internal affairs of others." Two years later, a Canadian-sponsored international commission went further, saying that the UN has a duty to stop mass murder and ethnic cleansing, and that when the evidence is clear, preventive military action might be warranted. Annan himself in 2005 urged that as a "last resort" in cases of genocide, ethnic cleansing, and other crimes against humanity, the Security Council should be able to "take enforcement action according to the [UN] Charter."

Yet the UN as currently constituted appears dysfunctional. "If the United Nations cannot bring itself to condemn even the horrors of Darfur because such 'naming and shaming' can be stopped by reprehensible regimes eager to escape such censure themselves," asks Nichols, "how can it be expected to exercise actual force against such regimes in the future?" The solution, he argues, is for the UN to stop admitting "illiberal regimes" to the 10 rotating seats on the Security Council, and to qualify the veto enjoyed by each of the permanent Big Five members by giving a supermajority of the council the power to override any veto.

Nichols believes that these reforms could be adopted if the United States and other major powers demand them, and threaten not to bring future issues of international security before the UN. Without such reforms, he says, the organization "will be doomed, at least as an arbiter of the use of force."

EXCERPT

Soft on Terror?

All European governments are reluctant to drastically alter their legal systems and basic political approaches to terrorism. The issue of homeland security was raised and essentially settled a long time ago when these governments faced a more "indigenous" terrorism (Spain's ETA, Ireland's IRA, Germany's Baader-Meinhof gang, and Italy's Red Brigades). . . .

As far as European countries are concerned, the fight against terrorism is a matter of police and intelligence, not military action. The growing isolation of Islamic radicals in Europe should allow the Europeans to continue with this "soft" approach. . . .

However, this approach will never totally eradicate terrorism. The European tradition of terrorism and political violence that has forged the experience of the counterterrorist institutions makes it easier for young activists to become violent. Put somewhat differently, the stigma attached to carrying out violence is relatively weak in Europe.

—OLIVIER ROY,
a professor at the School of Advanced Studies in the Social Sciences in Paris and author of *Globalized Islam*, (2004), in ***Current History*** (Nov. 2005)

ECONOMICS, LABOR & BUSINESS

Business the Beneficent

A SURVEY OF RECENT ARTICLES

Corporations today claim that they can do well for their investors by doing good for their customers, their employees, their community, and even the environment. Managers, says David J. Vogel, a professor of business ethics at the University of California, Berkeley, believe that a socially responsible firm "will face fewer business risks than its less virtuous competitors: It will be more likely to avoid consumer boycotts, be better able to obtain capital at a lower cost, and be in a better position to attract and retain committed employees and loyal customers."

The relationship between doing good and being profitable used to be regarded as much more indirect, writes Vogel in ***California Management Review*** (Summer 2005). After a court ruled in 1954 against a Standard Oil of New Jersey shareholder who had objected to the firm's gift of "his" funds to the engineering school of Princeton University, corporate philanthropy came to be widely accepted by large firms. Supporting civic, educational, and cultural activities and giving money to urban affairs programs and the like were seen as "enlightened self-interest," because businesses had a stake in the well-being of the society that let them make their profits.

But things have changed, according to Vogel. "Increased domestic and international competition, threats of hostile takeovers, the concentration of ownership in the hands of institutional investors, and changes in the basis of executive compensation" have forced managers to justify their actions in terms of their contribution to the bottom line, not just to society's well-being. Yet corporations have continued to expand their efforts to do good. Corporate social responsibility now includes everything from charitable donations, to voluntary expenditures on environmental protection, to paying Third World workers First World wages. And the doctrine that a big business is not bad business has helped make business careers much more inviting to young people.

Whole Foods CEO John Mackey argues that businesses can earn larger profits for their investors by *not* making that their primary goal. "The most successful businesses put the customer first, ahead of the investors," he writes in ***Reason*** (Oct. 2005). Indeed, at Whole Foods, the mission is to serve "all six of our most important stakeholders: customers, team members (employees), investors, vendors, communities, and the environment."

Proponents of corporate social responsibility fail to acknowledge the tradeoffs that must ultimately be made between doing well financially and doing good for society.

In a classic article in *The New York Times Magazine* (Sept. 13, 1970), Nobel Prize–winning economist Milton Friedman argued that the corporate executive's chief obligation was to investors; as the article's headline put it, "The Social Responsibility of Business Is to Increase Its Profits." If "social responsibility" were not mere talk, Friedman said, executives would have to spend money in ways that were not in stockholders' best interests—by passing over better-qualified workers, for instance, to hire hard-core unemployed individuals, with the aim of reducing poverty. That would be a disservice to investors, customers, and employees.

Three and a half decades later, commenting on Mackey's argument in *Reason*, the 93-year-old Friedman says that the differences between Mackey and him are mostly "rhetorical." He points out that, in his original article, he had observed that corporations often used "social responsibility" as "a cloak" to mask self-interest—a tolerable bit of deception, in his view, given the widespread hostility to business. If the particular socially responsible expenditures actually boost profits, then as a practical matter they're OK with him.

Friedman doesn't get it, Mackey says in a rejoinder: Whole Foods, Starbucks, REI, Medtronic, and thousands of other businesses "were created by entrepreneurs with goals beyond maximizing profits"—and those other goals "are intrinsic to the purpose of the business." They're not, in Friedman's phrase, mere "hypocritical window-dressing." The many stockholders of these corporations don't seem to feel cheated.

In ***Stanford Social Innovation Review*** (Fall 2005), Deborah Doane, a writer who heads a coalition seeking legal reform of the corporation in the United Kingdom, maintains that proponents of corporate social responsibility fail to acknowledge the tradeoffs that must ultimately be made between doing well financially and doing good for society. There's "little if any empirical evidence," she observes, that the market can reliably deliver both short-term financial returns and long-term social benefits. And when the two goals conflict, the quest for profits "undoubtedly wins over principles." She thinks that government should exert more oversight of corporations.

But trying to prove that corporate social responsibility consistently benefits the bottom line would be as pointless as trying to show that advertising does, says Vogel. Moreover, social responsibility may work for some firms but not for their competitors. The market niche for relatively responsible firms may be limited. And a responsible firm's success isn't guaranteed to last. Even some celebrated exemplars, such as Ben and Jerry's and Body Shop International, have run into financial difficulties lately. There's a place in the business world for socially responsible firms, concludes Vogel, but "this place is at least as precarious and unstable as [that] for any other kind of firm."

ECONOMICS, LABOR & BUSINESS

Age of the Oligarchs

THE SOURCE: "Corporate Governance, Economic Entrenchment, and Growth" by Randall Morck, Daniel Wolfenzon, and Bernard Yeung, in ***Journal of Economic Literature***, Sept. 2005.

THERE'S A FUNDAMENTAL REASON WHY the United States suffers more than its fair share of Enron-like corporate scandals—and it's not that American executives are greedier than others. The ownership of big U.S. companies is dispersed among many stockholders, leaving effective control of the corporation—and greater potential for hanky-panky—in the hands of top executives. In virtually every other country in the world, corporate ownership is much more concentrated, and that creates problems of its own.

In Sweden, the Wallenberg family controls roughly half the total market capitalization of the Stockholm Stock Exchange, report Randall Morck, of the University of Alberta, and Daniel Wolfenzon and Bernard Yeung, both of the Stern School of Business at New York University. Italy's Agnelli clan controls 10.4 percent of that country's market capitalization. The 10 wealthiest families control 19 percent of corporate assets in Austria, 29 percent in France, 21 percent in Germany, and 11 percent in Spain. A study of East Asia reveals equally dramatic levels of concentration. The top 15 families control corporate assets worth 84 percent of the gross domestic product in Hong Kong, 48 percent in Singapore, and 39 percent in Thailand.

What's most distinctive about foreign corporate structures, the authors say, is that the families *control* much greater assets than they actually *own*. They do so through "control pyramids" and other devices. In a highly simplified example, a family may operate a single holding company worth, say, $1 billion, which owns 51 percent stakes in two other $1 billion companies. The clan uses its control of the two firms, with a total value of $2 billion, to get each to acquire 51 percent stakes in two other companies, and so on. Thus, the clan's original investment can be leveraged many times over. Family members often cement their authority over firms farther down in the pyramid by installing relatives as executives.

Concentrated corporate control can have serious "economywide implications," the authors say. Wealthy clans use their power to buy political influence and protect the business status quo. As corporate proprietors who are interested in filling the clan coffers rather than in benefiting large numbers of stockholders, they can "bias capital allocation, retard capital market development, obstruct entry by outsider entrepreneurs, and retard growth." A bank that's enmeshed in a pyramid may, for example, be required to make loans to other pyramid members that wouldn't qualify in a free market or to offer very favorable terms. Or a clan may channel funds from one firm in the pyramid to another ailing firm—or to the family bank account.

It's impossible at this point to estimate what concentrated corporate control costs the world's economies, the authors say, but they seem to think that "scandalous" will someday prove an apt description.

ECONOMICS, LABOR & BUSINESS

Mysteries of Corruption

THE SOURCE: "Eight Questions About Corruption" by Jakob Svensson, in ***Journal of Economic Perspectives***, Summer 2005.

CORRUPTION IS THE NEW BÊTE noire of the globalized world, yet there's a surprising degree of uncertainty among specialists about its costs and cures.

There's even some doubt that corruption causes great harm to national economies, reports Jakob Svensson, an economist at the World Bank and Stockholm University. Scholars have yet to turn up much systematic evidence of the harm, and some, notably Harvard University's Samuel Huntington, argue that bribery and other shady practices have a bright side, helping firms operate efficiently