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THE EVOLVING CORPORATION

WHEN GOOD CORPORATIONS — GO — BAD

BY ERIK ASSADOURIAN

PART 1 OF A SERIES

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The modern corporation is the dominant form of business organization in the world today. Corporations' reach, however, is not limited to the business world. As they have multiplied in number, size, and power, corporations have also begun to exert extraordinary influence over the civic, economic, and cultural life of the human societies which host them. Although corporations are effective mechanisms for generating certain kinds of wealth, much of their influence can rightly be regarded as pernicious and even dangerous.

The term "hosts" hints at a biological metaphor—symbiosis—that is useful in describing the relationships between corporations and the societies in which they are embedded. This article explores the metaphor and lays out a general view of the problems that have arisen from the destructive evolution of corporations. Future articles will discuss ways to address these problems.

VARIETIES OF SYMBIOTIC EXPERIENCE

The corporate form of ownership dates to the European Middle Ages, when it applied mostly to towns, universities, and religious orders. Business corporations, when they arose much later, were initially established for specific purposes. Designed in order to raise larger amounts of capital than limited joint-stock ventures, they could be used to create new industries, colonize far-off continents, build new canals and railroads—all of which would benefit the overall public good. While allowed to benefit themselves (by earning profit), corporations were intended to exist in a mutualistic, symbiotic relationship with human society.

Nature invented such relationships and has evolved a great many of them. Living examples include Egyptian plovers, which eat the leeches off the gums of Nile crocodiles. A certain species of aphid excretes honeydew, a delicacy to its ant protectors. *Rhizobia* bacteria live in the roots of legumes and convert atmospheric nitrogen into a usable form while receiving energy in exchange.

Interestingly, mutualistic relationships are not stable endpoints in evolution, according to Clark University biologist David Hibbett, "but are inherently unstable and can be disrupted by conflicts of interest among the partners. The breakdown of mutualisms can lead to parasitism or even the complete dissolution of the symbiosis." Several species of yucca moth, for example, have evolved from pollinators of the yucca plant to non-pollinating seed-eaters. And some plants have changed from being mutualistic traders of sugars for minerals with their fungal symbionts to energy-sucking parasites that draw both resources from fungal-plant networks.

The same dynamic—mutualism turned parasitism—can be seen in the relationships between corporations and human society. Originally this symbiosis was designed to be mutually beneficial. Evolving out of traditional business partnerships, early corporations were given limited mandates, primarily to serve particular societal or economic needs (for example, to provide a specific good or service) and in exchange were offered access to human energy (capital and labor). But the relationship has evolved into an increasingly parasitic one, in which corporations have seized more and more control of human society's energy and, while still providing goods and services in return, are also excreting toxins into its host organism—very much like the *Glomus macrocarpum*, a fungal species that provides phosphorous to the tobacco plant (like other *Glomus* species) but also stunts the plant's growth. Of course, not all corporations (just as not all species of fungi, moths, or plants) have become parasitic. But many have, and some are having a devastating effect on their host.

Parasitism itself is no more stable an endpoint than mutualism, however—perhaps less so in the case of corporations and human society, whose current relationship could lead to the destruction of one or both


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symbionts. If corporations keep defiling the environment—producing toxic chemicals, changing the climate, razing ecosystems—they could cause irreparable damage to the Earth and thereby trigger a major decline of human society (and thus the dependent corporate system as well). Or the societal host, infuriated by looming ecological collapse—not to mention the many ongoing abuses of workers, consumers, and communities—could revolt and purge the corporate parasites from its body. This too would be costly.

Many, even most, corporations produce valuable goods and services and make possible a complex and highly technological social system that has extended life spans, allowed global communication and travel, and provided cheap, abundant, and diverse goods to many around the world. While some activists advocate the complete revocation of all corporate charters, neither the collapse of human society nor the dissolution of the corporate system seems preferable to the intentional redesign of this symbiosis to be more mutualistic.

Experts on corporations have advocated this stance for decades. In *Concept of the Corporation*, his 1946 classic analysis, Peter Drucker argued that while corporations should be allowed to profit from their activities—profit is essential to their survival—"this does not mean that the corporation should be free from social obligations. On the contrary it should be so organized as to fulfill automatically its social obligations in the very act of seeking its own best self-interest."

PARTNERS OR PARASITES?

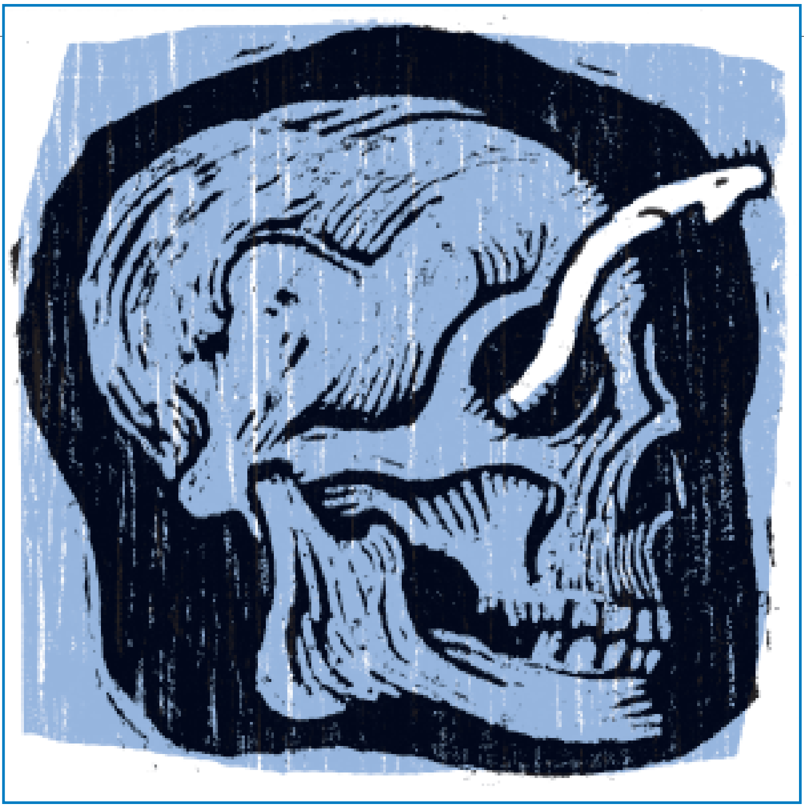
An important milestone in the history of corporations was passed in 1600, when Queen Elizabeth of England granted a charter to the East India Company. The new company enjoyed the relatively new privilege of limited liability: investors would be liable only for the amount they invested in the company, even if total debts exceeded total investments. Limited liability attracted much greater investment, which was the goal as England strove to create the means to establish colonies and extract wealth from the New World.

Led by the Dutch and British East India companies, corporations gained significant power to shape world trade and transport, the governance of colonies, and even the creation of new laws to benefit their interests—one reason Thomas Hobbes likened them to parasitic worms in the bowels of the body politic in his 1651 political treatise *Leviathan*.

By 1776, however, one host population was ready to purge its system of parasites. A series of laws, including the Townshend Acts and the Tea Act of 1773—which essentially granted the East India Company a tax-free tea monopoly in the American colonies—helped incite the colonists to revolt against England and form a new republic in which the role of corporations was significantly constrained. In the newly minted United States, state legislatures imposed tight limits on corporations' purposes, the amount of capital they could procure, even how long they could exist. As corporate law expert Robert Hinkley observes, "These restrictions ensured that there was very little corporate abuse of the public interest in this country from the American Revolution to around the time of the Civil War."

But over time this civic leash on the U.S. corporate system began to loosen. The birth of new industries, such as the railroads, demonstrated how important the corporation was in mobilizing the huge amounts of capital and labor such endeavors needed. Corporate influence was further strengthened during the U.S. Civil War, when the Union government leaned heavily on private industry to produce war materiel. Together, these established corporations as an increasingly influential, even essential, part of the economic and political landscape.

In order to attract these increasingly wealthy corporations (and secure the tax revenues they generated),



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states made their incorporation laws more lenient. New Jersey was one of the first to act, by removing limits on capitalization and allowing corporations to own stock in other companies. A race to the bottom ensued, in which other states weakened their laws even further. By 1899 Delaware's General Corporation Law had made it the most attractive state in which to incorporate by removing many of the remaining limitations on corporations, including the clauses that limited the lifespans and purposes of corporations. Other states (and countries) eventually adopted similar laws, solidifying corporate privilege throughout the United States and the world. And while on occasion the American host population once again rebelled against corporate abuses—Theodore Roosevelt and the trustbusters, and Franklin D. Roosevelt and the New Deal, for instance—corporate power is now stronger than ever.

PARASITE POWER

In 2002, over 61,000 transnational corporations (TNCs) with over 900,000 foreign affiliates conducted operations around the world. According to the UN Conference on Trade and Development, just the foreign affiliates of these TNCs produced $17.6 trillion in sales and employed 54 million people. The largest 100 TNCs accounted for 14 percent of the sales and 13 percent of the employment.

The wealth of the largest corporations rivals or exceeds that of many national governments. One comparison measures the revenues of corporations against national output expressed as gross domestic product. Of the 100 largest economies in 2002, 50 were corporations. But much of the wealth measured by GDP is produced by private interests. Perhaps a better relationship is the one between corporate revenues and government expenditures. By this measure the discrepancies are even starker. Of the world's largest 100 national governments and corporations in 2002, 76 were corporations. The largest, Wal-Mart, had revenues higher than the expenditures of all but six national governments.

There are two linked problems with such concentrations of corporate power. First, that power increases corporations' ability to influence societal affairs, from fixing prices to altering laws. Second, while corporations and governments may have similar amounts of power, the latter are designed—at least nominally—to serve the public interest, and many are accountable to these publics. Because of shareholder pressures and other demands, most corporations today focus almost entirely on maximizing profits for their shareholders—and they do so primarily by externalizing as many of their social and environmental costs as possible.

In his book *Tyranny of the Bottom Line*, Ralph Estes examined the extent of this cost externalization in the case of U.S. corporations. Factoring in workplace injuries, medical care required by the failure of unsafe products, health costs from pollution, and many others, Estes found that external costs to U.S. taxpayers totaled $3.5 trillion in 1995—four times higher than the profits of U.S. corporations that year ($822 billion). This sort of externalization toll is routinely evident in hazy skies, injured consumers, and impoverished workers in the United States and elsewhere.

According to a 2004 report released by U.S. Representative George Miller, one 200-employee Wal-Mart store may cost federal taxpayers $420,000 per year because of the need for federal aid (such as housing assistance, tax credits, and health insurance assistance) for Wal-Mart's low-wage employees. Moreover, many corporations fill their labor needs offshore in order to exploit unorganized workers in low-cost and politically friendly countries. Over 40 million people now work in export-processing or "free trade" zones. These areas, often exempt from national legislation, allow manufacturers to demand long hours, pay lower wages, and ignore health and safety regulations.

Corporations have achieved considerable freedom to act in ways that harm the host on which they depend. They have done so primarily by means of regulatory capture, the redesign of societal laws by vested interests for their preferential benefit. This is not new; corporations have always sought to influence lawmakers. TNCs' current levels of power, money, and freedom are unprecedented, however, and regulatory capture has become widespread. The results can be seen in the scores of laws and court rulings that now protect corporations' right to profit, right to pollute, right to patent intellectual property—at the expense of citizens, farmers, workers, consumers, communities, and indigenous peoples. As U.S. President Rutherford B. Hayes once remarked, "This is a government of the people, by the people, and for the people no longer. It is a government of corporations, by corporations, and for corporations." That was in 1884; it's truer now than ever.

Parasite hosts are generally helpless to alter the destructive behavior of the parasites that have invaded their systems—a limitation that is often fatal. Humans, in contrast, can regain control and shape the role of the corporation to benefit the host rather than destroy it.

SHAPING THE CO-EVOLUTION OF SYMBIONTS

In his first annual message to Congress in 1901, President Teddy Roosevelt explained that "great corporations exist only because they are created and safeguarded by our institutions; and it is therefore our right and our duty to see that they work in harmony with those institutions." Today a wide range of societal actors is using a variety of strategies to reshape the current corporate/societal relationship to be a healthy and harmonious one.

One strategy is to recapture the regulatory machinery. Many policymakers and activists are fighting to strengthen environmental and labor legislation, reform campaign finance laws, and even in some cases revise corporate charters by means of changes in state laws. Robert Hinkley, a leading advocate of charter reform in the United States, is trying to implement a simple change in state corporate charter laws that could radically transform the role of the corporation. This simple clause would alter the corporate mandate from the unqualified pursuit of profit to its tempered pursuit: "...not at the expense of the environment, human rights, public health and safety, dignity of employees, and the welfare of the communities in which the company operates."

Shareholders are also becoming a force for change by shifting their investments away from irresponsible industries like tobacco, weapons, and gambling. By 2003, over $2.6 trillion had been invested in socially responsible funds around the world. In the United States, which accounts for over 80 percent of total socially responsible investments, more than one of every nine dollars invested that year went into such investments. In addition, these investors are using their shares to press companies to change their policies on everything from climate change to CEO compensation.

Activist groups are also pressuring corporations to reassess their role in society by targeting some of the most powerful and best-known firms with demands that they adopt more socially and environmentally responsible practices. Corporations that ignore these ultimatums are often subjected to organized protests, boycotts, and other forms of embarrassing publicity.

And of course, savvy corporate leaders are working to be more responsible themselves. Some do so because they truly care about the long-term stability of the global environment, or because they want to conduct business ethically. Others recognize that unless they appear "socially responsible" they will soon be targets of activists, irate shareholders, or government officials. But whether out of self-interest or broad concern, a number of corporations is starting to move towards a more mutualistic relationship with society. The CEO of BP, John Browne, has been one of the most vocal corporate proponents of becoming more socially and environmentally responsible, despite running the largest oil company in the world. In a debate at the World Economic Forum in January, Browne argued that corporations must determine how they can strike a "bargain of mutuality" with everyone they affect. Browne and others like him, from whatever perspective, recognize the importance of true mutualism for corporations and society. Future articles in this series will detail the many new efforts that may make this harmonious relationship possible.

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For more information about issues raised in this story, visit **www.worldwatch.org/ww/corporations/**.