Will the Citizens United Ruling Prove Harmful to Capitalism?

The Wall Street Journal Law Blog
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February 26, 2010

We've read lots — trust us, *lots* — on the pros and cons of the Citizens' United case. Frankly, at this point, the debate is getting a little shopworn. On the one hand, you've got First Amendment concerns. On the other, a desire for a democracy untainted by money. Free Speech v. Democracy; Democracy v. Free Speech. Click here for an overview of some of the takes on the ruling.

But Harvard law professor and corporate governance expert Lucian Bebchuk, the author of Pay Without Performance, which took a critical look at current executive compensation practices, weighed in on Thursday with a thoughtful piece about why fewer limits on corporate campaign expenditures is a bad thing.

Bebchuk's main point: that the influence of corporations on "political outcomes" can actually serve to *weaken* the rights of shareholders. And that would ultimately, he argues, be a bad thing for capitalism.

To understand his argument, writes Bebchuk,

> It is important to focus on the individuals who make decisions for companies. When corporations decide which politicians to support . . .their general investors are not consulted. Rather, such decisions are likely to reflect the preferences and objectives of the insiders who manage the companies, ostensibly on shareholders' behalf. And politicians that benefit from corporate spending and access to corporate resources will have an interest in serving the insiders' preferences and objectives.

However, continues Bebchuk,

> In some countries, such as the US, ownership and control are separated, and companies are de facto controlled by professional managers. Such managers can be expected to use their influence to obtain and maintain rules that weaken the rights of dispersed shareholders and make it difficult for shareholders to replace them. Thus, in the US, corporate influence makes it difficult to obtain long-needed reforms that would eliminate barriers to takeovers and remove legal impediments to the ability of shareholders to replace company directors.

In other words, an increase in corporate power in the electoral process will likely only serve to strengthen corporate insiders and weaken the rights of shareholders. And Bebchuk thinks that increasing, not decreasing, shareholder rights is key to improving corporate governance generally. He writes:

> In sum, corporate meddling in politics is bad not just for those members of society who are not corporate shareholders. It also can be expected to reduce shareholder value and retard the development of an economy's corporate sector. That is bad for capitalists – and thus for capitalism.