# *Book Review*
# Pursuing the Nature of Corporations

***by John R. Graham***

Bakan, Joel (2004). *The Corporation: The Pathological Pursuit of Profit and Power*. Toronto: Viking Canada.

Micklethwait, John, and Adrian Wooldridge (2003). *The Company: A Short History of a Revolutionary Idea*. Toronto: Random House of Canada.

Most of *The Corporation* goes over ground already tilled by the anti-globalization crowd. There are many examples of multinational firms doing bad things. Stop me if you've heard this before: IBM and General Motors did business with the Nazis; eating McDonald's burgers and fries makes kids obese; drug companies donate medicines to the third world only to claim tax deductions; deregulation (rather than bad regulation) of electricity markets caused the blackouts in California in 2000, *et cetera*.

*The Corporation*'s popularity (it is not only a book, but a documentary and TV mini-series) is due to its unique "insight" of corporate mental illness. It stems from the fact that a corporation is an artificial person under the law, able to own property, enter into contracts, and be sued, just like a real person. From this, Professor Bakan had the idea of asking a psychologist what kind of person the corporation is. The psychologist's answer was that the corporation exhibits the traits of a psychopath: irresponsible, manipulative, grandiose, lacking empathy, asocial, refusing to accept responsibility for the consequences of its actions, and unable to feel remorse.

This illogical leap, from the legal notion of corporate personhood to explaining corporate behaviour by the same criteria used to diagnose mental illness in real people of flesh and blood, is the basis for Professor Bakan's recommendation that corporations need much closer "democratic oversight." He recalls with apparent fondness the chartered corporations of the seventeenth and eighteenth centuries, each one a monopoly backed by its own Act of Parliament, which he supposes acted in the "public interest," rather than the interests of whichever party of schemers controlled the government of the day (p. 153).

Unfortunately, Professor Bakan, a law professor at the University of British Columbia, appears inadequately acquainted with economic concepts that anyone examining corporate behaviour should understand thoroughly. For example, he refers to Professor George Stigler's idea of regulatory capture, and appears to have rudimentary understanding of the theory of public choice, but concludes nevertheless that democracy should trump property rights (pp. 152-3).

The evidence he musters, although selective, sometimes counters his own argument. He notes that corporations did not invest a lot in affecting government policy in the US until the 1970s, but fails to recognize the connection between the subsequent increase in lobbying and the huge increase in "democratic" power taking place at the time. President Nixon imposed wage and price controls, and established new bureaucracies such as the Environmental Protection Agency and the Occupational Safety and Hazards Administration. Naturally, corporations had to respond to this change in their environment by taking a closer interest in politics.

Professor Bakan dedicates an entire chapter to negative externalities, costs that fall neither to the buyer or seller of a good or service, but to third parties. (Pollution is the classic externality.) This should be grounds for a fertile chapter but is not, because Professor Bakan does not really understand what an externality is. His first example is of a woman who was rear-ended in her 1979 Chevrolet Malibu by a drunk driver. The Malibu burst into flames and the woman and her children suffered horrible burns. She successfully sued General Motors for putting the gas tank in a dangerous place in the car, where it was likely to

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explode when rear-ended (pp. 61-2). The tragedy makes an interesting case, but it has nothing to do with any externality. It was the drunk driver, not GM, who had imposed an external cost on her.

Unfortunately, Professor Bakan's thesis has had some influence in Canada over the last year, and *Fraser Forum* readers (like me) may be asked to discuss it at cocktail parties. I find the best way to change the topic is simply to recommend Micklethwait and Wooldridge's *The Company*.

This book by two editors of *The Economist* is a fascinating, and brief, history of the development of the modern corporation. They identify the Company's Act of 1862 in Britain as the watershed moment. Until then, each company received its charter through its own, individual Act of Parliament. Each Act not only gave a company life, but closely defined the permitted activities of the new corporation. Under the 1862 Act, investors could simply register their company and start conducting whatever business they wished. The authors convincingly argue that this form of human organization is the West's most important "enabling technology," which allowed American and European firms to raise the capital that allowed them to leapfrog enterprises elsewhere, which were still bound by primarily family-based partnerships.

However, they also show that the modern corporation is not an artificial, legally constituted psychopath, but the culmination of efforts going back to Assyria, Greece, and Rome, to find a way whereby large numbers of people can voluntarily organize both their savings and their labour in the most productive way to improve human welfare. It is the perfect antidote for those who have succumbed to Professor Bakan's thesis. 🕮