Anyone who reads beyond the daily newspaper must be aware that the environment is in deepening trouble worldwide. For example, year after year, Lester Brown and colleagues at the Worldwatch Institute in Washington, D.C., quietly catalog the world's deteriorating environmental conditions:[1] clean water growing scarcer, forests dwindling, marine mammals declining, indigenous human populations disappearing, the oceans' fisheries collapsing, protein shortages emerging, productive topsoil diminishing, contamination by pesticides and industrial chemicals steadily growing, species loss accelerating, chronic diseases rising throughout the industrialized world... And this short list only brushes the surface.

Increasingly, citizens are searching for root causes of the world's environmental decline, seeking pressure-points where focused attention might make a fundamental difference. Here we examine the legal entity called the corporation.

Corporations are legal fictions created by law to engage in business for the purpose of returning a percentage on investors' capital. This legal purpose requires that sufficient growth must occur each year (on average) to produce a surplus that can be returned to investors; and it requires that costs must be "externalized" (passed along to outside parties, such as workers or the general public) to the extent possible. As a former Ronald Reagan economist, Robert Monks, has said, "Despite attempts to provide balance and accountability, the corporation as an entity became so powerful that it quickly outstripped the limitations of accountability and became something of an externalizing machine, in the same way that a shark is a killing machine--no malevolence, no intentional harm, just something designed with sublime efficiency for self-preservation, which it accomplishes without any capacity to factor in the consequences to others."[2]

Individuals who make decisions for corporations are not free to do what they personally believe is right. They must do what will externalize costs and promote sufficient growth to provide a decent return on investment. If corporate decision-makers make decisions contrary to these narrowly-defined corporate goals, they can be sued by shareholders for breach of fiduciary trust. Suppose Dow Chemical, or DuPont, decided to use a significant portion of its assets to reverse environmental damage. How long would it be before they found themselves in court for breach of fiduciary trust? These corporations are chartered to pump out chemicals profitably; legally, that is about all they can do.

A corporation's narrow financial purposes strictly limit the range of decisions possible within corporate culture. The legal framework of the corporation strongly favors decisions that foster short-term gain over decisions that protect public trust resources upon which humanity depends for sustenance, such as the oceans or the atmosphere.

Finally--and this is the most important aspect of the corporation--individual investors and managers are legally protected from liability for the corporation's actions. Indeed, limiting individual liability was the purpose for which the corporation was invented. Furthermore, as a matter of U.S. law, since 1886 corporations have been accorded many of the rights and Constitutional protections of an individual, without the responsibilities of an individual.[3] In addition, of course, modern corporations have perpetual life, and can accumulate assets and influence on a scale that no individual could ever hope to acquire. Many international corporations have annual budgets larger than the average budgets of many developing nations. (See RHWN #303 and #304.)

Because corporations cannot feel pain when the corporation hurts someone or damages the environment, the fundamental constraint on human behavior (personal pain) is missing from the corporate form. This is a point worth emphasizing. It is principally through pain that humans learn to control themselves and civilize their behavior. A baby tries to crawl through a solid door; the resulting bump on the forehead teaches something fundamental about limits imposed by the external world. Later, the baby wants someone else's ice cream cone, takes it, and gets punished--a painful but important lesson on the limits of personal behavior. As we grow, we develop an individual conscience; antisocial behavior begins to hurt us because we feel guilt and remorse. Thus do we learn to control our selfish impulses.

Corporations cannot feel pain. After they grow to a certain size, no penalty or fine can effectively hurt them. They simply pass the cost on to shareholders and customers. Even if a handful of executives are put in jail, the corporation itself goes on, largely untouched.

You can think of a corporation as a smiling giant that has perpetual life, cannot feel pain, must constantly grow larger (doubling in size every decade or so), must deposit its excreta in public places and do everything else it can to make its neighbors and compatriots pay all its costs of living. Its legal form requires the corporation to spend billions hiring armies of talented specialists in law, public relations, media manipulation, and the science of persuasion, all aimed at making the corporation appear as nothing more than an ordinary concerned citizen. This smiling colossus is a frightening alien indeed.

We have many thousand such creatures among us now. Legally prohibited from sharing in the milk of human kindness, and increasingly free of social (regulatory) constraints because of modern "free trade" legislation (NAFTA and GATT --see RHWN #303, #304, and #305), corporations are now poised to transform the planetary ecosystem on a scale and at a pace unimaginable just 30 years ago.

There seems little doubt that the majority of corporate decision-makers are well meaning people, as individuals. Nevertheless, the need for constant growth (on average), and the need to externalize costs, combined with an enforced freedom from personal responsibility and liability for the corporation's actions, add up to a corporate culture that is prone to cut corners, shrug off responsibility toward its neighbors, and exhibit behavior that could only be called, at best, selfish and antisocial and, at worst, sociopathic.

Humanity is clearly endangered, and we face two hard paths: business as usual, or real change adopting pollution prevention with its attendant dislocations. Down the path very likely lies the eventual destruction of our species. Down the other, at least a hope of salvation.

Naturally corporations will not sit by while fundamental controls are imposed upon their behavior. It is their nature that they must fight to retain their present privileges. They have to. Corporate managers are not bad people. On the contrary, they are, most of them, good people. But they are ethically imprisoned by the corporate form. Even if a majority of decision-makers inside American corporations agreed that they were destroying the planet, industry would not be able to make the needed shifts. Existing incentives are simply all wrong.

Now, therefore, the time has come to liberate our friends and compatriots trapped inside the ethical perdition of the corporate form. They know what is right, just like the rest of us. Like the rest of us, they understand some of what must be done. Yet they are powerless to do the right thing and make the needed changes.

We could liberate our compatriots from the corporate form by providing corporations with at least two key changes, to give them real incentives to curb their own worst tendencies:[4]

One: we could remove from corporations the Constitutional protections of a natural person (for clearly they are nothing like one).

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Two: we could revoke the corporate charters of those that insist on doing major harm. "Three strikes and you're out," is the current phrase advocated for individual criminals, and it could be applied to corporations. Three felony convictions and you lose your corporate charter. The corporate charter is the paper, issued by state legislatures, that bestows upon any corporation the privilege of doing business.

Denying a corporation the full Constitutional protections enjoyed by a natural person is only logical. Natural persons can go to jail or face fines that bring ruin. But corporations cannot go to jail or even be effectively fined. Corporations cannot feel embarrassment, guilt or remorse. To restore to corporations some human dimension, they could be denied the Constitutional protections of the individual citizen.

Legal historian Carl Mayer suggests a new amendment to the U.S. Constitution, as follows:[5]

THIS AMENDMENT ENSHRINES THE SANCTITY OF THE INDIVIDUAL AND ESTABLISHES THE PRESUMPTION THAT INDIVIDUALS ARE ENTITLED TO A GREATER MEASURE OF CONSTITUTIONAL PROTECTIONS THAN CORPORATIONS

FOR PURPOSES OF THE FOREGOING AMENDMENTS, CORPORATIONS ARE NOT CONSIDERED "PERSONS," NOR ARE THEY ENTITLED TO THE SAME BILL OF RIGHTS PROTECTIONS AS INDIVIDUALS. SUCH PROTECTIONS MAY ONLY BE CONFERRED BY STATE LEGISLATURES OR IN POPULAR REFERENDA

The second reform -- allowing for revocation of the corporate charter -- would permit corporations to mold their behavior in response to a real threat of capital punishment, counterbalancing the short-term need to externalize costs and make a profit. Charter revocation spells corporate death. Such a threat would give everyone in the corporation an enormous incentive to check corporate crimes and harms before they got out of hand.

Outfitting corporations with a perpetual threat of death would concentrate the minds of management, shareholders and workers wonderfully, providing a strong, continuing incentive for ethical behavior. Such a perpetual threat would humanize and civilize the corporate form, which in recent years has arguably emerged as our most rogue and dangerous institution.

--Peter Montague


Descriptor terms: global environmental problems; corporations; liability; corporate reform; nafta; gatt; personification; fines; personhood; penalties; us constitution; bill of rights;