Chapter 16

FROM SOCIALIZING CAPITAL: THE RISE OF THE LARGE INDUSTRIAL CORPORATION IN AMERICA

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Introduction

In the first year of this century, a group of bankers led by the venerable J. P. Morgan and a group of steel men created the U.S. Steel Corporation, America's first billion-dollar corporation. Built around the core of the former Carnegie Steel Company, U.S. Steel merged nearly all major producers of iron, steel, and coke. Public opinion at the time focused on its mammoth size and its potential monopoly power. Looking back, we recognize it as a symbol of a broader movement that we now metaphorically but appropriately call the "corporate revolution." As in political revolutions, the economic changes that came to a head in these years were cataclysmic and far reaching. Like the transformations in France, Russia, or China, the corporate revolution had been brewing from slower, evolutionary changes, but was triggered by a set of events unanticipated by most of the participants. The nature of this revolution, its causes and consequences, have been energetically debated in both academic and popular circles, often with thinly veiled ideological overtones. But all agree that the corporate revolution was a major watershed in American history. The period at the turn of the twentieth century marked the transformation from one way of life to another, from a society based on rural, agrarian, local, small-scale, individual relations to one based on urban, industrial, national, large-scale, and organizational relations. At the heart of this was the rise of the large industrial corporation, which has continued to cast its shadow over all society ever since.

Americans recognized U.S. Steel as a milestone even if they did not realize all its historical ramifications. Only twenty years earlier, an entity like U.S. Steel would have been implausible. Although the institutional structure of corporate capitalism, including the stock market, investment banks, brokerage houses, and the financial press had been operating for decades, it was confined almost entirely to government bonds, transportation, and communication. The large, publicly traded *manufacturing* corporation was rare.

The large manufacturing corporation, unusual before 1890, became the dominant mode of business organization in two major steps. The first was

the creation of the large private business corporate institution itself, its origins as a quasi-government agency and its metamorphosis into private property. The historical question is how an organizational form constituted as an extension of state power to accomplish publicly useful projects was transformed into a sanctuary from state power as the institutional basis of private accumulation. This was achieved in the 1870s. But until the century's end, the corporate institutional structure was confined to those arenas of economic life that Western governments have generally claimed special jurisdiction over, namely, infrastructural sectors of transportation, communication, and finance.

The second step was the extension of the corporate institutional structure into manufacturing. As late as 1890, fewer than ten manufacturing securities were traded on the major stock exchanges, and most of those, like Pullman's Palace Car Company were closely associated with the railroad (*Manual of Statistics* 1890). The world of manufacturing and the world of finance capital were institutionally distinct. Investors considered manufacturing companies too risky and industrialists resisted surrendering control to outsiders (Navin and Sears 1955; Carosso 1970). To be sure, there were large corporations. The hundred-million-dollar Pennsylvania Railroad was the largest company in the world. And there were large manufacturing companies. Carnegie Steel Company, an unincorporated limited partnership, was the largest manufacturing operation in the world (Wall 1989). The institutional structures of those two giants, however, were distinct from each other. Industrialists created firms through personal funds, reinvested mercantile capital, and internal growth. Andrew Carnegie started his steel company from personal profits amassed speculating in railroads and built it by selling steel to railroad and locomotive companies. He had close personal relations with railroad leaders, but few institutional relations outside of market transactions (Wall 1989). As in most industrial firms, ownership was personal and confined to one or a few individuals.

Wall Street, in contrast, operated as a distinct institutional structure, following the dynamics of a speculative securities market, only indirectly related to the world of manufacturing. The stocks and bonds traded there financed railroads, telegraph, municipalities, and governments. The railroad companies which laced the country with steel rails were considered virtual money machines for local elites, who were convinced that their city would become the next St. Louis, the archetypical boomtown; for the deep-pocketed foreign investors, who hoped to capture their profits from America's Manifest Destiny; and for the investment bankers and stockbrokers, who enjoyed commissions from others' investments as well as reaping the profits of their own.

In the years around the turn of the century, these two institutions, the industrial world of manufacturing and the financial world of stocks and

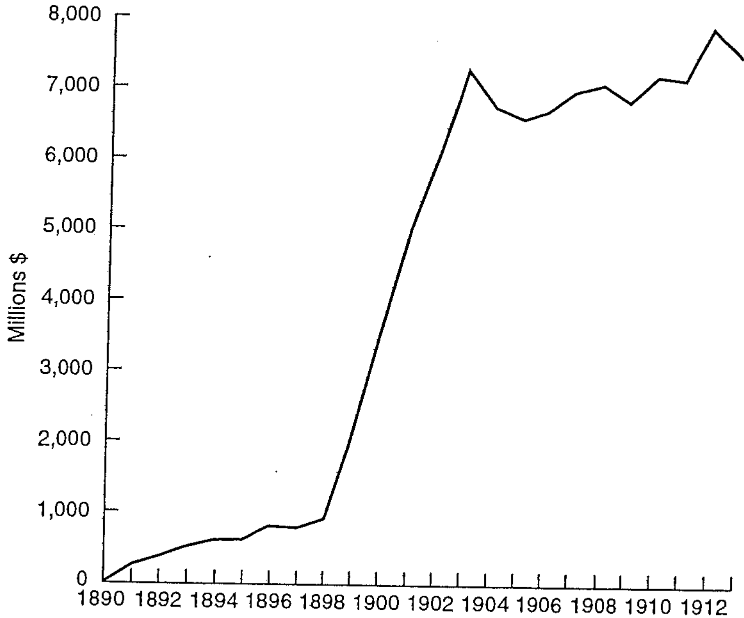

FIGURE 16.1 Aggregate value of stocks and bonds of corporations listed on major stock exchanges, 1890–1913. (*Source*: Data drawn from *Manual of Statistics*.)

bonds, merged together in what we now call the corporate revolution, a remarkably abrupt proliferation of large manufacturing corporations from virtually nothing to economic domination. Starting from 1890, the aggregate amount of capital in publicly traded manufacturing companies crept up until 1893, when the depression stalled economic expansion, then jumped from $33 million in 1890 to $260 million the following year (see figure 16.1). But these figures were small compared with the multi-billion-dollar totals after the turn of the century. In 1901 the food industry alone totaled $210 million in common stocks (*Manual of Statistics* 1901). The major expansion began after 1897, and in 1898 almost reached a billion dollars. It doubled in 1899 to over two billion, and doubled again over the subsequent two years, and hit over seven billion dollars in 1903. It then fluctuated around the six- to seven-billion-dollar mark until the outbreak of World War I. These figures from the years 1898 to 1903 trace a major change from one economic system to another, a new corporate order in manufacturing. The total par value of manufacturing stocks and bonds listed on the major exchanges in 1904 was $6.8 billion, more than half the $11.6 billion book value of all manufacturing capital enumerated in the 1904 census (U.S. Bureau of the Census 1975, 684).[1]

The Significance of the Corporation

All agree that the events around the turn of the century were transformative and profoundly changed the nature of American society. But the nature of those changes has been vigorously debated, not only in terms of what explains the transformation, but also in terms of what is to be explained. Managerialists have described these changes as the rise of the modern business enterprise and have emphasized the internal organization of managerial structures (Chandler 1969, 1977, 1990). Historians of technology have described the inventions and practices that created the system of mass production (Piore and Sabel 1984; Hounshell 1984). Some business historians have focused on the process by which large corporations were formed through mergers (Nelson 1959; Lamoreaux 1985). Sociologists as well as historians have set the new large firms within the context of an organizational revolution in all major social institutions (Galambos 1970; Boulding 1953; Lash and Urry 1987; Perrow 1991). Organizational sociologists have emphasized the conception and structure of control over the enterprise (Fligstein 1990; Perrow 1986; Zald 1978). Marxists have analyzed the relationships between the classes within the productive process (Edwards 1979; Gordon, Edwards, and Reich 1982; Braverman 1974). All of these different perspectives identify important and consequential changes in the social dynamics of how our society creates and distributes material resources. Despite the different emphases, they address the same agenda in two ways: first, they all agree that the appearance of U.S. Steel, General Electric, American Tobacco, and similar entities marked a major transformation in the American social structure. Second, they have all participated in a major underlying debate over the extent to which the economy operates according to an economic logic based on efficiency or operates according to a social logic based on institutional arrangements, including power.

This book makes two simple claims. First, I argue that one of the most fundamental and dynamic facets of the transformation underlying the rise of entities like U.S. Steel was a shift in the form and organization of property, as constituted in major political and economic institutions. The large publicly traded corporation transformed the organization of ownership so that economic entities were each owned by many individuals rather than a few, and many individuals owned pieces of many units. This transformation socialized property, altering the basic relationships among owners, workers, managers, suppliers, and consumers. That is not to say that managerial structures, technologies, mergers, or systems of control were unimportant. Each of them had major autonomous effects, but their effects were refracted through the institutional relations of property. Second, I will argue that efficiency theory, the prevailing explanation of change in the organization of the economy, is inadequate to explain the rise of the large publicly traded industrial corporation.

Property, Power, and Institutions

While others have framed the rise of the large corporation in terms of managerial hierarchies, technological developments, mergers of smaller firms, the general growth of large organizations, the conception of internal control, and the conflict between classes, I examine major corporations as a form of property set within a broader institutional structure shaped by the dynamics of power at least as much as by efficiency. The major, publicly traded large-scale corporation constituted a new type of property, socialized property (Zeitlin 1989). Socialized property means that instead of each firm being owned by one or a few individuals, each firm became owned by many individuals, and individual owners in turn typically owned pieces of many firms.[2] In the process the social nature of property itself was transformed. The consideration of property implies a degree of inequality, that the social processes determining the shape of the economy are explainable by power, not just efficiency. Moreover, the social relations of property and the underlying dynamics of power are set within the interorganizational frameworks we know as institutions. This section sketches how the concepts of property, power, and institution shape the analysis of the corporate revolution and concludes that they intersect at the concept of social class.

PROPERTY

Property can be defined as the set of politically enforced rights, entitlements, and obligations that people have in relationship to objects and in relationship to other individuals (owners and nonowners). Rights include such things as authority to make decisions about what products to produce or whom to hire as labor, and how to dispose of a completed product. The conventional conception of property rights emphasizes that property rights limit government intrusion in the same sense that the right of free speech or religion limits the government's powers over individuals (Ryan 1987). Entitlements involve matters such as profits from the use of objects. Capitalism makes no distinction between the entitlement of using objects for oneself and regulating how others may use objects that one owns. A factory or leased land is legally equivalent to one's clothes or residence. Obligations are a matter of accountability concerning objects, especially liability for injuries suffered while using objects or debts incurred while using them. Although courts, especially in this century, have tightened the liability that owners have concerning injury related to their property, the corporation's limited liability has shielded owners from any risk greater than their invested capital. I want to emphasize three points about this definition: the fact that the specific rights, entitlements, and obligations are variable rather than fixed; the

social nature of property relations; and the active role of the state in enforcing property rights.

First, the specific rights, entitlements, and obligations are quite variable. Contrary to classic liberalism, there are no inherent or natural "property rights." The conception of inalienable or natural property rights existing prior to society or history may have been an effective ideology for creating capitalism, but it has clouded the historical analysis of what specific rights, entitlements, and obligations govern economic relations. Rather, the content of property relations is historically constructed and must be explained, not taken for granted. The rise of the corporation fundamentally changed the nature of the rights, entitlements, and obligations bundled with ownership of productive enterprise (Berle and Means 1932; Horwitz 1977; Sklar 1988; Creighton 1990; Lindberg and Campbell 1991). The nominal owners effectively lost many of their rights, entitlements, and obligations. Whereas previously the right to determine what products to produce or whom to hire and the entitlement to profits and the obligation to pay debts had been bundled together with ownership, the corporation separated them.[3] Courts and legislatures increasingly treated the corporation as an entity in itself, legally distinct from the individuals who owned it, and increasingly treated management, not stockholders, as its representative. For example, prior to the 1880s, when a railroad entered receivership, judges ordinarily appointed a committee of owners, bondholders, and debtors to reorganize it. But the practice changed abruptly when judges began to appoint managers. Given that receivership was one of the primary means of altering the distribution of entitlements, stockholders were substantially disenfranchised (Berk 1994).

The second point to emphasize about this definition is that property is a social relationship; it involves rights, entitlements, and obligations not only in relation to an object itself but also in relationship to other individuals (Hurst 1978; Horwitz 1977; Renner 1949). The owner of a factory not only has the right to decide what to use his or her factory for, a relationship of the owner to the object, but also the right of authority over others participating in using the factory, the right to distribute the value created in the factory (an entitlement), and obligations to pay debts incurred in production. The social relationship among owners, managers, suppliers, workers, and customers was radically altered by the corporation. No particular owner retained any authority over any particular worker, but all authority was mediated through the board of directors and management. Rather than freeing those who run enterprise to become "soulful," managers are constrained to maximize profits for those to whom they are ultimately accountable.

Third, this definition of property emphasizes that property is a relationship enforced by the state (Sklar 1988; Weber 1978; Zald 1978; Fligstein 1990; Lindberg and Campbell 1991; Campbell and Lindberg 1991; Scheiber 1975). Although the American state has developed a relatively small apparatus to regulate markets and oversee production, even at its most laissez-faire,

it defined and enforced the rights, entitlements, and obligations of property. Even the freest of markets requires specific government actions and policies to enforce contracts, punish cheaters, regulate money, and ensure stability. There is no such thing as nonintervention (Polanyi 1957). The corporation is a creation of the law, a "legal fiction." Natural individuals are automatically recognized by the law and have a basic right to own property, sign contracts with others concerning that property, and sell that property without explicit recognition by the state. But a corporation exists only when chartered by the state. A group of natural individuals can constitute themselves as an organization, and can sign individual contracts defining their economic relationship to one another and the rights and obligations they have to the organization, but the organization itself cannot exercise property rights, sign enforceable contracts, or sell property unless it is explicitly granted that right by the state. Thus, explaining the rise of the large industrial corporation requires analysis of the legal changes underlying corporate property. Although most treatments of the American state have focused on the federal government, it was the individual states that were constitutionally and practically responsible for defining and enforcing property rights. There was considerable variation among the states in the particular rights, entitlements, and obligations that came with incorporation, and these differences affected the form and location of corporations. At the one extreme, by the end of the century New Jersey allowed corporations to own other corporations, making it the overwhelming choice of huge mergers, while at the other, Ohio continued to uphold double liability; by which owners were liable not only for their invested capital but for an additional amount equal to it.

I will argue that corporate rights and entitlements and the new social relations enforced by the state did not dissolve the class nature of property as much as they changed it by socializing it throughout the class and by creating an organizational mediation among the classes and class segments (Zeitlin 1980, 1989).[4] By mediation, I mean that the underlying class relationship became redefined in terms of not just one's relationship to legal ownership but one's social relationship to corporate property. The relationships that class describes, such as hiring people to labor, exercising authority over decisions about what to produce or what technologies to adopt, determining how products are sold, are now mediated by the corporation. One is no longer hired by individuals, but hired by a corporation; one can no longer sue owners, but only the corporation. In contemporary America, one's relationship to corporations is now the most important determinant of wealth. Whether one works for a corporation, manages a corporation, owns stock in a corporation, or lends money to a corporation differentiates the wealthy from the rest. To assert that the large corporation did not dissolve the capitalist class does not mean that I claim that class dynamics by themselves explain the rise of the corporation, nor does it indicate that the capitalist class acted as an organized, coherent, or conscious group throughout these events. The

extent to which class interests are at stake, that is, the extent to which people objectively gain or lose from historical events, the extent to which people with common class interests act in concert, and the extent to which they are aware that they share interests with others are empirical questions, not articles of faith. But such issues of class do belong on the agenda for explaining how economic relationships change. When class interests (or the interests of class segments) are at stake, such as when manufacturers were resisting corporate takeover, the outcome will be determined in large part by the extent to which people with common class interests act in common. For example, the antitrust legal actions corroded class solidarity among small and medium-sized manufacturers, making it easier for corporate capitalists, who were knitted together by shared ownership and common investment institutions, to prevail both economically and legally.

POWER

The conventional sociological definition of power is taken from Weber (1978): the ability of one actor to impose his or her will on another despite resistance. I broaden that to define power as the extent to which the behavior of one person is explained in terms of the behavior of another. Like Weber's, this definition characterizes a relationship rather than a single person. It incorporates Weber's definition as one dimension of power, "behavioral power," which refers to the visible overt behavior of the power wielder in the form of a command, request, or suggestion. But Weber's definition does not go far enough to cover all the ways that behavior is affected by others. There is a second dimension of power, "structural power," the ability to determine the context within which decisions are made by affecting the consequences of one alternative over another. For example, an employer that hires sociology majors rather than economics majors structures the consequences of choosing a major and is exercising power over students deciding on a major.[5]

This second dimension of power, structural power, allows us to include rational action within a theory of power. The concept of structural power permits a variety of motives for behavior, including rationality. The fact that an actor rationally decides to maximize his or her utility does not mean that power is irrelevant to an explanation of behavior; power operates in setting up the choices the actor faces and the consequences of any particular action. For example, most of the new manufacturing corporations formed at the turn of the century were mergers of many entrepreneurially owned companies. Many proud, hardworking manufacturers sold their family legacy for stock certificates and a demotion from owner to manager. Why? Efficiency theory posits that economies of scale and productive technologies led to ruinous competition and the necessary amalgamation into managerial hierarchies. Such accounts are devoid of actors except for the rationalizing manag-

ers creating a more efficient division of labor. But we also need to know what alternatives the owners of merged firms faced and who determined the consequences of their choices. If an owner had to choose between competing against a corporation selling products below cost or joining a merger and enjoying continuing profits, it is understandable that he or she chose the latter. The choices the manufacturers faced in 1899 were radically different from those of just a decade earlier, and to understand why manufacturers incorporated we must also understand how financiers, government officials, and other industrialists affected the consequences of reorganizing enterprise within the corporate system, in other words, the institutional structure.

In this perspective rationality becomes an empirical question, not an a priori assumption. Compared with efficiency theory, power theory thus proposes a very different agenda for research: Who made the decisions that created large industrial corporations? What were the alternative choices they faced? To what extent did rationality, social influence, or other decision-making logics shape their decisions? Who set the alternative choices and the consequences of each alternative they faced? How did their choices shape the alternatives and payoffs for other actors? One of the reasons these questions are often difficult to answer is that the alternative choices and the payoffs are embedded within institutions whose genesis has been forgotten or obscured.

INSTITUTIONS

As a system of property relations shaped by the dynamics of power, corporations operated within and helped constitute a social institution (Meyer and Rowan 1977; DiMaggio and Powell 1983; Zucker 1988; Powell and DiMaggio 1991). To understand how the corporation operates requires more than knowing how it works internally, the people who operate it, its goals and strategies, or its division of labor and hierarchy. By social institution I mean the matrix of organizations, taken-for-granted categories, and the agreed-upon modes of relationship among those organizations that administer a major social task. The concept includes three analytically distinct aspects: (1) Institutions use a set of categories and practices that are understood to be the "way things are done" (Meyer and Rowan 1977). Corporations develop a standard division of authority among the owners, directors, managers, and workers; particular accounting practices to measure performance and validate strategies; customary separation of white-collar and blue-collar occupations; and characteristic bureaucratic structures that codify procedures. Institutional practices include such practices as issuing stock, speculation, hiring and promotion of workers and managers, and measurement of success in terms of balance sheets. (2) Institutions include a matrix of organizations, or an organizational field, that in the aggregate constitutes a recognized area of institutional life (DiMaggio and Powell 1983). Just as the medi-

cal institution includes hospitals as well as laboratories or medical schools, the institution of corporate capitalism includes factories and railroads as well as the stock markets, investment banks, brokerage houses, and news organizations. Thus when I speak of major public corporations I mean much more than those companies that happen to be incorporated. I mean companies that are legally incorporated and that operate within the institutional structures of corporate capitalism by publicly offering their securities to the securities market, raising capital through investment banks, recruiting directors from the community of corporate directors, and socializing ownership through widespread ownership. It was the transformation of manufacturing enterprise into this institutional structure that exploded at the end of the nineteenth century in the corporate revolution. (3) Institutions describe cultural categories, a sense of reality, a "thing" (Zucker 1977, 1983). All members of society recognize that medicine, education, politics, and mass media are institutions. They are "real." The institutionalization of the entities that do things is more than just a codification of existing practices; the process selects from among competing alternative forms by designating one form as "real" or "established" while marginalizing other forms as "experimental," "fledgling," "novel," "alternative," or "artificial." This process was very important in the institutionalization of the corporation in the late nineteenth century, when writers from a variety of ideological perspectives, speaking to many different types of audiences, declared that good or bad, the corporation was here to stay. Although in retrospect it may appear that things could have been different, the nearly universal feeling that large corporations were inevitable was an important part of their institutionalization, a cause as well as a result of how large corporations became the standard way of doing business.

What is the relationship among property, power, and institutions? All three are interwoven together throughout this analysis, but three propositions succinctly capture their relationship.

Power institutionalizes property. The specific rights, entitlements, and obligations that the state enforces relative to objects are determined by the operation of power and embedded within institutions. Corporate lawyers were able to persuade the New Jersey legislature to change its corporate law to allow corporations to own stock in other corporations, a right that had been previously denied to both partnerships and corporations and that, once granted, created the legal basis for the corporate revolution at the end of the century. The New Jersey legislature was more compliant than other states because that state had long enjoyed a profitable relationship with railroad corporations. The choices it faced and the relative payoff of each differed from the situation faced by other states. The relationship among power, institution, and property was very reflexive and historical: early exercise of power institutionalized a set of property relationships that became the con-

text within which power was exercised to embed new property relations within the institutional relations of corporate capital.

Property institutionalizes power. The specific rights, entitlements, and obligations that are embedded within institutions shape the context within which people make decisions. Those who want to benefit from how a system operates do not need to constantly impose their will, but institutions reproduce power relationships. Berle and Means (1932) describe how in the late nineteenth and early twentieth centuries, such new legal features of the corporations as proxy voting and no par stock[6] disenfranchised stockholders. New property relations were the means by which small stockholders lost power.

Power and property shape institutions. Just as Starr (1982) describes how physicians prevailed to shape modern medicine or Logan and Molotch (1988) demonstrate how property relations shape modern urban relations, a major theme of this book is how power and property, more than efficiency, shaped the corporate institution.

The Story

When applied to the rise of the American industrial corporation these analytical concepts yield a story very different from that found in efficiency studies. Instead of rational managers making pragmatic organizational innovations adapting to new technologies and growing markets, the story depicts a series of political and financial developments redistributing power into new institutional structures and eventually resulting in a new property regime. The lead players in the story are the state; the corporate institutional structure, including investment banks, stock exchanges, brokers, and others; newly privatized railroads; and finally manufacturers themselves. It is the larger structures that best explain why the corporation became the dominant form. These actors and the roles they played are summarized in table 16.1.

The story spans three eras. In the late eighteenth and early nineteenth centuries, business corporations were only one type of corporation created by governments to perform public functions like education, urban services, churches, charities, and infrastructure. Because they were performing a task considered critical for the public, they were given such privileges as monopoly rights, eminent domain, and an exemption on liability. Because they were quasi-government agencies, they were financed by institutional structures we now call Wall Street, which then functioned mainly to circulate government securities. In the middle of the nineteenth century, they fully privatized within the mature corporate infrastructure but remained separate from manufacturing. By allowing incorporation through the simple acts of filing papers and paying a fee rather than requiring a legislative act, states made incorporation a right accessible to all rather than a privilege. Railroad corpo-

TABLE 16.1
Historical Account of the Rise of the Large Corporation

	Era and Role of Corporation		
Actors	*Early Nineteenth Century: corporation as Quasi-Government Agency*	*Mid-Nineteenth Century: Corporation Private but Separate from Manufacturing*	*Late Nineteenth–Early twentieth century: merger of Corporate Institution with Manufacturing*
State	Actively forms corporations Mobilizes resources Holds corporations publicly accountable	Passes general incorporation laws Defines new rights, entitlements, and obligations Treats corporation as legal individual	Prohibits industry governance Enforces relations of corporate property
Corporate institutional structure	Arises to administer public finance Spreads to private corporations Remained distinct from manufacturing	Develops into modern structure Excludes manufacturing	Brings manufacturing in
Railroads	Arise as semipublic agency	Privatize Grow to unprecedented size Amass corporate wealth for reinvestment	Experience declining profitability Merge with manufacturing capital
Manufacturing capital	Exists apart from corporate capital Governs itself by local and regional suprafirm relations	Develops national markets Destabilizes suprafirm relations	Merge with corporate capital

rations grew to unprecedented size and scope; the institutions of Wall Street congealed into their present form, but still remained distinct from manufacturing. Finally the corporate revolution at the turn of the century absorbed manufacturing and fully established the corporate system as we have it today. The corporate revolution was precipitated by government actions that prevented manufacturing industries from governing themselves except through merger, by the saturation and financial collapse of the railroad system, and by an ideological acceptance that the large socially capitalized manufacturing corporation was inevitable.

By 1890 the corporate revolution in manufacturing was probably inevitable in some form, although exactly what form was not entirely clear. The resources concentrated in the corporate institutions were vast and the opportunities to profit from railroad and related sectors diminishing, so investors were looking for new outlets. The legal foundation, insofar as it was based on the railroad as a profit-making company rather than a common carrier accountable to the public, could easily be borrowed by manufacturing. And manufacturers' opposition to corporate takeover was already weakened by the frequent declaration that big business was inevitable, by the temptations of monopolistic profits, and by the trauma inflicted by the great depression of 1893. Belief in the corporate revolution's inevitability has led to its treatment as fairly unproblematic in most conventional accounts, which tell how in the 1880s industrialists like John D. Rockefeller in oil and Henry O. Havemeyer in sugar, after failing to control competition through pools, formed trusts, whereby each constituent firm incorporated for the purpose of exchanging corporate stock for trust certificates, allowing a central board to control entire industries. After the trusts were declared illegal, industries reorganized in holding companies like Standard Oil or the American Sugar Refining Company. At the end of the 1890s hundreds of such corporations were founded primarily through mergers by financiers like J. P. Morgan, who organized General Electric, International Harvester, and U.S. Steel. But such accounts too often neglect how the nature and definition of property, the organization and distribution of wealth, and the institutional practices and definitions were all socially constructed and far from inevitable. My account focuses on explaining these broader factors, emphasizing that they were determined less by the exigencies of economic efficiency or managerial rationality than by the very political dynamics of power.

The Corporation as Public and Private Enterprise

In the twentieth century the corporation has been the preeminent institutional form of the system of private enterprise that we call capitalism. When we think of who wields private power, such corporations as Exxon, AT&T, General Electric, or USX (U.S. Steel) quickly come to mind. Even though capitalist states have, until the last decade or so, regularly intensified their intervention into the economy, the very language we use to describe this process assumes a fundamental distinction between public and private spheres. Most U.S. observers assume that production and distribution are naturally private, best administered by the enlightened self-interest of owners and managers, with government protecting the public from business excesses. The corporation's most fundamental deterrents against government interference have been its right to privacy and the belief of policymakers that as many functions as possible should be left to private rather than public decisions.

The corporation, however, has not always been a private institution. Corporations were originally chartered by governments to accomplish public tasks, to build roads, construct canals, explore and settle new lands, conduct banking, and complete other tasks governments felt could not or should not be conducted privately. Contrary to the notion that corporations autonomously developed because they competed more efficiently or effectively in the market, governments created the corporate form to do things that rational businessmen would not do because they were too risky, too expensive, too unprofitable, or too public, that is, to perform tasks that would not have gotten done if left to the efficient operation of markets. Corporations were developed to undertake jobs that were not rational or not appropriate from the perspective of the individual businessman.

This chapter will describe how the large corporation shifted from a quasi-public agency—in principle accountable to all, embedded within an institutional structure that served the public sector—into a private agency, protected from government accountability by individual rights and legally accountable to no one but its owners. My goal is to demonstrate that the corporation grew into its modern form less by efficiently adapting to the demands of technological development and the growth of markets, than politically, by the exercise of power. The state not only defined what the corporation was and the particular rights, entitlements, and responsibilities that owners, managers, workers, consumers, and citizens could legally exercise relative to the corporation, it actively established and capitalized corporations.

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The division of power between public and private sectors is important because it frames the structure of authority, accountability, and power (Horwitz 1977). In the public arena all citizens theoretically have a right to make claims and be taken into account when important decisions are contemplated. Organizations can be held accountable to the collective interest of citizens. In the private sphere, people have a right to influence activities only to the extent that they have vested rights. Vested rights can take the form of membership in voluntary organizations or economic resources in market-based organizations. Marx and Weber both recognized that the most powerful vested rights are those constituted in property. These lines of accountability determine for whose benefit activity is conducted. Is a canal, turnpike, or railroad built to serve the interests of the public at large, or is it built to serve the interests of the stockholders? This is the fundamental difference between public and private property. Public property, of course, does not guarantee that activity is conducted in the public interest, but merely places it in a structure with potential lines of accountability to the public. Private property does not mean there can be no benefit to the public, but only that those making decisions are free to weigh their own interests however they choose.

The division between public and private is itself a historical construct. Economic and political categories are not natural and inevitable, nor is the division of labor between them. What the state does and what others do is historically constructed, constituted in the way that states and other institutions develop. Many of the activities that states routinely conduct have been—and some continue to be—handled privately. Private groups have built roads, supplied water, adjudicated disputes, protected people from enemies, disposed of sewage, educated children, and issued currency. States have in contrast performed such "private" tasks as producing consumer goods, trading commodities, speculating in land, and investing in enterprise. The boundaries that separate modern polities and economies could have been very different. The corporation could have continued as a kind of state agency, an organizational means of mobilizing private resources to serve collective or state interests. For example, the financial market institutions developed in tandem with the federal treasury (Ardent 1975). Rather than sell securities through private brokers, the state could have sold, and at times attempted to sell, securities directly. These boundaries must be explicitly explained, not simply taken as natural.

Thus the private sphere is not the natural home for corporations, which arose after public and private spheres had been not only constructed, but radically redefined and the distinction between them deepened. The organizational features, the social relations constituted among directors, owners, managers, workers, and customers, were all socially constructed. When corporations were public, they were accountable to the government and, in principle, to the people, so profit was only one organizational goal. In order to have the privilege of limited liability, gain access to the bountiful supply of Wall Street capital, and achieve the right to act as legal individuals, the incorporating individuals had to pledge fealty to the state. They had to be accomplishing something for the public good, at least as legislators defined it. Those who pursued private profits for personal gain were on their own. They had to risk their own assets, as business norms dictated responsible individuals should. Even when they supplemented their own resources with those of other similarly liable individuals, the law treated them as their own natural person without the shield of a corporate entity. But they owed nothing to any larger authority or broader public. Profit could be pursued for the sake of profit—private enterprise for private ends.

To say that states and other institutional structures are built, not discovered, is not to say that historical development is entirely accidental or that there are no general principles that help explain the particular structures that did develop. This chapter will show that the corporation arose as a quasi-state activity and became privatized as the result of concrete political conflicts over the nature of the state. The debate was not about whether corporations should be located in preexisting public and private sectors. Rather, the conflict over the corporation coincided with a broader movement for a new

definition of appropriate state powers, one that would construct a private sphere that was eventually understood as though it were separate. Within this broad process of socially constructing the boundaries between state and economy, my focus is on the large corporation and the political movements and conflicts that shaped it.

The Corporation as a Public Institution

In 1772, George Washington led a movement in the Virginia legislature to create a company to make the Potomac River navigable. After the American Revolution and some interstate squabbles delayed the project, the Potomac Company was created in 1785, with Washington as president and Thomas Jefferson as one of the directors. By 1801, despite numerous problems and setbacks, 338 miles of river were open for navigation at a total cost of about half a million dollars. Maryland and Virginia had supplied over half the capital, and foreign (Dutch) investors were also involved (Davis 1917; Littlefield 1984). What made this project unusual was its interstate nature and the prominence of its organizers. For Washington, an owner of considerable Virginia land, private interest conveniently coincided with public interest, another common feature of early corporations. Ultimately the Potomac project was a financial disappointment and technical failure. One historian concludes that "indeed its significance lies primarily in its demonstration that joint-stock companies were poorly equipped to carry out major internal improvements without massive and reliable government aid, especially during the first few decades after independence" (Littlefield 1984, 565).[7]

Before the liberal revolutions of the eighteenth and nineteenth centuries, European governments extended sovereignlike legal status to many corporate bodies (Sewell 1992). Guilds, municipalities, associations, and corporations were granted particular rights and the authority to enforce their own law. Each individual was subject to the law of the corporate bodies to which he or she belonged, often without recourse to adjudication to a higher authority. It was against this system that the founders of liberalism professed that all men are created equal, meaning that all men should be under the sovereignty of a single authority, that some should not be privileged with special rights or responsibilities. The corporation, that most "modern" of economic organizations, thus is the continuation of a premodern system. Its legally binding by-laws are a delegation of state sovereignty, a vestige of its public origins. Why the business corporation (along with municipalities, churches, and universities) was able to escape the sword of liberalizing egalitarianism is something that needs to be explained. The taint of privilege and monopoly continued to be the basis of considerable anticorporate mobilization, as we shall see below. Corporations were opposed both by those who advocated the elimination of corporate rights and privileges because they

usurped legitimate public power and by those who wanted to extend corporate rights to all. The latter group won; the government extended the rights and entitlements of collective ownership to all who could afford it, and retreated from demanding the responsibilities it once had. The corporation survived, but as a private rather than as a public organization.

As it turned out, the corporation came to be legally constituted in a way that conformed to the liberal doctrine of equal rights for all while maintaining many of the rights and privileges that made corporate property different from individual property. The key to the meaning of privatization is that corporate property could be legally created by the state while being protected from the state by constitutional rights; it could be legally democratic and private. Privatization was achieved by a sociologically naive legal redefinition: treating the corporation as though it were an individual legally separate from the individuals who participated in it. This feature conflicts with a basic tenet of the common law of property: it clouds the distinction between personal rights (in personam) and rights in property (in rem) (Creighton 1990). Traditionally, to redress an injustice or a debt, one could sue not property, but only people. Ownership carried the privileges of profiting from property but also the liability of being responsible for it, a responsibility that extended beyond the value of the property itself to the other assets of the owner. If a horse throws you because the owner failed to shoe him properly, you may sue for more than the value of the horse itself. The owner's possessions can also be taken. In contrast, the corporation embodies a legal entity between the property and the owners. It owns the corporate property, and the stockholders own pieces of it. Because of the common-law distinction between in personam and in rem, private individuals lack the prerogative to create a property-owning corporate entity, but can hold property only as individuals. However, the state can create a new legal entity, an extension of itself and its powers. It is only as a delegation of state powers that states would allow corporations to exist independently of the individuals they comprised. As it turned out historically, states defined the relationship between the groups and their members as a relationship of property, thereby undermining accountability to the public and framing political discourse over the corporation within the language of privacy rights versus state interference. But it need not have been so. Considering all the rights, entitlements, and responsibilities of property, it is curious that states defined the members as owners. States could have created commissions with citizens who served as directors. Such organizations could have raised capital through financial instruments, like bonds, or the powers of taxation, like municipal corporations. Mayors and city council members do not own the city but exercise binding authority within it. Business corporations, however, typically required financial resources from a small number of wealthy individuals who demanded control. Since organizations are inclined to use existing institutionalized forms rather than create entirely new relations, states defined the

relations between members and the new organizations as property rights, but transformed the meaning of property by legally divorcing the rights in personam and the rights in rem. The "owners" originally had the rights of ownership but not all the responsibilities. At first this new definition of property was negotiated, because the state had to depend on external resources. And it was for the convenience of the state that such entities were created. Thus the earliest forms of corporations in the United States were those that had the clearest public purpose—churches, schools, and cities. Over time, the institution was used for public needs with clear economic benefits—canals, banks, bridges, and turnpikes. It was last used for explicitly private enterprise in manufacturing and later retail activities.

The boundaries between the personhood of rulers, the state apparatus, and the citizenry have always been fluid and contested. Modern states have created many instruments other than official government agencies to perform tasks. Armies have been composed primarily of mercenaries hired by contracting with professional soldier/entrepreneurs with their own militia. Venality and tax farming were used to allocate jobs and raise funds; justices of the peace and parliaments did so elsewhere. States have created academies of science to develop and certify technical expertise needed for economic and political power. In the United States between 1800 and 1860, especially at the state level, governments extensively built penitentiaries, reformatories, and institutions for the aged, mentally unfit, and disabled. They gave aid to schools and colleges and subsidized county and state agricultural societies (Scheiber 1975; Studenski and Krooss 1963). They financed and regulated banks, insurance companies, and transportation. As will be detailed later, internal improvements were among the most ambitious and most consequential projects they undertook.

Among the various alternatives that American governments had with which to accomplish tasks, it was the corporation they turned to for projects that required more resources than they could raise from taxes. While fledgling American governments were limited by both the low level of commercialization and the strong antitax sentiment that had helped fuel rebellion against colonial rule, the corporate form gave them access to the resources of the world of finance capitalism, especially from abroad. As public entities, corporations were created by what is now known as a special charter, an act of a legislature (or monarch, in some nations) to create a corporation. By the time general incorporation replaced special incorporation, most legislatures were acting pro forma, routinely passing charters without debate. But in the eighteenth century, when corporations were considered public entities, legislatures would conscientiously consider requests for incorporation in committee, hold hearings, and openly debate the merits of each charter. New England towns often collectively supported or opposed proposed water or highway companies (Davis 1917). Failure to serve a public need was suffi-

cient grounds for denying a charter. For example, in 1833 the Pennsylvania legislature vigorously debated a coal company charter, the opposition maintaining that the industry had become sufficiently developed that it could attract private capital and had no need for a charter (Hartz 1968). Both sides assumed that charters were appropriate only for public needs. In New Jersey and Pennsylvania until well into the nineteenth century, legislatures allowed highway companies to be created according to specified procedures, but the corporate charter would be granted only by the governor after the company proved itself. As public entities, corporations had both privileges and responsibilities. Seavoy (1982) explains that the device of the charter "assumed that corporations were legally privileged organizations that had to be closely scrutinized by the legislature because their purposes had to be made consistent with public welfare" (5). By the end of the eighteenth century many states had general incorporation laws for religions, academies, and libraries, but not business corporations. By early in the nineteenth century states were developing laws to regulate all corporations of a particular type, such as canals, turnpikes, banks, or manufacturing.

A charter would be created granting a monopoly over some function if individuals would share in the financing and operation of the new organization. Whether initiated by citizens or officials, the corporate form was used for tasks that served the public, but which neither the government nor the citizens were willing to do on their own—universities (like America's oldest corporation, chartered in 1688, Harvard University), banks, churches, canals, municipalities, and roads.

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While some representatives of efficiency theory recognize that the corporate form was a creation of government, they generally attribute the corporation's privatization to the general inefficiency of government ownership, the inevitable failures that plague enterprise not disciplined by the market. The account here interprets the problems of canal companies as the result of such contingent events as heavy investment when virtually no one could have foreseen how quickly railroads would render canals uncompetitive, the first depression of international finance, and the political ascendancy of Jacksonian democracy with its antistate brand of anticorporatism. I have emphasized these contingent events, which suggest an explanatory logic of power rather than efficiency. In this perspective, actors' actions are explained in terms of their relationships with other social actors. The various alternatives they have to choose from and the costs and benefits resulting from the alternatives are determined by some social actors much more than others. Whether or not the resulting structures tend to increase efficiency is thus very contingent and not at all built into the system.

This chapter also illustrates what I mean by a logic of power rather than a logic of efficiency. Whereas efficiency theory was challenged in the previous chapter on empirical grounds, here I offer an alternative formulation. Efficiency theory identifies a pattern or structure such as the modern corporation and seeks to identify ways in which the pattern or structure more efficiently fulfilled important functions. Chandler (1977, 1990), for example, argues that modern business enterprise increased throughput of production and more effectively got products to the customer through extensive sales facilities. Power theory, in contrast, asks who was contending or cooperating to develop a pattern or structure and how the winners were able to prevail. This chapter shows how some actors were able to define unprofitable state ventures in canal building as proof of the folly of government involvement. When decisions are made, the efficiency model asks what the consequences of each alternative are and how the best choice is made to maximize consensually agreed-upon goals. Industrialists at the end of the century are described as facing a choice between the anarchy of ruinous competition or the stability of mergers. A power logic asks how the choices that people face are set by the actions of others. Power does not necessarily involve one actor giving commands, but more typically takes the form of determining the consequences for choices another actor might take. State governments under pressure from merchants to build infrastructures so that trade could more easily flow between cities and frontiers had the "choice" of raising taxes or issuing bonds to finance corporations. Rather than focusing on why the decision to sell bonds was more rational than raising taxes, a power perspective asks why the opponents of taxes and the marketers of bonds prevailed over those who feared that government-financed corporations would compromise government autonomy. Thus, with a logic of power, there is greater emphasis on who is involved and why some actors win while others lose.

Efficiency theory is problematic not only because it neglects the dynamics of power, but also because it attends only to short-term change. By focusing on the events at the end of the nineteenth century, the immediate unfolding of the corporate revolution, it is easy to miss the critical role that government played in the corporation's long-term development. Later chapters will focus more on government's later role, but this chapter has emphasized that a long-term perspective is necessary. The context in which decisions were made at the end of the century was very much structured by the events early in the century. The fact that the corporation arose in the form that it did, the particular powers and features that it embodied, the nature of the class that controlled it, and perhaps most important, the institutional structures in which it was embedded and through which capital became socialized were all shaped by its development as a quasi-government agency. It must be remembered that when American manufacturing wedded the corporate infrastruc-

ture at the end of the century, the latter never would have been there if only efficiency had shaped the economy.

Notes

1. These figures do not mean that half the economy was in large corporations; the value of securities was often grossly inflated relative to the value of capital assets.

2. Socialization does not necessarily mean government ownership, but is the opposite of individualization. It only requires that some institution act to synthesize input from individuals and distribute output to individuals. Private health insurance is a form of socialized medicine. All persons pay premiums whether or not they are ill and draw benefits regardless of how much they have paid in.

3. To note that ownership was legally separated from control does not necessarily endorse a managerial perspective. Managerialism assumes that the legal separation from ownership and control (administration of daily affairs) means that managers became autonomous from capital and free to be even "soulful." While most owners lost authority over administration and strategic planning, managers, especially those without a major ownership share, remained beholden to capital and the class that controlled it. The fact that small holders were generally disenfranchised does not mean that large holders or bondholders were enfeebled. Zeitlin (1974) has labeled the separation of ownership and control a "psuedofact" which he disputes by showing how few-late twentieth-century corporations were truly management controlled.

4. The contested implication of this statement is the managerialist contention that only owners and workers are classes, and that insofar as authority passes to managers, class dynamics are extinguished, as managers are seen to exercise authority as they see fit, as likely to be "soulful" as to maximize profits (Berle and Means 1932; Drucker 1946; Chandler 1977). My point here is that the relationship of managers and owners to workers is not fundamentally changed by the rise of the corporation. The degree to which that relationship is exploitative is beyond the scope of this work.

5. One might argue that behavioral power can be reduced to structural power, since making a command is a way of setting alternatives. The subordinate has a choice of obeying or not and will face different consequences depending on his or her choice. However, the dynamics of exercising by command and by merely setting consequences are different enough to warrant this basic distinction.

6. The law specifies the circumstances under which new stock can be issued, setting a limit on "authorized" capital. Issuing stock beyond that authorized requires the approval of some percentage of the voting stock (the percentage varies from state to state). If stock has no par value, there is no way to calculate authorized stock, which means that directors can issue as much stock as they wish without accountability to stockholders.

7. Littlefield's account, however, does not demonstrate that anyone assumed that major public works projects could be completed except with major government support. Most of his account concerns efforts to mobilize support from the bordering states and federal government, all of whom passed the buck to other jurisdictions.

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