

## A Tale of Two Corporations

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In the English-speaking world of today, the word “corporation” is mostly used in the US, or in places influenced by US terminology, to describe businesses that have been “incorporated” and benefit from limited liability. In general discussion, the word tends to be associated with bigger, or at least medium-sized, businesses rather than small ones – in the general imagination, corporations are the GM’s, GE’s and Ford’s of this world. Interestingly enough, the rise to power of these mega-businesses in the US of the first third of the 20<sup>th</sup> century coincided with rising interest in an older version of the idea of the corporation in certain European countries. And perhaps not surprisingly, the modern business corporations may have something to learn from the earlier concept of corporation despite the latter’s troubled history in the last century. At least, that is one possible consequence of the thinking that was behind the conference on “The Good Company” in October 2006, some of the papers of which are published in this number of OIKONOMIA.

Europe in the 1920s and 30s was struggling with the effects of the First World War, and indeed, gradually sliding towards another. Even before the end of the war itself, extreme movements had started to come to power, in the form of the communist regime in Russia, followed shortly after its end by the rise to power of Mussolini in 1922 and the consolidation of the Fascist state. Germany took a little longer to arrive at its version of totalitarianism, but by 1933, Hitler had managed to come to power. Other states, such as Austria, were also moving in a similar direction. When the stockmarket crash hit the US in Oct 1929, leading to the Great Depression, it seemed to many that the US was experiencing an economic version of what was

going on in Europe: the collapse of the liberal-capitalist politico-economic system. Meanwhile, the communist system in Russia was doing quite nicely in comparison. Although many were attracted to an authoritarian (right-wing) form of politics to prevent a meltdown of society and a communist takeover of politics on a wide scale, others were looking for an alternative both to liberalism and to authoritarianism. The idea that came to the fore in this context was corporatism.

Corporatism got a bad name precisely because it got picked up and applied for their ends by the very authoritarian regimes to which it was originally intended to be an alternative. Although this experience is instructive, it should not mean that we treat corporatism in itself as tainted or fail to recognise what was of enduring value in this idea. One of the main problems that thinkers tried to address using the corporatist approach were the consequences of too much emphasis on the rights and liberties of the individual. As many point out, including Pius XI in his 1931 encyclical *Quadragesimo anno*, such an approach:

- Gives priority to conflict and competition over harmony, order and cooperation;
- Paradoxically, tends to lead to the creation of an over-powerful state, since individuals cannot often achieve their goals alone and there is no other recognised body or group through which they may collaborate to do so;
- Also paradoxically, does not get rid of societal groups, but tends to create antagonistic class groupings (workers

against capital owners) rather than functional or any other types of group where cooperation is part of the mechanism that structures the group.

Pius XI makes three key points about corporations in the corporatist sense (though nowhere does he use the word “corporatism” as such):

- Functional groups like corporations, that focus on certain industries/markets and certain professional groups, bring together the workers and capital owners involved in a particular industry, creating a bridging structure between them that helps to balance the economic, class antagonism that exists between them;
- Brought together in this way, employers and employees can promote a common good between them, and work together to promote the wider common good of society.
- People need to be free to set up such groups (this excludes the authoritarian use of corporations).

As we said above, as an explicit system (what Howard Wiarda calls “manifest corporatism”), put into practice under the title of corporatism itself, the twentieth century experience is not encouraging. Corporatism did not end up being an alternative to liberal capitalism or soviet communism (another version of the famous “third way”), but rather became a tool in the hands of authoritarian governments as a way of gaining control over the economic system.<sup>1</sup> However, as Wiarda and many other scholars show, in the post-war period corporatism in an implicit form (what he calls “modern neo-corporatism”) has been very much present in Western Europe and the Americas, going under various names such as “tripartite or collective bargaining” and “societal accommodation”, and through many institutions such as development agencies, wages councils and industrial parks. Many forms of

incomes and industrial policy rely on a form of corporatism, where the various parties with an interest in the development of a particular industry or economic activity work together, often with local or national government involved, for the regulation and promotion of this sphere of activity. Indeed, after the war one could well have said “Corporatism is Dead – Long live Corporatism (under another name)”.

What has all this got to do with the modern (US) corporation, of the conference on “The Good Company”? Firstly, the large modern corporation does function in a way similar to the societal functional groups of the corporatist system. Although it is involved in competitive markets, in itself it is a large system based on cooperation under the direction of a leadership group. Much economic theory has been developed to explain why corporations like this exist, often in terms of contrasting “market” solutions to production questions with the “hierarchy” based solution of the large corporation. They also have a lot of power in the markets in which they operate; while we may argue whether their influence is by and large helpful or damaging to the proper operation of the market, we can all agree that that influence is there. Furthermore, whole theories of “co-opetition” have been developed, formalising what we all know from practical experience to be characteristic of economic activity (and which corporatism in its own way was trying to address) that competition without a basic level of cooperation (in keeping the “rules of the game”, in being trustworthy and so on), only leads to anarchy and the breakdown of any real possibility to compete in a fair and effective way.

This discussion about the modern corporation and corporatism touches “The Good Company” conference where we ask ourselves what the corporation is for. In the conference we tried to develop the idea that the corporation exists for contributing to the common good of society as a whole. In so doing, it also develops within and among its stakeholders its own common good, on the

basis of which they may each gain the particular or private good that they are seeking (a good product, good salary, good return on capital involved, career development, taxes, and so on). In the older form of corporatism, this way of thinking would have been the norm, but the dominant theories of today would have great difficulty in accepting this approach. As part of the conference, we set up dialogues between exponents of this approach (coming out of the tradition of Christian social thought) and leading exponents in the field of corporate social responsibility, and the difference between us on this question was very clear. The dominant view sees each human being as fundamentally an individual, seeking private

good and only cooperating with others in so far as it is necessary to do so (to describe the nature of the cooperation, the most effective metaphor is that of the social contract). In the Christian social view, human beings are fundamentally in relation with each other and naturally and inevitably develop common goods among themselves when they cooperate towards shared goals, and only on the basis of the development of these common goods can they achieve their individual fulfilment. This discussion opened up some lively lines of research which we hope to pursue. In the meantime this number of OIKONOMIA includes three papers presented at the conference itself.

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<sup>1</sup> Howard J. Wiarda, *Corporatism and Comparative Politics: The Othe Great "Ism"*, M. E. Sharpe, Armonk, 1997