THE ALLEGED SINS OF THE MODERN BUSINESS CORPORATION ARCHETYPE IN SHAPING THE "BOOM-BUST DISASTER CAPITALISM". A FREE MARKET ECONOMICS REAPPRAISAL

Octavian-Dragomir Jora*, Mihaela Iacob**

Abstract

Moral hazard defines the situation when the rightful owners of scarce resources are hampered by their entrusted agents from allocating these resources as they see fit, the later ones speculating not only the ubiquitous asymmetry of information, but the limitations, as coming from various state regulations, that impede the free and as complete as possible design of contracts in markets. The modern business corporation is said to be a particular headquarter of moral hazard – on one hand, between shareholders and managers, on the other, between itself and third parties – all that due to the legal shield that the "limited liability", as "unnatural privilege granted by the state", gives, fuelling propensity to pure speculation, and thus sending capitalism to ruinous instability. In our article, armed with reasoning coming from the Austrian School inspired libertarian ethics of private property rights (a rigorously reconstructed extension of classical liberalism precepts), we tried to enable the idea that in the corporation organizational design there is, ipso facto, nothing to be seen as an abusive license, granted by the state, through "limited liability" facility. In the light of this reappraisal, the corporation, the one that "strictly acts in the free market", and so respects the societal division of labour, third parties' legitimate property rights, not abusing the privileging safeguards (such as monopoly, customs protection or public subsidies, that incite the corporate actors to adopt abusive behaviours), is considered a socially benign capitalist pivot.***

Keywords: Modern Business Corporation, Private Property Ethics, Business Cycles, Capitalism, State, Market, Austrian School, Classical Liberalism

** Assistant Professor, Ph.D., Faculty of International Business and Economics, Bucharest Academy of Economic Studies*
E-mail: octavian.jora@yahoo.com
*** Assistant, Ph.D. Candidate, Faculty of Finance, Insurance, Banking and Stock Exchange, Bucharest Academy of Economic Studies*
E-mail: miuiacob@yahoo.com

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Nota bene: on the mainframe paradigm of the discussion

Modern libertarianism (in the sense the classical liberalism was refuelled by the economists and the ethicists in the Austrian School tradition, the intellectual acquis in which we enroot our plea) seems to still be in the stage of *ideological* and *methodological* sedimentation. *The purpose of statehood* in society as well as that that of *reasoning* in the argumentative process (serving for the habilitation of even the state itself as social institution) are still to be debated by both philosophers and epistemologists of libertarian pedigree. On the one hand, the "eclectic libertarianism" and even the narrow Austrian-libertarian one are described by a certain tension that exists between the degrees of respect that the state is supposed to be regarded with (ranging from intransigence in condemning its fundamentally aggressive nature, to minarchist theses that justify a very limited legitimate purpose of the government). On the other hand, libertarianism is equally the very nest of some methodological cohabitation: of the propensity towards rigorously deducing arguments from abstract fundamental principles, such as *the property right, the non-aggression principle, the principle of self-responsibility*, considered depictions of the natural law, and, respectively, the *passion* for demonstrating that their deductions from initial principles of this sort generate guidelines for the "public policies" (generally leading to retractile policies, rather additional to the already existing inopportune state interventions), presented as

demonstrably universally beneficial and perfectly applicable. Consequently, the resulting ethics is *deontological* (based on the validity of the natural law that it is derived from) as well as *consequentialist* (based on its provable benefits). The fact is that, by their ends and means, libertarians strive for both the *principle* and the *applicability*.

But, if the principles are not applied consistently and until their ultimate implications, the adverse consequences risk to be attributed to causes erroneously appearing to be responsible. (For instance, the discussion about corporatism in the classical liberal / modern libertarian tradition is particularly sensitive from this point of view[1].) We will make the critique of the alleged incompatibility between the *(private) incorporation* and the Austro-libertarian precepts by following the *praxeological* line and the *jus-naturalist (and praxeologically argumentatively consistent) ethics* of the Austrian School (AS), *via* Mises-Rothbard-Hoppe-Hülsmann main line of arguments (Ludwig von Mises [1920] 1975; [1922] 1981; [1927] 1985; [1949] 1998 etc.; Murray Newton Rothbard 1978; [1982] 1998 etc.; Hans Hermann Hoppe 1988; 1989; 1992; 1993 etc.; Jörg Guido Hülsmann 2004; 2006). The libertarian creed can now be summed up as (1) the absolute right of every man to the ownership of his own body; (2) the equally absolute right to own and therefore to control the material resources he has found and transformed; and (3) therefore, the absolute right to exchange or give away the ownership of such titles to whoever is willing to exchange or receive them. As we have seen, each of these steps involves property rights, but even if we call step (1) «personal» rights, we shall see that problems about «personal liberty» inextricably involve the rights of material property or free exchange. Or, briefly, the rights of personal liberty and «freedom of enterprise» almost invariably intertwine and cannot really be separated (Rothbard 1978). All discussions on the nature of corporations and the relation to modern capitalistic phenomena (as the economic crisis) will be dealt in the *praxeological, a priori, qualitative* Austrian-libertarian line of thought as opposed to *empiricist, positivist, quantitative* and *a posteriori* competing paradigm[2].

On the "alchemy" of corporations: freedom to contract vs. privilege

A significant part of the literature devoted to this particular "actor" (particular both from the point of view of its internal functioning and from that of its functioning within the broader societal dynamic) considers the *business corporation* as being a juridical and legal entity organized as a joint stock company, involving generally a large number of shareholders owning (different sized) amounts of

[1] For example, the controversies regarding the corporation's (alleged) character of distinct entity arise, *for once*, from the "concerns" that this shield – "the corporation" – created by (and supposedly creatable only by) legal *fiat* is nothing but a way of bringing a business from the spheres of "economic means" to that of "political means", according to Oppenheimer (1975) dialectic, which makes some interest groups better off at the expense of others (in that they are able to extract income, benefits and rents from the corporation's existence and activity), without being burdened with the corresponding obligations (which are transferred to the corporation, as a separate entity), these concerns *then* being accentuated by the fact that, historically, the incorporation phenomenon has coexisted with elements of governmental intervention. In any case, we don't share this line of reasoning. On the debate among libertarian views, see Eeghen (1997; 2005a; 2005b) and van Dun (2009), on one hand, Block (2002), Block and Huebert (2009) and Kinsella (Mises Economic Blog a; b), on the other.

[2] A brief comment on the *method of economics (and ethics)* within the realm of the Austrian School. Among the multiplicity of epistemological treatments applied to the sciences-about-man – the "social" ones, in other words, the sciences different from those analyzing his physical nature –, there is one named *praxeology*. This general theory of human action, which includes economics just as a subset, as conceived by Ludwig von Mises, regained the trust in the capacity of human reason and judgment to analyze the laws governing the personal action and interactions, that is what we call "social phenomena". The "human action" became a fundamental axiom for a theoretical construction having the same infallibility as the Aristotelian logics. *Homo agens* had the chance to be taken out of the historical pictures (where historicism kept it in refuge) and out of the social engineering laboratories (where positivism, unfortunately still present, arrested it), and be studied under its natural ontological structure. And recovering reason did not stop there. While the economic theory (as subset of praxeology) was gaining its philosophical and methodological foundations due to Mises – brilliant despite the neglect they were treated with by the "academic democracy" of the *mainstream* economics –, the same Mises, as a strict "value free" economist, was going, on the other hand, to exclude, right from the start, the possibility of an objective ethical theory, anchored in praxeology and having its epistemic strength. However, Misesian praxeology was not going to be totally useless for ethics: it remained extremely useful for deconstructing fake ethical and moral positions (Rothbard 2004, 1297-1327). The idea would be that, if we may prove that X is an impossible praxeological goal, and, by consequence, an absurd goal, it results that any attempt to approach X becomes also absurd (see the attempt to have "morality by force" – a contradiction in terms – or the "egalitarian" goals – contradictory to human nature itself). Murray N. Rothbard, a disciple of Mises who followed the praxeological line, but also who criticized the limits of the Misesian utilitarian defense of the voluntary social cooperation, freedom and property, acknowledged the necessity of an ethical system to round out the "value free" economic science. Drawing on the natural rights theory, as it was formulated by the Scholastics and, especially, on the work of John Locke, Rothbard (1978; 1998) built-up a scientific ethical system – the libertarian one –, based on the principles of self-ownership and, respectively, original appropriation of unowned natural resources through homesteading. Moreover, he demonstrated that an ethical construction built upon opposite premises is completely unable to be considered an ethical system equally applicable to all individuals as human beings, since following it *ad litteram* would suppose, at the limit, the extinction of the species (that being in contradiction to the very purpose of an ethical standard – to guide the human life). This rational ethics was strengthen by H.-H. Hoppe, for whom property rights are assumed *a priori* to argumentation, so it cannot be rejected in an interpersonal mutually respectful discourse without the one arguing the opposite to enter in selfcontradiction (Jora 2011).

shares (fungible and abstract parts of the property in the corporation equity, owned undividedly by the shareholders, but solely during the lifetime of the corporation).

It is said that the global modern capitalist world is (also) the (un)fortunate institutional result of the productivity in spatial and goods and services assortment expansion of corporate businesses.

Somehow ironic, the detail which explains both the virtues and the vices of corporations is identical: the limited liability "privilege", allegedly granted (not naturally permitted) by the state. The obtainable capital of a corporation becomes superior to that of any other juridical associative form (profits unlimited, losses framed), and this incite both to technological innovations, by alerting the general productive dynamics, and to morally hazarded habits, ruinous for capitalism. But what is there so unnatural, privileging and harmful in the corporative business organization?

Let's briefly survey the features of corporative organization and take notice of its main features: *entity status, limited liability, property-control bias, perpetuity* and check out their "naturalness".

— Legally, such ensemble, extended at an inter- / multi- / trans-national scale of the economic activity, has made that the corporation be classified in the logic of the *legal entity*; even though common logic allows us to distinguish between such legally personalized entity and a person in the natural and physical sense, corporations have for long been treated as holders of rights and obligations in activities such as selling and purchasing of properties or in other forms of contract (credits, suing or being sued, hiring and firing of employees).

Some clarifications on the entity status

Stating that a corporation is fundamentally distinct from the individuals composing it is merely wordplay. From the Austrian-libertarian perspective – and also from that of trans-doctrinal and a-ideological methodological *realism* –, the principle of *methodological individualism*[3] leaves no room for conceptual figments in a thorough research. As neither groups, committees or clubs can act as such, nor can the corporative aggregate. Only the individual members of these conglomerates – i.e. the shareholders, CEOs, managers or other employees – act and can be held responsible for their actions. The corporation is merely a name for the associative compact of the shareholders (as proprietors over the firm's material resources and assets) or for the entire entourage of the company (including the contractual agents who operate its pooled resources).

— Then, the large number of shareholders combined with the natural problem of the tension that arises from the principal-agent relationship between shareholders and managers (because of incongruity of personal interests and informational asymmetry) lead to the issue of limiting the risks and the possible losses by the owner shareholders, separated from the day-to-day functioning of the company; this is where their generalized option for *limited liability* (liability strictly limited to the amount of capital invested) comes from.

Some clarifications on the limited liability

The limited liability is a rational option, in the case of extensive partnerships, from the point of view of risk management among partners and / or delegates. But is it also legitimate? The key factor is the following: as long as all parties involved in a transaction with a multi-personal, limited liability "entity", understand what this entails and they accept this arrangement on these terms (aware that, in case of disputes, they will be able to claim compensation amounting only up to the capitalized value of the corporation), a corporation of this sort remains a benign product of the market, being subject to the rigor of *competitive selection*[4], like any other form of organization. Though, (praxeo)logically[5], the *limited liability* is, eventually, an ubiquitous fact, *a priori* for anyone entering any transaction: fair is just to have an estimation of its extent.

— Thus, a characteristic of the corporation, coming from the existence of a large number of shareholder-"owners" (even though, legally, the corporation would be self-owned), is the

[3] "The entity idea and its corollary – that a corporation cannot derive rights from its members – is false and should be discarded. Every organization, regardless of its legal form or features, consists only of individuals. A group or association is only a concept, a mental construct, used to classify different types of relationships between individuals. Whether the concept is a marriage or a partnership, a team, a crowd, a choir, a corps de ballet, or a corporation, one fact remains constant: the concept denotes the relationship between individuals, and has no referent apart from it" (Hessen 1979, 41).

[4] "Creditors, however, are not obligated to accept limited liability. As Professor Bayless Manning (1977) observes; «As a part of the bargain negotiated when the corporation incurs the indebtedness, the creditor may, of course, succeed in extracting from a shareholder (or someone else who wants to see the loan go through) an outside pledge agreement, guaranty, endorsement, or the like that will have the effect of subjecting non-corporate assets to the creditor's claim against the corporation». This familiar pattern explains why limited liability is likely to be a mirage or delusion for a new, untested business, and thus also explains why some enterprises are not incorporated despite the ease of creating a corporation" (Hessen 2002).

[5] Any exchange involves, in a certain degree, the limitation of liability, it's just that in certain cases, for matters of precaution, its range needs to be specified – as the assets of the corporation or those of the partners in an "unlimited liability" arrangement (which is, rigorously, absurd, as there is a limited amount, by means of *scarcity* itself, to which anyone can be held liable). So, who could, when selling or renting a certain good, stipulate how he will be held responsible in all imaginable situations of its functioning?

impossibility of the simultaneous management of all of the corporation's businesses by all these people: consequently, it only becomes natural to *separate the work of the shareholders from that of the management*, for reasons of decisional flow (of course, within the limits of a restrictive mandate designed by the former and consented by the latter.)

Some clarifications on the property-control separation

The so called phenomenon of *"managerial omnipotence"*, as we understand later on, is to be attributed to the unintended (or intended) consequences of public regulation that enhances the voice of managers at the expense of that of the shareholders (on which scientific literature after Berle and Means caught on only sporadically, the baseline being an insistence on "spontaneous" market failure in the distribution of property in modern financial markets). There should be made the distinction between the *natural division of labour* between owner-entrepreneur and its agent-manager, required for efficiency rationales, and the *severance of the free contractual relationship* between them through the "immunization" that certain regulations create, tempting managers to abuse the shareholders' trustfulness.

- Also, the problem of the large number of shareholders and the need to not slow down the functioning of the corporation by conditioning it on participation or lack of participation in the corporation's acts of either of the partners / shareholders (who can leave the company by selling their shares or by passing away) have led to the solution of *perpetuating* the "entity" (either until the shareholders would decide, based on what is stated in the contract / Chart / statute of the corporation, to dissolve it, or until the entity goes bankrupt).

Some clarifications on the perpetuity feature

The perpetuity of the corporation neither signifies that it will in effect exist forever, nor that the company has some sort of an entity, separate, existence from that of the shareholders. The corporation's perpetuity is nothing more and nothing less than a contractual inheritance mechanism conceived by its creators as a perpetual means through which the ownership titles on the corporation's assets cannot be materially executed, but only perpetually passed on, and this is a detail that is known by all those who obtain, either by purchase, donation or inheritance these titles (who can choose, for example, not to hold them if it would not be *a priori* in their benefit to do so). The sequence of the ownerships of titles of this kind (until the corporation is dissolved, either consensually or by going bankrupt) gives the possibility of *perpetuating*.

On the definition of moral hazard: information and property rights

At this point in the paper, we will briefly re-examine the issues surrounding moral hazard conceptual treatments, leaving aside the area of limited relevance of institutionally "neutral" analysis and "interpersonal asymmetry of information" and "the division of labour and knowledge" (developed within the mainstream literature), and bringing it over, following the vision of J. G. Hülsmann (2003; 2004; 2006), to the area of comparatist inter-institutional judgement. This is relevant especially as it offers a pragmatic and resolutive approach to the issue of moral hazard, that otherwise wonders between fallacious territories (comparing our world with imperfectly / asimetrically dispersed information with an idealistic and irealistic reference).

In Jora (2011), we have showed that *proprietarian analysis* (the analysis in terms of comparing consequences of actions in alternative institutional arrangements of property rights) offers the most relevant answers even in the understanding of moral hazard dynamics, because it places side by side, in a counterfactual manner, two both realistic and relevant terms of comparison: firstly, the manifestations of moral hazard (and of the mechanisms for its limitation, as well) existing in a situation where the affected parties are presumed to have an institutionalised respect for private property and freedom of contract; secondly, the situations where the institutional framework poses challenges in these areas through various forms of *state interventionism*.

Following J. G. Hülsmann (2004; 2006) treatment, we observe that, based on the two principal areas of emergence for moral hazard (*co-ownership* and the *principal-agent* relationship), we might underline two remarks regarding each of them. The first moral hazard fief, *state interventionism* in itself, is an unwelcome intrusion of some (the state, various interest groups) in the property of third parties (citizens), either *materially* (through expropriation, taxes or inflation), or *virtually* (through regulation). The second one, the *principal-agent relationship* (existing in every multinational corporation), can degenerate, in an environment captured by the interventionist ethos, into actual expropriation of the principal (the stockholder-owner) by the agent (manager-administrator). The manner of the expropriation is that, "legally", the former is blocked by the latter from configuring or exercising the precautions he wishes to implement, contractually, from those that are available to him on the free market (Padilla 2002; 2003; Padilla and Hilsman 2003; Padilla and Kreptul 2004).

The difference between the *informativeness paradigm* and the *proprietarian paradigm* resides, finally, in the following judgement. On one hand, informational asymmetries within markets represent just one of the causes of the moral hazard; they entail allocational disruptions, by expropriations of the one contracting part by another, only accidentally and ephemerally, because they can, in a truly free market environment, be easily overcome by improving their anticipative judgements regarding the behaviour of their counterparts, taking the needed safeguards or applying *ex ante* discounted evaluations of the services exchanged (if indeed considered important to take into account these occurrences, given the costliness of the process of making contracts more and more "complete"). One the other hand, moral hazard becomes really a hard to offset burden when states give discretionary regulations, thus allowing expropriations that can't be legally ruled out even if "everybody knows everybody else's behaviour", being even tougher to eliminate when the expropriators know that their victims are forbidden self-defending.

The line of analysis (Jora 2011) continued by probing three areas in which the corporate environment is intersected by the perverse incentives that provoke "moral hazard habits".

Firstly, we identified the *internal* phenomenon of *"managerial omnipotence"*, attributed to the unintended (or intended) consequences of public regulation that enhances the voice of managers at the expense of that of the shareholders (an element on which scientific literature after Bearle and Means (1932) caught on only sporadically, the baseline being an insistence on "spontaneous" market failure in the distribution of property in modern financial markets). In this line of argument, there are the managers who expose the wealth of shareholders in unhealthy speculations that eventually turn heavily against those who(se resources were) malinvest(ed). The managers rip off profits in booms, the shareholders suffer losses in bust periods.

Then it became evident how corporations (equally embodied by stockholders and managers) become guilty of "trans-societal moral hazard", through operating privileges (*legal tender* laws, *fractional reserves*, protection of *borrowers of last resort*, *public guarantees of deposits*). These companies set out on a course of action that represents continual expropriation (by means of money and credit inflation) in their favour and that of their immediate clients, while affecting those ones with rigid incomes. Their either course of action means entering into the relative "decapitalisation trap" (*leveraging*), where they actively support the expansion of credit, generating *malinvestments*, knowing that the losses are to be covered by a public bail-out.

Conversely, we might show how inefficient agents demand "equality of chances", through legislation which raises the costs for competitors, serving as a *discouragement* of authentic results in the private spheres. Invoking "anti-monopoly" (antitrust) laws based on the inconsistency of the criterion of perfect competition and the existence of monopoly position and prices serves to blur the reason for which market concentration was attained (private efficiency or, on the contrary, public privilege), penalising as such undeservedly the efficient corporative businesses. Those being granted with explicit or implicit privileges tend to exploit them bluntly, but this can be reversed when market downturn is harder than the pace of rent extraction.

Therefore, we may grasp how moral hazard is linked to corporate life, both inside and outside. We have one more step to picture the relation corporation-states-markets-business cycles.

On the definition of business cycle: a market or government failure

Here we come to another hotspot of the capitalist system: economic crisis, as parts of the business cycle phenomenon, equally attributed to market-specific or state-provoked drifts. The most coherent explanation of the modern economic crisis phenomenon is, in our opinion, the Austrian business cycle theory. Firstly outlined by Mises in 1912 (Mises 1953), and refined continously by other economists in this tradition – Hayek, Haberler, Ebeling, Rothbard, Hülsmann etc.), it arguably remains the only explanation of recurring economic cycles consistent with, and integrated into, the *general economic theory* (a feature not succeeded, for instance, neither by the Marxian nor by the Keynesian treatments upon the issue).

Identifying crisis on two major coordinates – the appearance of mass entrepreneurial error and its concentration in "higher"[6] stages (producing capital goods) of production –, Austrian authors (Mises 1912; Rothbard 2000; Ebeling 1996) attribute it to "unanticipated expansion of credit". This expansion is made possible precisely by the organization / operation of the modern banking system (fractional reserves, central banking, and *fiat* money). It has a complex source: first, the production (and hence the expansion) of money supply is made by the central bank (the State monopoly of money production); afterwards, through the fractional reserves system[7], banks take part into the money expansion (the mechanism of *credit multiplication*).

It was Mises who realized that the production of additional money through the modern banking

[6] "Superior" doesn't mean anything else in Austrian terminology rather than stages more distant from consumption; "inferior" signifies stages nearer to consumption.

[7] The basic feature today is no longer the non-coverage of demand deposits with reserves, but the elimination of any distinction between demand and term deposits, which makes virtually all bank deposits de facto demand deposits.

system[8] does not stay at the level of simple inflation (generating only uneven price increases and redistribution), but also affects *credit* and the *interest rate*, and altogether produces changes in the *inter-temporal structure of production*. And that because the new money first enters in the form of credit in the banking system, influencing (lowering) interest rates, without this being "taken into consideration" in the rest of the production structure. Therefore, there is a mismatch / incompatibility between the interest rate (which decreases) and the rest of prices structure (which, initially, remains unchanged), with noticeable effects.

Changes in the interest rate do not identically affect all business and investment projects, but more heavily the relatively "longer" or "capitalistic" / "capitalized" ones (further in time, in the production structure, from consumption). So, if there is unanticipated expansion[9] of credit in the system (the cumulative result of pumping reserves into the system by the central bank and of multiplying credit through the fractional reserve mechanism), the interest rate will tend to fall below what it would have otherwise been, which is misleading for entrepreneurs. They, perceiving illusorily a relief regarding the access to capital, will launch themselves into more ambitious investment projects ("longer", and more capital "intensive").

Things go apparently great until the entrepreneurs and employees from the area of these new initiated investment projects "meet" at the market with the people wishing to exercise their present consumption at levels consistent with prior interest rate. And this because, in fact, the structure of preferences has not changed. This was only falsely suggested by the artificial expansion of credit. This "clash" begins to occur immediately, but becomes obvious only gradually, along with price increases. The entrepreneurs initiating "longer" projects acknowledge that now they no longer seem profitable. Correlating with the actual prices, interest rates also tend to be corrected back upward; we have entered the crisis.

Thus a turning point is reached: either credit expansion ceases and unsustainable projects are liquidated – liquidation matching the expansion in importance; or, still confident in its own money management capabilities, the central bank facilitates again, implicitly even more, the lending conditions through a new round of credit expansion. In this case (very probable, due to political sensibility to crises, even these are corrective one from the perspective of not wasting the social resources), the cycle repeats: back into the seemingly profitable projects and perhaps even new ones will be initiated. Once again the investment atmosphere becomes an optimistic one, and interest rates go lower (than it would have been otherwise[10]).

The *moral hazard* enters in conjunction with the *business cycle* dynamics when certain actors in the market (be they of a corporative nature, but this not being necessarily a dangerous feature, as we shall see) deliberately tend to ignore the long term dynamic of monetary manipulations and credit market easing, choosing to exploit the unanticipated nature of this process by other co-participants, engaging in pure speculation in order to collect "abnormal" profits unrelated to their true social serviceableness. The case of the banking system is very instructive. It is endowed with substantially institutional privileges: it is under the umbrella of the "lender of last resort" (the central bank) and it has its deposits (publicly) insured.

Of course, it is not just de (corporate) financial and banking system the only profiteering agent from the fraudulent dynamics of modern money and banking, but many other entities that come firstly in the chain of money and credit expansion: some of them are encouraging the process, via political mechanism, arguing that they are industrial champions, "(politically) too big to fail". Apart from banking sector, there are other (corporate) actors, heavily dependent on the manipulated inflationary habits, and their expansion is encouraged due to either interest group rationale or to electorally-oriented nominal rise in employment figures.

Corporations – moral hazard problems – the boom-bust capitalism

Conventionally, it has been agreed that the "modern global capitalist world" is (also) the institutional result of *corporate* business productivity in spatial

[8] To clarify the implications of this distortion, a brief explanation of the functioning of an undistorted system is needed (100% reserves, free banking business, free private money production). Here, the only source for loans available for banks are term deposits, which come from population's real savings (or, in other words, abstention from present consumption), or the banks equity (also from prior real savings – from entrepreneurs in the banking sector). The interest rate in the market reflects the "cost of capital" (not of money), that is of the "waiting" time those who have saved are willing to accept. A lower interest rate means relatively more capital available for entrepreneurs, along with a relatively more important abstention from present consumption of the population. The very reduction – at least counterfactual (compared to what it would have been otherwise) – of current consumption of savers releases additional capital that entrepreneurs can borrow in relatively more favourable terms (through the credit market in general and the banking system in particular). The other way round, a higher interest rate denotes the population's shift towards consumption, a decrease in savings, that is of the resources available to entrepreneurs in the form of loans. This interest rate signal is therefore crucial for entrepreneurs, particularly with regard to the size of the inter-temporal structure of production.

[9] If entrepreneurs anticipate expansion, this will make the virtual distorted "signal" of interest rate to be corrected (with inflation).

[10] Without the distortion induced by the "corrective" interventions. On the use of the "than otherwise" formulation as opposed to ceteris paribus, see an interesting view by Hülsmann (2003).

and range expansion. With its / their prons and cons. Corporations are, beyond the idea of "separate entity" that would define them (i.e., legally animated… person), merely, special associative inter-personal structures. The irony is that the detail which explains both the virtues and vices of corporations is the same: *the limited liability* "privilege". Somehow due to this situation, the obtainable capital base of a corporation becomes superior to that of any other legal associative form: the corporation attracts, through stock exchange, capitalists tempted by unlimited profits, under conditions of limited losses. And the risks, packed in a limited buffer, incite to financially risky technological innovations, and thus alerting the overall dynamics in capitalistic society.

But, it is stated that capitalism's vocation has been distorted by the "unchaining" of free *corporate* enterprise: speculative instability increases, because the ownership of assets is separated from their management, and the responsibility is melted in an impersonal vacuum; concentration of power increases in the market (through scale effects and inter-firms acquisitions and mergers mechanism), resulting in "a few" controlling the scarce resources in economy; the managers obsession to dedicate profit to shareholders paroxysmally increases (in order not to be sanctioned through "hostile takeovers"), and the capitalist ethos becomes much too materialist and much less *corporate social responsibility* oriented; the temptation to lose the personal moral spirit in corporatist entourages increases, because, it is said, where responsibility becomes limited, morality tends to follow suit. But are those imputations correct?

And from this malaise the crises are somehow erupting: in the subprime boom of the limited liability corporatism, it has been never-endingly investing, people have lived above their means, they have been shamelessly allured, and everything has been massively wasted! Could there be, however, a causal relationship between "limited liability corporatism" and "speculative turbulence capitalism"? This is one of the "applied" questions of our paper's *perspective rooted in property* (otherwise, a paper of a "basic research" nature). Hence, limited liability, freely agreed as such by incorporated associates and freely accepted as such in transactions with third parties in the market, introduces only a difference of degree regarding the way economy usually works: if shareholders have limited liability business, they are "unlimitedly" held responsible in the rest of "civil" interpersonal relationships; in other words, each of us has limited liability and, simultaneously, is held responsible against all our possessions, in the "amount" of the entire contexts in which we act. The full explanation so comes from elsewhere.

On the *market* there are no black holes that could melt private responsibility, in the same manner as "enough liability" can't be created *ex nihilo*. On the other hand, there are situations in which, outside market logic, some agents enter the moral hazard spiral, thus becoming institutional beneficiaries of socialised losses. We refer to a "super-limitation" of responsibility; and this is the degenerating political privilege; this is what *diminishes responsibility*. And if economists who focus on "information" say that moral hazard (waste of some expropriated resources) emerges from asymmetry of knowledge and of imperfect monitoring between individuals with conflicting interests[11], "economists of property" assert that moral hazard is even worse with… transparent information: when some know that his profits will be enhanced (and / or losses socialized) by expropriating someother, they cynically waste resources.

Alone, *limited liability* cannot provide a causal explanation for "economic crisis", ubiquitous in human actions. Economic crises arise from allocation mistakes, monetarily bribed and sponsored by the moral hazard of the "wrongdoers" who anticipate to "fall on their feet"[12]. As simple market actors, corporations do not carry the virus of capitalism's turbulences: consequently, the banking system incite to malinvestments and redistributive speculations, not because it is corporatist, but "due" to the system(at)ic protection it benefits from *the lender of last resort* and *the public guarantor of deposits*. Other corporations as well as households (as beneficiaries of inflationary credit and capitalization through over trading on stock exchange) are not guilty for their wrong behaviour, simply because they are "limitedly liabile", but because they have been "encouraged" by their governments to self-consider as *"too big to fail"*.

Conclusion

In this essay we tried to show that modern business corporations, as such, have nothing to do with perverting the fructuous workings of capitalism (as epitomized by the boom-bust business cycles), because they allegedly received, undeservingly, the privilege of limited liability that incites to

[11] Between parties in contractual position, each individual would be tempted to serve himself, serving more or less the counterpart in interaction / contract, counterpart that cannot know his intentions and actions. But "economists of property" say the market can provide satisfactory precautions to such situations of opportunism: on the free market, rational and unhindered individuals apply an implicit discount, undisclosed as such, but all the while present in the evaluation process, to the price paid for the services of third parties which operate them or with whom they share the property: the rational employer always bids for a salary from which he extracts the cost of monitoring or loss from "unobservable fraud" regarding the property entrusted to employees for management (because, for the visible ones (frauds), there are courts!); in the same manner the associates of a company "judge each other ".

[12] The excessive speculation is motivated by political over-limitation of liability, and not by the limited liability itself: the modern fiat money speed of movement (dependent on the speed of banking emission / multiplication), increases the tendency towards "purely speculative", "non-productive" activities, exacerbated by the political guarantees.

irresponsible behaviours and to a quest for large-scale speculation instead of productively adding value in society. Though, left unhampered, markets have their ways to tame those acting abusively under the shield of limited liability, be they managers segregated or not from their entrusting shareholders. The pure greed, the blindness, the gregariousness, the excessive speculation are not to be tied to the natural "limited liability", a quite pervasive feature in businesses, be incorporated or not. To incriminate an excess of something involves offering, simultaneously, a standard of normality. So, how much risk taking / speculation would be normal to exist on a market? Such a response cannot exceed the condition of "taste" and these standards have dramatic consequences when being coercively defined.

Theoretically, no one has ever succeeded in isolating the profit driven speculative element, ubiquitous in any (entrepreneurial) human action, and in quantifying it. A certain "size" should be measurable according to a scale. As for "speculation", such an "endeavour" (subject to absurdity) still waits for acting men. Puting it otherwise: do we accuse the markets either for moving too fast (hiper-speculating), or for moving too slow (when states are asked to come and offer the "lingering" public goods)? What is better, then?; for whom, when and where? In another train of thoughts, it is clear that, in places where we find easy money, its speed of movement (dependent on the speed of banking habits) increases, *ceteris paribus*, the propensity for "purely speculative", "profit-obsessed", "market-dominating", "immorally-tending" actions. Speculations, with their ups and downs, must be severed from what incites to illusions or fraud. Those mastering the corporations might be, at most, guilty for supporting illusory or fraudulent institutions and policies, and not for being "limitedly liable".

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