

Organizational law } comprising the bodies of law that govern standard legal entities such as business corporations, partnerships, cooperatives, nonprofit organizations, trusts, limited liability companies, and marriages } serves many functions of an essentially contractual character. These contractual functions } which include most matters involving the allocation of authority and earnings among the participants in the firm } could, however, be performed relatively easily by private contracting even in the absence of organizational law. A far more important function of organizational law, we argue, is its role in partitioning property rights between creditors of a firm and creditors of the firm's owners and managers. In particular, organizational law plays a crucial role in permitting the formation of a separate pool of assets that can be pledged to bond the contracts of which the firm is the nexus. While the law's role in partitioning off these bonding assets is seldom remarked, it is far more significant than the better-studied rule of limited liability that characterizes many, but not all, legal entities. (2000 Elsevier Science B.V. All rights reserved.