

Letters

General Motors: Fallacy of the Corporate Monster

The two articles by Luther J. Carter on the recent Campaign GM Project (24 Apr., p. 452, and 29 May, p. 1077) are typical of the uninformed and certainly unscientific writing on most aspects of the American corporate system. Carter is correct that much of the current thinking on the subject begins with the classic work of Berle and Means, *The Modern Corporation and Private Property* (Harcourt, Brace & World, New York, rev. ed., 1969). However, anyone seriously interested in the subject of large corporations should read that book. It is a hodgepodge of economic misconceptions and unsubstantiated innuendos whose influence as political slogans has been far greater than as rigorous analysis of a complex system.

Certainly no one questions that General Motors is large. But relative, not absolute size, is the proper benchmark. Thus, it is interesting to note that every important statistical study has concluded that concentration ratios in American industry have not changed significantly since the turn of the century. Furthermore the constant change in the relative positions of the top 200 corporations adds weight to an argument that competition among companies has prevented the development of any real corporate monsters in America. The depiction of large corporations as economic ogres simply reflects the strong preference for a nonmarket, nonprivate property system of corporations by those who have popularized these ideas.

Berle complained that the modern corporation did not fit the traditional theory of private property. But actually his view of the large corporation was carefully tailored so that it could not fit his view of private property. His whole approach, however, has now been largely superseded by systematic analyses of the whole complex arrangement of companies, managers, and stocks. For example, an active and

flourishing market for the control of corporations—even General Motors if conditions warrant it—guarantees that managers of corporations operate in the interest of the shareholders. Indeed managers have little choice but to do this, unless the government protects them from this competition or orders them to behave in a different fashion.

That does not mean that there are no areas for managerial decision, like pollution, in which profit motives may not be consistent with the public good. These so-called externalities have long been recognized in economic theory; but it has been equally recognized that the solution to such a problem is appropriate government definition of property rights and legal responsibilities. There is no known way that correct solutions to true externality problems can be found by individual companies acting on an ad hoc basis—at least so long as there is any meaningful degree of competition in that corporation's industry.

Thus it is discouraging to read Carter's repetition of unhelpful clichés like: management has an unshakable hold on the proxy machinery, and the directors constitute a self-perpetuating board. The problem is certainly not that directors may be self-perpetuating. There is no moral obligation, fundamental right, or demonstrated desirability for a different form of control of corporations. This complaint is merely a subtle device for hiding the true objection to the present arrangement. The real objection is that corporate managers do behave in the way that the owners of the corporation want them to. This is, of course, the heart of the Berle-Nader objection to modern corporations. Their concern is not with the niceties of director selection. It is with the fundamentals of a free enterprise system.

But it is helpful to know why their announced objection is so wide of the mark. Corporate managers seem to have a hold on the proxy machinery because control contests do not develop year after year, not because they

never lose one. And the reason contests do not develop every year is that the shareholders are satisfied. This is indicated by the fact that share prices stay high enough that no raider or outsider is financially attracted to the prospect of taking over the corporation. And this is true because the incumbent management (partially because it is subject to the threat of a takeover) behaves in such a way as to keep stock prices as high as possible. There are other market constraints as well, and the entire system functions with an automaticity baffling to those with simplistic political ideas about how corporations should behave.

Just as there were tremendous dangers to the public from quackery and nostrums in the prescientific practice of medicine, so there are tremendous dangers in these absurdly prejudiced and uninformed notions about economics. The complaint in a serious journal that there are no Negroes on GM's Board of Directors or no women, suggests the joke about the prominent political figure who must have been racist because he had so many children and none of them was black. General Motors is not public property, no matter how great the cravings of many intellectuals to convert it into that. It will add little to our comprehension of minority problems or corporate governance to confuse the two issues.

It is no accident that the principal proxy solicitation targets for Nader's first anticorporate campaign were universities. Universities and other non-profit organizations nicely illustrate the very problems Berle thought he saw in large corporations. Their governing bodies are self-perpetuating oligarchies; and unlike corporations, they are never subjected to significant control fights, the threat of which can discipline managers. There is no clear delineation of property rights in the university, and since maximum profits are not its goal, the market supplies little constraining influence. Thus universities tend to be operated in the interests of those individuals best able to force their views on the institution. Clearly those in control today are the faculties, and just as clearly faculties are sympathetic to any attack on General Motors.

But faculties and trustees of universities should be forewarned that university-corporate interactions is not a one-way street. If this interaction becomes popular, the influence which corporations can wield over universities

is vastly greater than that which universities can bring to bear on corporations. Perhaps before universities are carried away with the "moral implications" of owning shares, they should give a thought to the moral implications, if such there be, of involving universities in matters they have traditionally and appropriately eschewed.

To say that investing in a corporation is "not a morally neutral act" (24 Apr., p. 455) makes about as much sense as saying that the excitement of cell membranes by protein is not morally neutral. To someone totally illiterate about science, such excitement may sound not only immoral but downright obscene. That is how foolish Carter's observations seem to those of us trying to develop a science in an area that receives wide attention and little understanding. Vacuous moralizing about complex social systems is less apt to be helpful than harmful.

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Much of what Manne says appears to rest on his belief that competitive pressures make it impossible for individual companies to solve "externality problems" and that the solution to such problems must be achieved through government regulation. On this point, I offer two observations: first, large companies and their Washington lobbyists work hard, and often successfully, at influencing the laws and regulatory regimes affecting them (for instance, to judge from past statements by its top officials, General Motors almost certainly will lobby against proposals to convert the highway trust fund into a general transportation fund supporting the construction not only of highways but of a variety of mass transit systems); second, if the public is truly concerned about social and environmental problems, individual companies should be able in many cases to exploit that concern to their competitive advantage—as, for instance, Amoco is now attempting to do by heavily advertising its lead-free gasoline. For these reasons if for no other, leaders of Campaign GM had cause to argue that universities and other institutional shareholders should insist on greater corporate sensitivity to social and environmental issues and greater diversity in the interests represented on corporate boards.

—LUTHER J. CARTER

Socrates on Dissent

In his review (Book Reviews, 8 May) of C. S. Wallia, *Toward Century 21*, Ward Madden misrepresents the views of Socrates and Bay, and one of us should set the record straight.

It is true that Socrates had more respect for the moral authority of the law than has Bay today: he conceded to the state the right to put him to death unjustly. But Socrates parts with Madden and joins Bay on the issue in context: beyond affirming an individual right to dissent, Socrates insists that an individual must break the law rather than become an instrument of injustice, or cease living as a vindicator of justice; the state may take the individual's life away but not his political integrity—that is, he will go on teaching his philosophy, whether or not his ways of exploding the conventional wisdom are deemed subversive of the law as interpreted by the Committee on Un-Athenian Activities.

Madden proceeds to charge Bay's theory of civil disobedience with being "morally deficient" because, he says, although I oppose the use of violence when challenging the law, I do so on "strictly pragmatic" grounds and not on moral grounds. First, I explicitly don't rule out use of violence *if this in fact will* (and if strictly nonviolent means will not) serve to reduce or forestall much worse violence (say, violence on the streets of Chicago versus mass killings every day in Indochina). Second, it is absurd to charge me with being morally unconcerned with innocent lives that could be lost as a result of antistate violence, or with being unaware of the probability that new revolutionary regimes will establish their own laws, some of which will be unjust; absurd, not because in other papers I have argued exactly the views that I am here charged with not having, but because these views are necessary implications of the core argument in this paper. Why assume defective logic as well as deficient morality when I fail to restate the obvious?

Bay "fails to realize that all moral questions arise out of conflict of interest." Most moral questions do, but it does not follow that the answers to moral questions are to be determined, for you and me, by the outcome of struggles between interest groups. Bay's view, and incidentally that of Socrates, is that what is just or moral is in large

measure a question to be settled, in each type of context, by "philosophy" rather than by political compromise, conquest, or convention.

Madden is entitled to believe that our laws are merely "imperfect" and that, in the extreme cases when "illegal dissent and even force" might be justified, the laws are likely to become revised so as to "better codify the consensual judgment as to what is just." I find this rosy theory not so much morally as empirically deficient. One aspect of reality that Madden at least in the present book review appears to resist is the fact that most laws arise out of conflicts of interest, and come to express the interests of the privileged. These interests are sometimes but not very often identical with the interests of the oppressed.

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Socrates clearly understood the difference between the need for dissent against specific, unjust laws, and the need of man to live in a lawfully ordered society. The point I wished to make was that Bay, by neglecting this distinction, seemed to undermine the principle of law itself in his attack upon unjust legalism. Even his reply seems to confirm this, insofar as he stresses the oppressive rather than the consensual aspects of legal reality, for if the essence of law is oppression, it would seem best to dispense with law altogether.

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Doom of Coal Research

I am shocked and dismayed by news items stating that the Department of Interior's proposed budget for fiscal 1972 would eliminate the Bureau of Mines energy research centers and would close, within 2 years, the Office of Coal Research. I had supposed that by now nearly everyone realizes we have placed too much hope for the near term in nuclear power and have worked far too little on the problems of coal, particularly the urgent problem of SO₂ emissions.

Elimination of ongoing projects cannot be justified by arguing that someone else (industry? newly authorized environmental research centers?) will take