined for Wal-Mart stores, a retail company executive declared that Wal-Mart was merely Schneider's customer. "We have a set of business needs that we pay them to meet just like any company might hire an accounting firm to do taxes or an advertising firm to help launch a new product."³³ Franchising and independent contracting function in the same spirit, although in this case the workers, or the petty managers who employ so many fast food or other service workers, are defined as entrepreneurs themselves, even though their work routine is hyper standardized, their pay is closely calibrated, and their product is rigidly standardized.³⁴

Rise of the Retailers

Many of these same patterns and tropes have become apparent and pervasive with the rise of the big box retailers who command a set of global supply chains, made possible by the telecommunications revolution, innovations in container shipping, and the growth of low-cost East Asian manufacturing. These supply chains are functionally well integrated and utterly dominated by big-box retailers like Wal-Mart and Home Depot. Managers in Bentonville, Atlanta, and elsewhere exercise the kind of organizational control, sans legal or financial responsibility, that has become apparent in the temporary employment industry and which so offended critics of corporate governance in the first half of the 20th century. Ironically, the retail industry universe demonstrates how a renewed commitment to vertical integration at one end of the supply chain can coexist in simultaneous fashion with a disaggregation overseas.

The brands and retailers that stand at the apex of these supply chains have generated a vertically-integrated entity by bringing many of procurement and distribution functions, once carried out by independent salesmen, manufacturer's representatives, wholesalers, and vendors,

under tightly centralized control. Wal-Mart pioneered many of these innovations in the late 1970s and early 1980s. Unlike K-Mart, then a company nearly five times larger than the Bentonville institution, Wal-Mart owned and controlled its own internal warehouse and distribution system, thus making logistics, not merchandising, a core competency. With the gradual transformation of its warehouse operation, where goods are stored until needed, into a distribution system composed of scores of distribution centers in which goods are in continuous motion, Wal-Mart reaped enormous productivity dividends. Unlike K-Mart, where the famed “blue light specials” were an admission of logistics failure – a periodically desperate effort by store managers to sell surplus stock at fire-sale prices - Wal-Mart’s more rationalized vendor supply system enabled the company to avoid any store site buildup of extra product, thereby enabling the company to keep store-site warehousing to a minimum and thereby maintain an “an always low price” sales policy.

If the new distribution centers represented Wal-Mart’s muscle and bone, the corporate logistics operation needed a nervous system as well. The home office in Bentonville required a sea of data that the company could instantly translate into a complete picture of its sales, profits, expenses, and inventory. In the early 1970s managers were still using the post office to mail in their sales and expense records each week. A decade later, they used the telephone to dial up a central computer in Bentonville, but the information flow was still neither fluid nor entirely reliable.³⁵ Sam Walton needed a technological fix, a system that in last quarter of the 20th century would have the same transformative impact as the telegraph and the telephone a century before. And he got it, courtesy of the grocers, with the arrival of the Universal Product Code.

Today the bar code is so omnipresent that we forget that life once existed before almost everything we bought had a UPC symbol affixed, that familiar oblong square of ten white and

black computer-readable lines and spaces. The idea for a machine-readable price tag had been around since the 1930s. It became technologically feasible in the early 1960s when lasers were finally perfected. But the real impulse for the development of a bar code, and the cooperation it would demand from both manufacturers and supermarket retailers came later in that decade. Then product proliferation, inflation, and the upswing of unionism in the service sector led to the creation of an industry-wide effort to establish uniform technological and informational standards; a system that could read not just the price, but a whole suite of other characteristics on tens of thousands of separate products.³⁶

Wal-Mart was in the forefront of this UPC transition. As early as 1980, when only 35 percent of all of its own merchandise came into its stores with the UPC bar attached, Wal-Mart put a scanner in a Grapevine, Texas store. Soon checkout productivity jumped by 50 percent and Wal-Mart managers began giving out pins to exceptionally proficient cashiers, those who could scan 500 items per hour.³⁷ By the middle of the 1980s almost all Wal-Mart stores were tied into the UPC system, well ahead of Kmart, Sears and most department stores. The company insisted that all vendors adopt a set of “Voluntary Interindustry Commerce Standards” which required all supply chain elements to adopt UPC codes on all merchandise. A 1986 order from Wal-Mart headquarters to all vendors was anything but voluntary: “Universal Product Codes are required for all items BEFORE ORDERS WILL BE WRITTEN.”³⁸

The rise of the bar code had two dramatic and immediate consequences. First, it has enabled supermarkets and discount stores to manage sales, complexity and product proliferation without getting paralyzed. From the 1950s through the 1970s the size of the average supermarket remained about the same. Most were about 20, 000 square feet and they carried about 9,000 items. But twenty years after the introduction of the bar code, this new technology enabled the

supermarkets, which were now branching out into cosmetics, videos, toys, and clothing, to stock up to 60,000 items. This made possible the de facto merger of the grocery selling supermarkets and the general discounters, who had always concentrated on apparel and hard goods. Without the bar code to speed sales, facilitate instant price changes, and manage inventory, this dramatic retail expansion would have generated gridlock at the checkout counter. Thus could Wal-Mart manage the five-fold expansion in the size of one of its typical stores, from about 40,000 square feet in the 1970s to nearly 200,000 square feet early in the 21st century. A satellite-based telecommunications system proved essential to the management of this huge flow of information. Here Wal-Mart took the lead, deploying between 1985 and 1987 the world's largest private, integrated satellite communication network, which beamed data, voice, and video communications to and from corporate headquarters and more than 1,500 stores, all via a single communications satellite in geostationary orbit 22,300 miles above the equator.³⁹

The bar code was not just a device that eliminated labor costs or increased efficiency within a single firm. Even more important, the bar code was the tool that enabled retailers to leverage their enormous buying power against that of the manufactures and suppliers. Before the deployment of this new technology, manufacturers possessed the best information about sales trends, shifts in demand, even how the competition was doing. An individual retailer might not know the true state of their sales until an end-of-the quarter inventory, but a manufacturer would get a steady stream of signals from the numerous retailers it served, from market research, and from its own sales force and its wholesalers. Indeed, some vendors restocked supermarket shelves on their own schedule, relying on historic sales figures and their own best estimate of future prospects. But with the automatic, electronic collection of point-of-sale data, information and power shifted to the retailer.⁴⁰

And the bar code helped in merchandizing itself. The information created by all those bar code swipes over the check out scanner generated billions and billions of bits of information that poured into Wal-Mart's data warehouse. Retailers and vendors now knew when and where to replenish the vacant shelves, but Bentonville also collected "market-basket data" from the billions of customer receipts, so Wal-Mart, and its vendors, can drill into the data to find out what products are likely to be purchased together, what kind of customer buys them, and at what time of day, week, and year. This meant that Wal-Mart was sitting on an information trove so vast and detailed that it far exceeds what many manufacturers know about their own products. As *Fortune* observed, "P&G could no longer bully its way into the stores, waving figures a retailer couldn't dispute that showed Tide was outselling All and was therefore entitled to more shelf space."⁴¹ Soon followed by other brands and retailers and Wal-Mart was in a position to virtually dictate the terms of its contact on price, volume, delivery, schedule, packaging, and quality. Indeed, each year the company hands its suppliers "detailed "strategic business planning packets." A manufacturer that fails to meet its sales target – or has data-documented problems with orders, deliver, restock, or returns – can expect even tougher negotiations from Bentonville in the future. This "cements Wal-Mart's power over vendors" observed the *Wall Street Journal*.⁴² "Wal-Mart lives in a world of supply and command," observed a retail analyst in 2004.⁴³

Many manufacturers established offices in Bentonville with teams fully dedicated to furthering their partnership with Wal-Mart. One of the first was P & G. But, so intimate was the relationship between P & G and Wal-Mart that soap company executives feared that the autonomy and creativity of their company had been compromised. P & G had to rotate staffers out of northwest Arkansas because after a few years on the account they identified as much with

Wal-Mart as with the Cincinnati consumer products manufacturer. “The people were paid by P & G and sat in a P & G’s office, but it was like they were working for Wal-Mart and P & G equally,” admitted one Cincinnati-based executive. “The payroll just happened to come from P & G.”⁴⁴

Global Supply Chains

It did not take long for Wal-Mart and other retailers to put this system into operation on a world-wide basis. We live in a world of rigid, hierarchical “supply chains” organized and controlled by the retailers of North America and Europe. More than half of all the containers and half the value of the trade that moves from East Asia to Los Angeles, Newark, Felixstowe (UK), Rotterdam, and Hamburg are destined for the shelves of Wal-Mart, Tesco, Carrefour, Target, and the like. These merchants control the supply chain, they squeeze their commodity-producing vendors, and they shift production from one venue to another with ease and economy. Just as 19th century cotton houses could switch their source of supply from Mississippi to India or Egypt, so too can cell phones, sweat shirts, and tennis shoes find their manufacturing home in Honduras, the Pearl River Delta, Ho Chi Minh City, or Bangladesh.⁴⁵

The phrase “supply chain” is of recent derivation. The historical sociologist Emmanuel Wallerstein had first developed the idea of a “commodity chain” in the 1970s as part of his world systems schema. The “commodity chain” concept, wrote Wallerstein, “refers to a network of labor and production processes whose end result is a finished commodity.” In contrast to the dominant analytical paradigm of most economists, which merely traced economic flows between states, Wallerstein and his collaborators started with the final production operation, ie. shipbuilding or food processing, and moved sequentially backward through the trading and

production chain in order to understand the international division of labor and key sites of capitalist power and privilege throughout the geographically dispersed production chain.⁴⁶

Most in business had never heard of Wallerstein, but in the 1980s consulting firms like Bain and Company coined the phrase “value chain management” or “supplier rationalization” to describe how large companies, often retailers and branded manufacturers, purchased components and materials from foreign vendors and transformed them into saleable goods. Industrial relations scholars Frederick Abernathy and John Dunlop also used a similar phrase, “commodity channels,” as recently as 1999 to describe the way apparel moved from Asian and Central American suppliers to North American retailers. In the 21st century, however, the artful “supply chain,” with its sense of hard linkages and buyer – not producer - driven dominance, has become the pervasive terminology, both among executives in the field and scholars in the academy.⁴⁷

However, this tight coordination takes place not by formally integrating the supply chain into one legal, corporate entity, but by creating a pseudo-market whereby management exercises its will and power. Therefore, the great retailers of Europe and the United States have no legal or even much moral responsibility for those who labor along many of the links in their supply chain. In China, Bangladesh and elsewhere millions of workers supply the products that end up on the shelves of all the big-box retailers. But none of these people work directly for Wal-Mart, Apple or the other big retailers and powerful brands who require the production of such a continuous stream of consumer durables. Most firms have established “corporate social responsibility” staffs, but such initiatives are but a pale substitute for the absolute legal and administrative responsibility that reformers once thought a core function of management.⁴⁸

The disaggregation of the vertically integrated corporation, and its replacement by a legally attenuated supply chain has been greatly advanced by the organizational and

technological revolution outlined above. But politics and finance certainly have played their role. Because late 20th century international buyers avoid the legal, and as far as possible the moral, responsibility for the status of the labor that creates their wealth, they find it more politically and economically convenient than even the most brutal manufacturing master to turn a blind eye to the conditions under which production takes place at the base of their global supply chains.

The experience of the United Fruit Company, a global enterprise that symbolized the imperial ambitions of the vertically-integrated conglomerate, is a case in point. By 1960 United Fruit owned vast plantations and directly employed tens of thousands of workers in the “banana republics” of Central America. But the rise of worker militancy and nationalist sentiment in many of these countries, as well as increasingly criticism within the United States, persuaded corporate managers to off-load their Latin properties, transforming the base of their supply chain into a set of independent local growers and contract producers. Long before the efficiencies generated by satellite communications or big data, United Fruit, which soon became but one unit of United Brands, became a marketing company, which in the words of historian Marcelo Bucheli “conspicuously dismantled” its own banana empire “largely to ensure itself a continued place on the top of the banana world.”⁴⁹

Wal-Mart also tried to put some distance between itself and its Far Eastern and Latin American vendors during the years when it transitioned away from the well-publicized “Buy American” promotional campaign with which the company became identified in the late 1980s. Founder Sam Walton did not deny that Asian imports were rising, but he sought to distance the company from this uncomfortable fact, especially following the brutal suppression of the Chinese democracy movement in Tiananmen Square in 1989. Walton was also disturbed by charges of human rights abuses in supplier factories, both in Central America and along the

Pacific Rim. “Keep this under the radar,” Walton told a key procurement manager during the 1980s.⁵⁰

One way to do that was to create a buffer, a buying agency that would purchase Asian products without showing Wal-Mart’s hand. That Wal-Mart was thereby retreating from its relentless effort to strip costs and bureaucracy out of its procurement system may well demonstrate the sensitivity with which Walton viewed the issue. “The decision was to go to an exclusive buying agency,” remembered a Wal-Mart buyer closely involved with the operation. “The main reason for going into [the deal] was not to be exposed as going into Communist China.”⁵¹

So Wal-Mart set up Pacific Resources Export Limited (PREL) as exclusive buying agent, a shadow organization really, which shifted onto its payroll virtually the entire Wal-Mart buying staff in Asia. PREL soon had 29 offices from Dhaka to Seoul. With a staff of over 700 it was the largest commissioned buying agent in the world.⁵² PREL served Wal-Mart well, although it proved unable to actually shield the big retailer from the criticism that it confronted in the 1990s, when instances of abominable and illegal working conditions came to light in vendor factories. Because they knew English and were prepared to travel widely, PREL hired Filipino inspectors, not Chinese or U.S. nationals, to annually visit some of the 5,000 factories from which Wal-Mart sourced its products. They had a check list, covering both product quality and factory working conditions. On occasion, PREL pulled a contract from a vendor whose hazardous conditions posed a threat, either to the workers themselves or to Wal-Mart’s reputation. For example, PREL dropped a factory in Shenzhen two years before a fire there killed 39 people. An inspector had noted that four exits were blocked. If the factory had still been a Wal-Mart vendor, a PREL spokesman told a reporter in 2001, the story on the front page of *The New York Times* would

have read “39 Dead at Wal-Mart factory in China.” “When you’re No. 1, everybody’s shooting at you,” he rued⁵³ (Wal-Mart abolished PREL in 2002 after China had become, with U.S. support, a full-fledged member of the World Trade Organization. The company then moved its Asian procurement office to Shenzhen)

Commodity importers and retailers were not the only firms to dismantle a vertically-integrated supply chain. The same disaggregation process took place in manufacturing. In the 1990s, reports the sociologist and supply chain theorist Gary Gereffi, nearly all major North American product-level electronic firms, and several important European companies as well, made the decision to get out of manufacturing, or rather to purchase from a relative handful of huge contract manufacturers the components and products which would later achieve a distinctive branded character as they passed through their supply chains. “The key insight,” concluded Gereffi, “is that coordination and control of global-scale production systems, despite their complexity, can be achieved without direct ownership.”⁵⁴

Following Gereffi’s lead, economic sociologists have identified a set of variations on this way of looking at the production process. Gereffi himself contrasted the retail/brand led supply chains with the more capital intensive producer driven commodity chains, in which manufacturers control and often own several tiers of vertically organized suppliers. Other studies suggested that the buyer-driven and producer-driven categories did not adequately capture the range of governance forms observed in actual chains, leading to a proliferation of variations on the original theme of “drivenness.” These include traditional, centuries old commodity chains that market agricultural products such as coffee and sugar, where trading houses, not unlike the old East India Company, play the role of lead firm. Others have found that research intensive industries such as software are best understood as technology-driven chains. But regardless of

the variations on this theme, the retail supply chains are both large and consequential, accounting for approximately one half of all world trade and far more when one calibrates just the consumer goods which are shipped across the Pacific, today the main highway of world trade.⁵⁵

No one knows how many companies or how many workers supply Wal-Mart with the products that fill its shelves because no one really knows or can know the extent of the vast subcontracting system which stands at the heart of the sweatshops universe that fills the production end of the Wal-Mart supply chain. Every supply chain consists of a series of subordinate entities whose prices, production schedules and labor costs are put under relentless pressure by the firm or institution that is the ultimate buyer of the product.⁵⁶ Indeed, this is the essence of “sweatshop” production, which derives its historic, derogatory meaning from the “sweater,” the Victorian-era middleman, who took advantage of the poverty and unemployment endemic in London’s East End to subcontract garment cutting and sewing to scores of desperate families, many of whom were migrants to the British metropolis from a countryside where tenants and farm hands had been dispossessed by the new international trade in wheat and wool.⁵⁷

Reform and Reintegration?

What forces exist today that might counter or ameliorate the hegemony now exercised by the merchant capitalists of our time? Most obviously, the wave of worker militancy that has swept through many of China’s factories may well transform the financial and political calculations of those executives who have for almost a generation depended upon that country as a cheap source of manufacturing labor. High-profile strikes at Honda, Toyota, and other workplaces have represented just the most visible tip of an iceberg of working-class economic

aspiration and democratic discontent. Each year the Chinese government reports more than 100,000 “mass incidents” involving workers, peasants, and other citizens protesting against local elites who have seized their land, corrupted municipal government, or created intolerable working conditions at their workplace. All this has led to a near doubling of real wages in Chinese manufacturing districts during the last decade, a phenomenon that parallels Beijing’s effort to expand the Chinese domestic market.⁵⁸

Thus, as labor costs rise in South China, the retailers and brands of Europe and North America have been compelled to find new sources of supply. Indeed Wal-Mart and other retailers are now in the process of moving much production to Bangladesh, Vietnam, and the interior districts of China, where a lower-wage workforce is still plentiful. And Foxconn is investing billions in a set of Brazilian factories to fulfill the world’s insatiable demand for more iPhones and iPads. Moreover, if the dollar continues to decline in value against the Yuan and other currencies, much more sourcing may be returned to the United States where stagnant wages and high levels of unemployment have made American labor far more competitive. But of course, if such a shift in the global supply chain does take place, should all else remain equal, this geographical switch hardly implies a substantial reduction in the power or a change in the character of these merchant-dominated supply chains themselves.⁵⁹

A more significant transformation, put forward by some geographers, sociologists, and economists, is that retail dominance of the global supply chains is but a temporary phenomenon and that the manufacturers will shortly reassert their pricing power and their capacity to offer higher wages and better working conditions. There is evidence that this might be taking place in East Asia where Flextronics, the manufacturer of a huge proportion of all computer and TV components, with 100,000 workers in Shenzhen, also employs some 10,000 engineers. Likewise

Yue Yen Industrial, with 250,000 shoe workers in East Asia and 15% of the global market in athletic shoes, may well brand its own products and compete directly with Nike and Reebok instead of being their silent, subordinate supply house. The rise in the value of the Chinese currency may aid in this rebalancing of power within the supply chain.⁶⁰

Foxconn, in particular, which produces a wide array of electronic products for Apple, Noika, Hewlett Packard and other branded “manufacturers” might be well positioned to upend the supply chain should it choose to market its own brand of consumer electronics in Asia. With more than one million workers spread among scores of Chinese production facilities, Foxconn has the resources to make the leap to branded distribution. But whether this would generate much benefit for the workers is an open question, given the company’s stolid response to the epidemic of suicides, which swept through Foxconn’s flagship manufacturing complex at Longhua, near Shenzhen, where 300,000, mainly migrants, worked during the spring and summer of 2010. Sometimes described as a “labor camp” Foxconn’s Longhua facility employed one-third of the company’s entire Asian workforce. As in all its factories labor rights are few, security omnipresent, and Taylorite production methods the norm. Workers wear uniforms color-coded by their department. Every factory building and dormitory has security checkpoints with guards standing by 24 hours a day.⁶¹ Power for Asian manufacturing executives does not necessarily translate into better conditions for the workers who labor at the far end of the supply chain.

In the Progressive Era the Consumer’s League and the Women’s Trade Union League deployed the weapons of the weak – investigation, exposure, moral suasion, and boycott – to civilize American capitalism. Today these same tactics are utilized by numerous non-governmental organizations which monitor, expose, berate, and measure the working conditions and environmental standards that exist in the factories from which Wal-Mart and other retailers

source their product. Human Rights Watch, the Fair Labor Association, the Workers Rights Consortium, and the numerous Hong King based groups keep the pressure on Wal-Mart, Nike, Disney, and Target. They play a role that in part fills the vacuum once occupied either by the trade unions or the regulatory state during the era of vertically integrated corporations and continental markets.

In response to the reputational threat that the NGOs can episodically mount, brands and retailers have developed their own sometimes quite elaborate codes of social responsibility, staffed by hundreds of company employees at home and abroad. In existence for almost 20 years, the effectiveness of these internal monitoring arrangements remains subject to considerable debate. In general they have some impact at the margins, especially in terms of environmental standards and standardization of working hours, but studies which have been conducted by Chinese sociologists have also found that in actual operation such codes make no fundamental transformation in the way big retailers go about purchasing their goods or in the way its contractors and subcontractors go about producing them. The resultant squeeze on workers' wages and working conditions remains intact.⁶²

Therefore in recent years the main effort put forward by labor-oriented NGO's has been to push for the de facto reintegration, on a legal and financial basis, of the global supply chains. Prodded by United Students Against Sweatshops and the Workers' Rights Consortium, several universities have demanded the establishment of a "designated supplier program" which would force retailers and brands to source their product from but a few, large, carefully monitored factories. Leveraging the power inherent in the \$4 billion collegiate apparel market, USAS and the WRC forced Russell Athletic to reopen a factory in Honduras that had been shut down after

workers successfully unionized, at the same time persuading the brand not to fight unionization at its seven other factories in Honduras.⁶³

Likewise, supply chain reformers have insisted that those who source products from distant contractors and subcontractors acquire a legal obligation to the workers at the bottom of the supply chain, even when subcontractors fail local laws and abridge their contracts. Thus, after much wrangling and protest, Adidas agreed to pay severance to 2,700 Indonesian factory workers when their employer, PT Kizone, failed to pay the \$1.8 owed them when the company abruptly shut down in 2011.⁶⁴ Not unexpectedly, some domestically made brands have tried to take promotional advantage of such controversy. On the storefront of every American Apparel outlet is the slogan: “Made in Downtown L. A.: Vertically Integrated Manufacturing.”⁶⁵

The most important initiative undertaken by the anti-sweatshop NGO’s has come in the wake of the 2013 Rana Plaza disaster in Bangladesh. But before discussing the provisions of this precedent-setting Accord on Fire and Safety, it is important to recognize that the compact, which seeks to advance a legal, contractual reintegration of employment obligations and relations in the global supply chains of our day, has had a remarkable historical antecedent, based on reforms in the U.S. garment industry during an era when the structure of production and distribution in that economic sector resembled those of East Asia today.

In the early 20th century there were some vertically integrated firms, like Hart, Schaffner & Marx, which were also pioneers in the sort of welfare and collective bargaining arrangements that prefigured the New Deal. But most of the rest of the garment industry was fragmented and disorganized. “Jobbers,” were designers, apparel firms, retailers or even big manufacturers like HS&M who contracted out all or part of their work to “a protean sea of tiny enterprises,” as historian Steve Fraser described the “rag trade” in his biography of the labor leader Sidney

Hillman. “They inhabited an economic underworld where chiseling, subterfuge, and tainted goods were the common currency.” As in East and South Asia today, where manufacturers scramble for contracts from Nike, Zara, Target, and H&M, the outside manufacturers of early 20th century New York “defended his razor-thin margin of profit by means both legitimate and shady, but especially by exerting a constant downward pressure on wages and working conditions.”⁶⁶

The International Ladies Garment Workers Union argued that jobbers and contractors were actually “joint employers” in an “integrated process of production,” if only because the small, labor-intensive firms which actually did the sewing and assembling of the garments did not own, design, invest in, or purchase any of the materials needed for production. The contractors did not maintain any showrooms or employ salesmen. Their sole task was to provide a service function, to supervise the productive process in the same way that a foreman or plant supervisor got out production and controlled labor costs in an “inside shop.”⁶⁷

Reflecting the sentiment that would later be common coin among the brands and retailers anxious to limit their responsibility for working conditions in the 21st century global supply chains over which they presided, the jobbers and merchants of New York ridiculed the ILGWU determination that ultimate responsibility for conditions in the industry lay with those who designed, purchased, and sold the garments produced by the small contract shops. Asserted a lawyer for the Merchant Ladies’ Garment Association, “The union is endeavoring to call the jobbers manufacturers. The union has tried to reduce the contractor to the status of a foreman for the purposes of these negotiations....If the contractors of this industry are not living up to union rules, that is the union’s problem. If the contractors do not produce in sufficiently large shops to

suit the union, that is their problem. If the contractors are in any way obnoxious to the union in their methods of treating workers, the union knows how to handle that situation.”⁶⁸

For two mid-century generations, the ILGWU prevailed. The New Deal’s National Recovery Administration created codes of fair competition that did in fact mandate joint liability for jobbers and contractors, eliminating the capacity of the jobber to evade industrial responsibility and thereby greatly ameliorate “the jobber-contractor evil.”⁶⁹ Although the NRA itself imploded in 1935, the garment unions created a stable system of triangular bargaining in which the union first negotiated a collective bargaining agreement with the jobber, then negotiated an agreement with the contractors, and then finally the jobber and the contractors negotiated an agreement with each other. As a retired union official told sociologist Jennifer Bair decades later, “The ILGWU recognized that the jobber was the lynchpin of the industry. Contractors couldn’t pay anything unless the jobber paid it to him or for him. The trick was to get as much as you could in the contract to protect the workers and the union.”⁷⁰

These jobber agreements regulated not only wages and working conditions but the structure of the relationship between the merchants and the contract manufacturers. Jobbers were required to submit a list of all their key contractors and were not permitted to remove any of these designated contracts from their production networks. They could not shop around for lower wages or even for a more productive sub-contractor. These agreements integrated the industry by discouraging arms-length, one-shot deals between jobbers and contractors; instead the ILGWU successfully sought to lock jobbers into longer-term relationships of mutual dependence with their contractors. And because union jobbers were obligated to use union contractors, contract manufacturers had an incentive to join the relevant employers association and thereby become party to the collective contract signed between that association and the

union. By 1935 the ILGWU represented approximately 70% of all women's apparel workers in America, and by the late 1940s garment industry wages stood at nearly 85% of those in manufacturing.⁷¹

All this is not ancient history. To the extent that garment manufacture in Bangladesh retains an industrial ecology not dissimilar from that of 7th Avenue a century before, then it is not an accident that similar solutions will be put on offer. The May 2013 Accord on Fire and Safety, signed by more than 120 global brands and retailers, by the powerful Bangladesh Garment Manufacturers Association, and by two international union federations, IndustriALL and UNI, replicates key features of the ILGWU jobber agreements. Pushed forward by NGO's like the college and university-based Workers Rights Consortium and the European Clean Cloths Campaign, the Fire and Safety Accord was the product of a multiyear series of negotiations that only reached resolution in the immediate wake of the Rana Plaza tragedy. The Accord rejects the voluntary Corporate Social Responsibility codes of conduct model and instead mandates that all signatories sign legally binding contracts that generate a joint financial responsibility on the part of the Bangladesh contract manufacturers and the global brands and retailers.⁷²

There are three ways in which the Accord reflects core principles of the old jobbers agreements. First, the Accord regulates the buying practices of apparel brands and retailers. It requires them to make a multiyear commitment to supplier factories, a major deviation from the industry's footloose norm. And these led firms are specifically required to help pay for factory safety upgrades, thus generating something close to an "investment" by the top of the supply chain in the bottom.

Second, the Accord calls for workers' representatives to be empowered participants, with a steering committee composed equally of union representatives and officials from participating

companies. The Bangladeshi unions are comparatively far weaker than the New Deal-era ILGWU, but their hand is strengthened by the role played by the international union confederations, by the International Labor Organization, and by the NGO community, which today plays a role not dissimilar from that of the middle class, labor-oriented Consumer's League of a century ago.

And finally, the Accord, like the jobbers agreements and collective bargaining agreements generally, are not mere general statements of intent or privately-promulgated corporate codes of conduct. Instead they are legally binding, contractual obligations, whose enforcement, should consultation and ILO arbitration fail, can take place in the court of the home country of the signatory party against whom enforcement is sought. This is important because of the corruption, politicization, and systematic employer bias of so many judicial systems in Bangladesh and many other Asian apparel-manufacturing countries.⁷³

Significantly, the new legal obligations inherent in the accord generated resistance from those American retailers, including Gap, Wal-Mart, and at least 15 other companies that source product in Bangladesh, who refused to sign the Accord and instead established a rival Bangladesh Workers Safety Initiative.⁷⁴ “The liability issue is of great concern, at least on this side of the Atlantic,” asserted a lawyer for the National Retail Federation, “For U.S. corporations, there is a fear that someone will try to impose liability and responsibility if something goes awry in the global supply chain.”⁷⁵ Precisely.

The vertical integration or disaggregation of corporate supply chains, both domestic and international, are indeed products of a technical-organizational calculus that calibrates transaction costs. But they are equally the creation of a set of legal structures and political/reputational pressures that also impinge upon corporate sourcing strategies and

employment regimes. The vertical integration, or defacto reintegration, of the global corporation is therefore a decisive frontier in the century-long battle to once again impose upon these large economic entities a measure of social responsibly and legal accountability.

¹ “Garment Factory Fires: A “Distinctly South Asian” Tragedy, *The Economist*, December 6, 2012.

² “Worker Safety in Bangladesh and Beyond,” *Sunday Review, The New York Times*, May 5, 2013, 10.

³ David Weil, *The Fissured Workplace: Why Work Became So Bad for So Many and What Can Be Done to Improve It* (Cambridge: Harvard University Press, 2014).

⁴ Ronald Coase, “The Nature of the Firm,” *Economica*, November 1937, 338; Peter Drucker, *Concept of the Corporation* (New York: John Day, 1946)

⁵ For a collection of papers on the influence of Ronald Coase, see Oliver Williamson and Sidney Winter, *The Nature of the Firm: Origins, Evolution, and Development* (New York: Oxford University Press, 1991); and see Alfred Chandler, *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA.: Harvard University Press, 1977).

⁶ Many of the insights in this section of the essay are drawn from Thomas K. McCraw, “In Retrospect: Berle and Means,” *Reviews in American History* 18 (1990): 578-96. The quotes above are from page 582.

⁷ As quoted in Jordan Schwarz, *Liberal: Adolf A. Berle and the Vision of an American Era* (New York: Free Press, 1987), 60.

⁸ Howard Brick, *Transcending Capitalism: Visions of a New Society in Modern American Thought* (Ithaca, NY: Cornell University Press, 2006), 65, 74; and see Brian Cheffins and Steven Bank, “Is Berle and Means Really a Myth?,” *Business History Review*, 83 (Autumn 2009), 443-74.

⁹ McCraw, “In Retrospect,” 590.

¹⁰ Roland Marchand, “Where Lie the Boundaries of the Corporation? Explorations in “Corporate Responsibility” in the 1930s,” *Business and Economic History*, vol 26, Fall 1997, 80, 83.

¹¹ Julia Ott, *When Wall Street Met Main Street: The Quest for Investors’ Democracy* (Cambridge, MA: Harvard University Press, 2011).

¹² Meg Jacobs, *Pocketbook Politics: Economic Citizenship in Twentieth-Century America* (Princeton: Princeton University Press, 2005), 95-135; Lizabeth Cohen, *A Consumers’ Republic: the Politics of Mass Consumption in Postwar America* (New York: Alfred A Knopf, 2003), 18-61; Steve Fraser, *Labor Will Rule: Sidney Hillman and the Rise of American Labor* (New York: Free Press, 1991), 282-88; Theda Skocpol and Kenneth Finegold, “State Capacity and Economic Intervention in the Early New Deal,” *Political Science Quarterly* 97 (Summer 1982), 255-78.

¹³ I discuss much of this at greater length in *State of the Union: A Century of American Labor* (Princeton: Princeton University Press, 2013), 98-140. See also Timothy Noah, *The Great Divergence: America’s Growing Inequality Crisis and What We Can Do About It* (New York: Bloomsbury Press, 2012), 10-27.

¹⁴ William Lazonick, “Innovative Business Models and Varieties of Capitalism: Financialization of the U.S. Corporation,” *Business History Review*, vol. 84 (Winter 2010), 675-702.

¹⁵ Berle and Means, *Corporation and Private Property*, 356.

¹⁶ Peter Drucker, *Post-Capitalist Society* (New York: HarperCollins, 1993), 43. Although this quote is taken from one of Drucker’s later books, his views on the managerial transition to postcapitalism have been consistent since he wrote *Concept of the Corporation* in 1945.

¹⁷ Mark Mizruchi, “Berle and Means Revisited: The Governance and Power of Large U.S. Corporations,” *Theory and Society* 33 (2004): 583.; and also Mark Mizruchi and Daniel Hirschman, “The Modern Corporation as Social Construction,” *Seattle University Law Review*,

Vol. 33, no. 4 (2010), 1065-1108; C. A. Harwell Swells, “The cycles of Corporate Social Responsibility: An Historical Retrospective for the Twenty-first Century,” *Kansas Law Review*, vol. 51, (November 2002).

¹⁸ Donald Woutat, GM Chairman Stempel Resigns Under Pressure, *Los Angeles Times*, October 27, 1992, A1.

¹⁹ Mizruchi, “Berle and Means Revisited,” 599.

²⁰ As quoted in Dalia Tsuk, “From Pluralism to Individualism: Berle and Means and Twentieth Century American Legal Thought,” *Law & Social Inquiry* 30 (Winter 2005), 215. And see also Kenneth Lipartito and Yumiko Morii, “Rethinking the Separation of Ownership from Management in American History,” *Seattle University Law Review*, Vol. 33, no. 4 ((2010), 1025-63. In their conclusion Lipartito and Morii write “The original message of *The Modern Corporation* was lost when commentators shifted their reading of the book to principal-agent conflict and reduced corporate responsibility to just one issue – maximizing shareholder value.” 1057

²¹ Naomi Lamoreaux, Daniel Raff, and Peter Temin, “Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History,” *American Historical Review*, (April 2003), 420.

²² As quoted in Tom Frank, *One Market Under God: Extreme Capitalism, Market Populism, and the End of Economic Democracy* (New York: Anchor Books, 2000), 211.

²³ Josh Eidelson, “Labor Board Alleges Repeated Retaliation at Walmart’s Top US Warehouse,” *The Nation*, March 20, 2013.

²⁴ David Weil, “Examining the Underpinnings of Labor Standards Compliance in Low Wage Industries,” *Report to the Russell Sage Foundation*, May 31, 2012, 15.

²⁵ Richard Langlois, “The Vanishing Hand: the Changing Dynamics of Industrial Capitalism,” *Industrial and Corporate Change*, vol 12, (2003) 373. And see also Nitin Nohria, Davis Dyer, and Frederick Dalzell, *Changing Fortunes: Remaking the Industrial Corporation* (New York: John Wiley & Sons, 2002).

²⁶ Gerald F. Davis, “After the Corporation,” *Politics and Society* vol. 41 (June 2013), 283-308.

²⁷ Erin Hatton, *The Temp Economy: From Kelly Girls to Permatemps in Postwar America* (Philadelphia: Temple University Press, 2011), 27.

²⁸ George Gonos, “The Contest over “Employer” Status in the Postwar United States: The Case of Temporary Help Firms,” *Law & Society Review*, vol 31 (1997), 90.

²⁹ *Ibid.*, 102.

³⁰ As quoted in Hatton, *The Temp Economy*, 74.

³¹ Gonos, “The Contest over “Employer” Status in the Postwar United States”, 86-87.

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³³ Josh Eidelson, “Finally Paying for Wal-Mart’s Sins: Wage Theft Settlement Yields Millions,” *Salon*, December 16, 2013.

³⁴ Weil, *The Fissured Workplace*, .; and see Lydia DePillis, “Why Franchises are Such a Huge Obstacle to Higher Wages,” *Washington Post*, December 6, 2013 in which the reporter asks, “Here’s a problem for the protesters demonstrating at fast-food restaurants across the country to demand \$15 an hour: Whom are they talking to, exactly? A global megacorporation or a locally-owned small business?”

³⁵ “Mid-70s Marketing Changes Put Wal-Mart on the Road to Success,” *Discount Store News* .

³⁶ John P. Walsh, *Supermarkets Transformed: Understanding Organizational and Technological Innovations* (New Brunswick: Rutgers University Press, 1993), 94-95.

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³⁸ Bob Martin, “From Vision to reality,” in *Twenty-Five Years Behind Bars*, ed. Alan Haberman (Cambridge, MA: Harvard University Press), 39.

³⁹ David Smith, “Satellite Scans Wal-Mart Empire,” *Arkansas Democrat*, December 3, 1989, p. 1G; Christopher Sullivan, “Wal-Mart’s Folksy Smile Belies Electronic Brain,” *The Morning News*, September 27, 1993, p. 3A.

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⁴¹ “P&G Rewrites the Marketing Rules,” *Fortune*, November 6, 1989

⁴² Emily Nelson, “Retailing: Why Wal-Mart Sings, ‘Yes, We Have Bananas!’” *Wall Street Journal*, October 6, 1998, B1.

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⁴⁵ Richard Langlois, “The Vanishing Hand: the Changing Dynamics of Industrial Capitalism,” *Economics Working Papers*, University of Connecticut, November 1, 2002.; and Gary Gereffi, John Humphrey, and Timothy Sturgeon, “The Governance of Global Value Chains,” *Review of International Political Economy*, vol 12 (February 2005), 79-82.

⁴⁶ Immanuel Wallerstein, “The Rise and Future Demise of the World-Capitalist System: Concepts for Comparative Analysis,” *Comparative Studies in Society and History*, 16(4), 1974:

387-415; the quote is taken from Terence K. Hopkins and Immanuel Wallerstein, “Commodity Chains in the World-Economy Prior to 1800,” *Review*, X, 1 Summer 1986, 159.

⁴⁷ For an overview of this literature see Jennifer Bair, “Global Capitalism and Commodity Chains: Looking Back, Going Forward,” *Competition and Change* 9, 2 (June 2006) 129-156; Frederick H. Abernathy, John T. Dunlop, Janice Hammon, and David Weil, *A Stitch in Time: Lean Retailing and the Transformation of Manufacturing – Lessons from the Apparel and Textile Industries* (New York: Oxford University Press, 1999); Gary Gereffi and Miguel Korzeniewicz, eds., *Commodity Chains and Global Capitalism* (Westport, CT: Praeger, 1994), 95-122. Misha Petrovic and Gary G. Hamilton, “Making Global Markets: Wal-Mart and Its Suppliers,” in Nelson Lichtenstein ed., *Wal-Mart: the Face of Twenty-First Century Capitalism* (New York: New Press, 2006), pp. 107-142; Author’s telephone interview with former Bain and Company consultant, November 15, 2005.

⁴⁸ Gary Gereffi, John Humphrey, and Timothy Sturgeon, “The Governance of Global Value Chains,” *Review of International Political Economy*, 12 (February 2005), 79-82.; and Nelson Lichtenstein, “The Return of Merchant Capitalism,” *International Labor and Working-Class History*, No. 81 (Spring 2012), 8-27.

⁴⁹ Marcelo Bucheli, “United Fruit Company in Latin America,” in Steve Striffler and Mark Moberg, *Banana Wars: Power, Production, and History in the Americas*, (Durham: Duke University Press, 2003), 80-100. Bucheli quoted on page 97.

⁵⁰ Author’s interview with Brent Berry, Rogers, Ark., May 30, 2007.

⁵¹ Sam Hornblower, “Wal-Mart in China: A Joint Venture,” on *Frontline* website, “Is Wal-Mart Good for America?”

⁵² Bill Bowden, "PREL CEO Says Wal-Mart's Policy is No Sweat," *Northwest Arkansas Business Journal*, June 25, 2001.

⁵³ *Ibid.*

⁵⁴ Gereffi et al, "The Governance of Global Value Chains," 81, 94-95.

⁵⁵ Jennifer Bair, "Global Commodity Chains: Genealogy and Review," in *Frontiers of Commodity Chain Research*, ed. Jennifer Bair (Stanford: Stanford University Press, 2009), 9-14

⁵⁶ Hong Xue, "Outsourcing in China: Wal-Mart and Chinese Manufacturers", in Anita Chan, ed. *Wal-Mart in China*, forthcoming from Cornell University Press, 2011.

⁵⁷ James A. Schmiechen, *Sweated Industries and Sweated Labor: The London Clothing Trades 1860-1914* (Urbana: University of Illinois Press, 1984); Sheila Blackburn, "'Between the Devil of Cheap Labour Competition and the Deep Sea of Family Poverty?' Sweated Labour in Time and Place, 1840-1914," *Labour History Review*, vol 71, no. 2 August 2006, 99-121.

⁵⁸ Jonathan Watts, "Strikes in China Signal End to Era of Low-Cost Labour and Cheap Exports," *The Guardian*, June 17, 2010; Tini Tran, "China Takes Hands-Off Approach to Labor Strikes," Associated Press, June 25, 2010 as posted on www.msnbc.com; Walden Bello, "Capital's New Crushes: As Authoritarian China Loses Luster, TNCs flirt with Democratic Indonesia and Brazil," *Inquirer.net*, June 25, 2011; Chris King-Chi Chan and Pun Ngai, "The Making of a New Working Class? A Study of Collective Actions of Migrant Workers in South China," *The China Quarterly*, vol 198 (June 2009), 287-303.

⁵⁹ Anita Chan, "Introduction," in Chan, ed., *Wal-Mart in China*, (Ithaca: Cornell University Press, 2012); Jane Slaughter, "Next Low-Wage Haven: USA," *Labor Notes*, August 2011, 1.

⁶⁰ Proponents of such an analysis can be found on the left, the center, and the right. Sociologist Richard Appelbaum and American Studies theorist Andrew Ross see such a future as men of the

left. Thomas Friedman and Niall Ferguson, in the center, agree albeit with some alarm; and on the right it is the near universal view that China's stratified economic enterprises will soon eat our lunch. Andrew Ross, *Fast Boat to China: Corporate Flight and the Consequences of Free Trade; Lessons from Shanghai* (New York: Pantheon, 2006); and for an indication that the Chinese government is looking for ways to raise labor standards and push production up the supply chains, see Appelbaum et. al., "China's New Labor Contract Law," 485-90.

⁶¹ Sam Gustin, "Apple, HP, and Sony Open Probes into Latest Foxconn Suicides," at www.dailyfinance.com, May 28, 2010; Wu Tsen-His, "Foxconn Suicide Scandal: Deeper in the Fox Hole," at www.theepochtimes.com June 4, 2010; Jenny Chan and Pun Ngai, "Suicide as Protest for the New Generation of Chinese Migrant Workers: Foxconn, Global Capital, and the State," *The Asia-Pacific Journal*, accessed at www.japanfocus.org/-Jenny-Chan/3408

⁶² Pun Ngai and Yu Xiaomin, "Wal-Martization, Corporate Social Responsibility and the Labor Standards of Toy Factories in South China", in Chan ed., *Wal-Mart in China*, (Ithaca: Cornell University Press, 2012).

⁶³ Allie Robbins, "The Future of the Student Antisweatshop Movement: Providing Access to U.S. Courts for Garment Workers Worldwide," *American University Labor & Employment Law Forum*, vol. 3, (2013), 128.

⁶⁴ Christopher Yates, "Adidas Agrees to Pay Severance to Workers," *Cornell Daily Sun*, April 25, 2013. The money was not an issue since Adidas had voluntarily agreed to provide various kinds of food and living expense support. The real issue was that of legal, financial obligation, which the company sought strenuously to avoid.

⁶⁵ See: <http://www.americanapparel.net/contact/vertical.html>

⁶⁶ Steve Fraser, *Labor Will Rule: Sidney Hillman and the Rise of American Labor* (New York: Free Press, 1991), 26.

⁶⁷ Emil Schlesinger, *The Outside System of Production in the Women's Garment Industry in the New York Market* (New York: ILGWU, 1951), 5-6.

⁶⁸ "Garment Jobbers Lay All to Unions: Deny They are Employers," *New York Times*, May 30, 1924, p. E14.

⁶⁹ Louis Stark, "Garment Industry Nears Agreement," *New York Times*, July 22, 1933, p 20.

⁷⁰ Jennifer Bair, "The Limits to Embeddedness: Triangular Bargaining and the Institutional Foundations of Organizational Networks," *Institute of Behavioral Science Working Paper*, University of Colorado, August 2012, 8.

⁷¹ *Ibid.*, 10.

⁷² Richard Appelbaum, "Achieving Workers' Rights in the Global Economy," paper offered at the American Sociological Association Meeting, August 12, 2013; Mark Anner, Jennifer Bair, and Jeremy Blasi, "Towards Joint Liability in Global Supply Chains: Addressing the Root Causes of Labor Violations in International Subcontracting Networks," unpublished paper in author's possession.

⁷³ Robbins, "The Future of the Antisweatshop Movement," 131-36.

⁷⁴ Anner et. Al. "Toward Joint Liability in Global Supply Chains."

⁷⁵ Steven Greenhouse, "U.S. Retailers See Big Risk in Safety Plan for Factories in Bangladesh," *New York Times*, May 22, 2013