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