Galbraith Reaction

Michael Plasmeier

I do not agree with Galbraith’s assertion that stockholders have absolutely no control over corporations and that this is a bad thing.

First off, Galbraith points out that there have been points where large stockholders have influenced the direction of a company. However, much of the stock is owned by small stockholders. Individually these stockholders cannot change the outcome. But they may try to band together. However, even this is difficult, because the marginal input shareholders have is not worth the large amount of time and effort needed by each shareholder to plan business strategy. Instead, they entrust this to experts who have are dedicated full time to the problem.

They might not be able to pick the individual people, but if something goes wrong, they can make major changes. This incentivizes management to stay relatively (albeit not exactly) on target. If something is egregious enough to raise attention, the shareholders will react.

This is the same how politics works. Each voter does not research and decide every bill. However representatives know that their actions will be watched. If they do something egregious, then they will be voted out of office during the next election. We can see this happened when the state of PA legislature voted themselves a pay raise in the middle of the night.[[1]](#footnote-1)

Even the legislator cannot review every action the executive branch takes. They set the ground rules through laws and if something goes wrong, they hold a hearing. This is the same function that the shareholders serve in a corporation. It is the right balance of accountability and efficiency.

1. http://www.philly.com/philly/blogs/growls/Pay-Raise-Remembered.html [↑](#footnote-ref-1)