

An Address

by

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before

The Women's National Democratic Club

March 17, 1969
Washington, D. C.

America has undergone a grave revolution in this century -- an organizational revolution which has radically altered the nature and interrelationship of our social, economic and political institutions. The growth of our economic institutions in size and complexity has been tremendous. Our 500 largest industrial corporations account for 62 percent of the nation's sales of industrial goods and 73 percent of the profits. They require prodigious amounts of capital and employ some 13 million people, most of whom are members of equally huge and complex organizations -- labor unions. These institutions in turn are serviced by fleets of technicians, scientists, and consultants from our giant universities and research centers. Indeed, one of the hottest legislative items this year -- an item which has become a hobby horse on which are riding such diverse organizations as corporate management, large unions, various branches of our government -- is the conglomerate and the congeneric corporation. These awkward words describe different types of corporate organization which has achieved dramatic and tremendous growth in the past few years.

As a consequence of this organizational growth, our society is becoming more and more an abstract society. Individuals are increasingly dependent upon membership in organizations such as labor unions and business corporations to practice their trades or influence their working conditions. Yet, membership in such organizations to many persons means no more than punching a card for some faceless corporate official or working toward some unknown policy determined at remote levels of the corporate bureaucracy. Many, including some of our brightest and most sensitive young people, feel increasingly isolated from our society, its leaders and its institutions. Paradoxically, technology and organization have made possible a degree of personal freedom never before known, but many feel that such freedom is inconsistent with the discipline and organization demanded by our complex industrial society.

These feelings of alienation and frustration can turn into the sort of violence we witnessed at the Chicago Convention and on many of our college campuses. Such events,

I think, evidence the fact that the organizational revolution is one of the gravest revolutions through which our country has passed. And, of course, it is not limited to our country. The unrest we are experiencing here has its manifestations in nearly every part of the world. Those troubles abroad have their important effects on all of us who live in an increasingly interdependent world.

Our young people see the business corporation as one of the most, if not the most, influential of the several institutions which characterize our form of society. They seem to see it as imposing its own needs and desires upon the community, rather than seeking to meet the needs and aspirations of the community. Yet others raise the question whether the principal and, perhaps, the only legitimate purpose of the corporation isn't solely to make a profit for its own shareholders. Why, they ask, should the corporation be concerned with the needs or aspirations of the community or of society in general?

This question -- What are the social responsibilities of business? -- has been hotly debated many years. A distinguished scholar and observer of the changing corporate scene, Professor Adolph Berle, has divided the question into at least two distinct issues -- the "legitimacy" of the corporation, and the "accountability" of the corporation, its officers and directors. I will adopt for our discussion today this distinction between "legitimacy" and "accountability."

The accountability of the corporation and its officers and directors has been much discussed. To whom are the corporation and its officers and directors accountable? Solely to their own shareholders? Or do they have a broader responsibility -- to the communities they serve or within which they operate and to the general economy which gives them strength and sustenance? The federal securities laws are, in large measure, concerned with this question of accountability of corporate officers and directors. The courts have extended accountability beyond the corporation's

own shareholders to the general investing public. Is that the proper limit of accountability? There is no question that corporate managers have the power to affect a great many lives. Does such power carry with it an obligation and responsibilities to all of those persons -- to their suppliers, their employees, to the local communities immediately affected, to the taxpayers and to the needs of the nation as a whole? These are intriguing and important questions.

Professor Berle's other issue -- the "legitimacy" of the corporation -- has generated much less interest and discussion. The concept of legitimacy, as applied to the modern corporation, has often been misunderstood, and deserves far more analysis and discussion than it has received. Accountability refers to the fiduciary obligations of individual corporate managers to their shareholders, and possibly to the community and to society in general. On the other hand the question of legitimacy as I will use it refers not to the obligations of individuals, but to the structure of institutions.

In the view of many, the corporation is an institution firmly established in the private sector of society. This view, I think, has contributed to a misunderstanding of the problem of legitimacy. The tremendous growth and concentration of power in the corporate organization in recent years requires a rethinking of the old distinction between the public and private sectors. Business participates increasingly in government decisions and government in business decisions. Administrative agencies regulate important segments of industry; and government is the principal customer of many of our most important corporations. John Kenneth Galbraith has called this government - business partnership the "New Industrial State!" General Eisenhower at an earlier point warned of the dangers inherent in what he described as the military - industrial complex.

I don't believe it is realistic to single out either government or business as the sole formulator of social

and economic -- indeed, even political -- policies. In all my years in government, the government-business partnership has resulted in the accommodation of different policies and viewpoints. Both government and business I firmly believe can rightfully be said to exercise important political powers.

Government as an institution has been invested with great powers to promote the public welfare. Like every organization, government is not always free from abuse of its power. Public officials can, and sometimes have, used the "public welfare" merely as a facade to mask the misuse of power. But the important thing about government as an institution is that it has built in mechanisms to limit the misuse of power. The separation of powers with its checks and balances, general elections and the requirements of procedural due process restrict the amount of power any one man or group of men in government can exercise.

Another, and one of the most important checks against misuse of government power is what I call "institutional criticism." Public policy decisions, for the most part, are made in the public arena. Our institutions, and our traditions, protect free analysis and criticism of public policies not only within and among the several branches of government but -- and I believe this to be more significant -- in the press, other mass media of communications, in professional journals and elsewhere. We accept and enforce the view that public officials who have the power to affect the lives and the livelihood of others should listen to those affected, consider their interests and respond responsibly. Put another way, institutional criticism reflects our democratic ideal that institutions vested with political powers must be non-authoritarian.

A recent example of this type of institutional criticism within government is Senator Ted Kennedy's recently proposed probe of the federal regulatory agencies. In a questionnaire sent to over fifty agencies, he has asked agency officials the extent to which they have sought the views of citizens affected by their actions, whether they use citizen and industry advisory boards, and what provisions they have made to consider the views and needs of the poor.

A serious question of legitimacy arises if we view the corporation as an institution which, like government, is invested with important political powers. Our democratic ideals require that political power be limited; that countervailing power be maintained; that power be responsive to the community's needs and aspirations; and that legitimate power be non-authoritarian. Professor Berle concluded that corporate power was legitimate because it was generally accepted in the community. I suggest that, in a democracy, the exercise of political power (whether by government or a private corporate) cannot be legitimate unless it is also non-authoritarian -- that is, unless it is subject to free and systematic analysis and criticism -- what I have termed "institutional criticism."

Corporate directors, I believe, would be well advised to develop procedures for institutional criticism of important corporate decisions, perhaps through internal review committees which are independent of on line corporate decision-making and, possibly, through public disclosure of proposed actions for review by segments of society and institutions outside the corporation, such as the press, community improvement organizations and organizations for the advancement of the underprivileged.

Much of the pressure for judicial action to hold directors and officers accountable to members of the community affected by corporate decisions and to society generally, I believe, stems from a feeling that the exercise of corporate power is not always legitimate as I have used that term. Those within industry need to hear all the competing arguments if they are to form a balanced judgement about their long-term interests, the interests of their industry and of the economy which gives them sustenance. Otherwise, they may only see a very narrow, but often transient and quite possibly a self-defeating, view of self interest. While industry self-regulation of this sort is a necessary element for the "legitimate" exercise of power, it must be rigorous, and involve sacrifices if we are to bring back to participation in society those young men and women, who increasingly feel alienated from our basic institutions, public and private.

The individual business leader, no matter how clever or well-intentioned, does not always see all the consequences of his decisions. Like the rest of us, he is fallible, and can learn from others. He also has another very human characteristic all of us share. He does not always take kindly to criticism. That is why I stress the need for institutionalized procedures designed to protect and promote free analysis and criticism of business, as well as governmental, decisions as they affect the community.