

Only One Reason to Grant a Corporate Charter

*Expanded version of a presentation to the
Summit on the Future of the Corporation
Faneuil Hall, Boston, MA, November 13, 2007*

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It is fitting that we hold this conversation on the future of the corporation in historic Faneuil Hall, the Cradle of Liberty. Deliberations in this very room more than 200 years ago were the first step on a long walk away from a king named George that launched a new nation and led ultimately to the end of monarchy. May the success of our forbears inspire us in our deliberations on the future of the private-benefit corporation.

The Big Picture

I recall my business school professors many years ago calling us to look at the big picture to identify the systemic cause of whatever immediate problem symptom captured our attention. We would do well to apply this wisdom as we look ahead to the role of the private-benefit corporation in a profoundly troubled 21st century. We must identify the deep systemic causes of the social and environmental crises unfolding all around us—no matter how troubling the resulting conclusions may be. Here is the big picture in brief outline.

1. **Consumption:** Growth in human consumption resulting from a combination of population growth and growth in consumption per capita is depleting the natural life support

system of the planet, disrupting hydrology and climate systems, and threatening human survival.

2. **Inequality:** Unconscionable and growing concentration of financial power in a world engaged in an ever more intense competition for a declining base of material wealth is eroding the social fabric to the point of widespread social breakdown.
3. **Institutional Pathology:** The most powerful institutions on the planet, global financial markets and the transnational corporations that serve them, are dedicated to growing consumption and inequality. They convert real capital into financial capital to increase the relative economic power of those who live by money, while depressing the wages of those who produce real value through their labor. They offer palliatives that leave the deeper cause of our potentially terminal environmental and social crises untouched, because they are the cause.

Our future depends on a dramatic cultural and institutional transformation to reduce aggregate consumption and achieve an equitable distribution of economic power.

It requires an epic institutional transformation to:

1. *Reduce aggregate human consumption.*
2. *Redistribute financial power from rich to poor to achieve an equitable distribution of Earth's life-sustaining wealth.*
3. *Increase economic efficiency by reallocating material resources from harmful to beneficial uses.* Examples include reallocation from military to health care and environmental rejuvenation, from automobiles to public transportation, from suburban sprawl to compact communities, from conversion to reclamation of forest and agricultural land, from advertising to education, and from global financial speculation to investment in self-reliant local economies.
4. *Invest in the regeneration of the living human, social, and natural capital that is the foundation of all real wealth.* This requires reversing the current process of converting the real wealth of living capital into the fictitious wealth of financial capital and accepting the resulting negative returns to financial capital. It may take us awhile to recognize that just as increasing financial capital at the expense of living capital makes us collectively poorer, increasing living capital at the expense of financial capital makes us collectively richer.
5. *Accelerate social innovation, adaptation, and learning by nurturing cultural diversity and removing intellectual property rights impediments to the free and open flow of beneficial knowledge.*

These are imperatives of the 21st century and it is difficult to identify a constructive role in addressing them for the private-benefit corporation—a term for any corporation chartered solely to serve the narrow and exclusive private financial interests of its investors and top managers.

The Private-Benefit Corporation

The private-benefit corporation is an institution granted a legally protected right—some would claim obligation—to pursue a narrow private interest without regard to broader social and environmental consequences. If it were a real person, it would fit the clinical profile of a sociopath.

The basic design of the private-benefit corporation was created in 1600 when the British crown chartered the British East India Company as what is best described as a legalized criminal syndicate to colonize the resources and economies of distant lands to benefit wealthy investors far removed from the social and environmental consequences. That design has ever since proven highly effective in advancing the private interests of the world's wealthiest people at enormous cost to the rest.

The private-benefit corporation uses its economic power to privatize (internalize) gains and socialize (externalize) cost. The resulting concentration of wealth creates an illusion that wealth is being created, when the actual consequence is a net destruction of real wealth. It is an institutional form best suited to achieving outcomes exactly the opposite of those we humans must now pursue.

The only legitimate reason for a government to issue a corporate charter giving a group of private investors a

legally protected right to aggregate and concentrate virtually unlimited economic power under unified management is to serve a well-defined public purpose under strict rules of public accountability. This defines a public-benefit corporation, which can be chartered as either for-profit or not-for-profit. The private-benefit corporation is an institutional anomaly, a creation of monarchy that properly shares monarchy's historic fate.

A New Economy

The work at hand necessarily goes well beyond redesigning the private-benefit corporation to hold it accountable for its harms. We need to bring forth a new economy designed to value and nurture life in all its many forms and unleash the full creative potential of the human species to this end. Organization theory suggests that such an economy will necessarily be decentralized, self-organizing, and grounded in principles of cooperation and mutual caring free from the distorting influence of the massive concentrations of centrally controlled and managed economic power the private-benefit corporation makes possible. This suggests a planetary system of self-reliant community-based economies comprised of locally rooted, human-scale enterprises that engage in balanced, rule-based fair trade at the margin.

As with any other segment of public life, markets must have a framework of rules defined and enforced by democratically accountable governments to secure the public interest. The freer the economy from distorting concentrations of economic and political power subject to abuse by the ethically challenged, the smaller such governments can be.

Business enterprise is integral to any economy. Business enterprises, however,

may take many legal forms that confer no special rights or privileges beyond those of any natural person and properly limit the concentration of unaccountable economic power. These forms include cooperatives, partnerships, sole proprietorships, and special for-profit corporations with charters designed to balance public and private interests.

Each of these legal enterprise forms is more consistent with the beneficial function of markets than are global-scale transnational private-benefit corporations with internal centrally planned economies larger than the economies of most nations. Breaking up the larger private-benefit corporations into smaller component enterprises either rechartered as public-benefit corporations with clear public purposes or converted to non-corporate enterprise forms is an essential step toward restoring beneficial market discipline and responsible, rooted private ownership.

So where do we look for leadership in the monumental undertaking at hand? As continued denial of the reality of global climate change became untenable, private-benefit corporations turned from denial to an effort to turn the crisis into an opportunity to increase their profits. They are implementing energy cost savings and promoting carbon-trading schemes, ethanol subsidies, government guarantees for nuclear power, coal gasification, carbon sequestration, and other measures that treat symptoms within a business as usual framework of economic growth and financial returns to the already moneyed. Cutting costs through energy efficiency is clearly a positive contribution, but it must go well beyond the easy reductions that produce a quick increase in the financial bottom line.

Private-benefit corporations are not touching any proposal that would limit aggregate consumption or their own power. In its present form, the private-benefit corporation is incapable of voluntarily sacrificing profits to a larger public good. Yet this is exactly what would be required for them to provide leadership in reducing aggregate consumption, increasing equality, and redirecting the economy from producing what is profitable to producing what is needed for healthy children, families, communities, and nature.

Capitalism, which means quite literally rule by financial capital—by money and those who have it—in disregard of all non-financial values, has triumphed over democracy, markets, justice, life, and spirit. There are other ways to organize human societies to actualize the positive benefits of markets and private ownership. They require strong, active,

democratically accountable governments to set and enforce rules that assure costs are internalized, equity is maintained, and market forces are channeled to the service of democracy, justice, life, and spirit.

Leadership in advancing the deeper institutional changes essential to the human future must come from awakened citizens working from outside the existing institutions of elite power. This work begins with exposing the myths that blind us to the irreconcilable conflict between capitalism and democracy and to the potential of community-centered, life-serving market alternatives based on principles of responsible citizenship, community, and equity.

We are the people to whom the founders of our nation referred to as “We the People.” We are the ones we’ve been waiting for.

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