

The Rise and Embedding of the Corporation: With Considerations for American
Democracy and Citizenship

Walter Licht
Walter H. Annenberg Professor of History
University of Pennsylvania

Paper Prepared for the Penn Program on Democracy, Citizenship, and Constitutionalism
October 27, 2011
[not be cited without permission of author]

A remarkable accident of history: in the United States in the second half of the nineteenth century, an extraordinary set of men miraculously appeared, who through their uncommon determination, foresight, innovativeness, and daring, built the mammoth business enterprises that propelled the U.S. to economic majesty. The names are familiar—Carnegie, Rockefeller, Ford, Morgan among others—and they serve in high school textbooks and popular histories and biographies as the explanation for the rise and embedding of the American corporation: the subject matter of this essay.

Hardly a scholar today subscribes to the Great Man Theory of History ingrained in the narrative sketched above; in fact, as will be noted soon, our famous (or infamous) titans of enterprise all but disappear in recent scholarly analyses. Yet, these men did have impacts that speak to the after words of the main title of this essay—to the question of democracy and citizenship—and to the essay's larger argument. Consider the following at the outset.

The behemoths created by likes of Carnegie and Rockefeller, the imperious ways of these men and the unfathomable wealth they accumulated generated vast resistance. In the late nineteenth and early twentieth centuries, middle class citizens joined striking workers in their communities in tumultuous protests against corporations and the threats they posed with their concentrated economic and political power to cherished notions of the U.S. as a small producers'

republic. Simultaneously, American farmers vociferously organized to fight monopoly, placing public regulation of corporations on the political agenda and reform-minded politicians followed suit in establishing on the state and federal levels, regulatory agencies. The putative Robber Barons in this way spurred democratic mobilizations.¹

But, the great business figures of the American past played another role. As presumed Industrial Statesmen, their lives and accomplishments provide a powerful and enduring message: that American economic prosperity and well-being rests on entrepreneurialism and that businessmen who can effectively organize and manage productive capacities require and deserve leverage and leeway. Heroic individuals, they know best how to create wealth for all. In anointing business leaders, of course, the public sector gives way to the private. And with their very looming selves and enterprises—to be understood as just part of the realities of modern life—average Americans are placated somewhat, but also stilled as to their own senses of power and in their ability to imagine alternatives to a hierarchically-managed world. In this regard, corporations inhibit democratic citizenship.

The impacts of the corporation are thus indefinite and as formations, corporations are not simply characterized as well; they are not cast in cement, in other words. For example, corporations shift organizationally, oscillating periodically between highly centralized management and divisionalization and decentralization, between the reining in and letting out of control; administration fattens and flattens, and in effect, the oscillations reflect a tension between managerialism and democracy. Corporations can achieve economies of scale and scope, providing cornucopias of affordable goods and services, but in their complexity, they can also be marked and marred by gross inefficiencies. With their great resources, corporations serve as fonts of invention and innovation, but they can be inflexible, inert, and sluggish—with

¹ Walter Licht, Industrializing America: The Nineteenth Century (Baltimore, 1995), Chapter 7.

the imperative of organizational stability stymieing change. Corporations operate impersonally according to plan, rules, and systems of accountability--well-oiled and regimented machines--but responsibility can be obscured in their bureaucratic mazes and they can be riven by discord and conflict both of the personal and formal kind.

The complexity of the corporation will be spotlighted in this essay by examining the genesis of the American business corporation—largely through the lens of recent scholarly debates--and by peaking inside, tracing the history of labor relations in American corporate enterprises. In consideration of the issue of democracy and citizenship, the corporation presents one additional complication for analysis that needs note. What exactly is it about the corporation that raises concerns? Is it simply a matter of size? In this regard, privately-owned firms can be large, bureaucratically-structured, and able to exert market and political power--and act in societally damaging ways. Supposedly impersonally-operated big corporations, on the other hand, can succeed through charismatic leadership and operate with social responsibility. Or is it the essence of the corporation, its chartering and privileging by the state and/or its form of ownership—by shareholders—that is critical? The issue here is as hard to pin down as is the corporation.

The concept of the corporation dates to ancient Roman times. The word itself derives from *corpus*, the Latin term for “body” or “body of people.” Roman authorities recognized certain associations of individuals as distinct legal entities with privileges, assets and liabilities apart from those of their members. The Romans had a set of names to apply to these specially-sanctioned organizations, including *universitas*, *collegia* and *societas*. The corporate form of endeavor appears to have developed independently in other parts of the world, notably in ancient

India.² In its original conception, the corporation represented an aggregation of individuals and resources—a collective entity—with authorization from the state (having a public dimension). Centuries later, it would take a good deal of legal fancy footwork and juggling to convey personhood to this construction: courts declaring the corporation to be none other than a private citizen due all the rights of such an individual.

In medieval Europe, such diverse bodies as colleges, guilds, churches, and cities received corporate entitlement. The great joint-stock companies chartered in the first decade of the seventeenth century by English and Dutch authorities—the English India Company and the Dutch East India Company—are normally cited as the world’s first business corporations (the world’s first transnational corporations as well).³ Both companies received sole authority respectively to seize and manage overseas trading zones and colonies. They represented a historic collusion between national sovereignties and groups of merchants to build the wealth and power of nations through achieving global commercial dominance (the coffers of crowns expanded through the taxing of external trade in the process, the incomes of the investors and managers of the corporations similarly enhanced through the monopoly rights and securities afforded them by the state—with the protection of navies proving especially critical). “Mercantilism,” of course, is the short script for this momentous development. The exploration and settlement of the Western Hemisphere by Western Europeans and the coercive control of trade routes and centers in Africa, the Indian Ocean and East Asia by Western European powers starting at the turn of the sixteenth century was accomplished through the agency of mercantile corporations deputized by the state. As a tidbit of this history, remember, the so-called Puritans arrived in New England under the aegis of the Massachusetts Bay Corporation.

² Alfred F. Conard, Corporations in Perspective (Mineola, N.Y. 1976); pp. 128-132; Vikramaditya S. Khanna, The Economic History of the Corporate Form in Ancient India (Ann Arbor, Mich., 2005).

³ Om Prakash, European Commercial Enterprise in Pre-Colonial India (New York, 1998).

American colonists seceded from the British commercial empire in 1776, but in rebelling against mercantilist controls, citizens of the new nation—or more precisely, the elite among them—did not dispense with the notion or practice of the government chartering of merchant-inspired and formed corporations with the aim of promoting national economic development. During the first decades of the new republic, corporations were thus established for the building of turnpikes, bridges, canals, and railroads and the establishing of banks. Since the U.S. Constitution did not provide for the charting of companies by the federal government, the process devolved to the states and the ability to petition for incorporation at the more local level led to the greater proliferation of the corporation in the new country than in Europe where granting powers remained in the hands of central authorities and successful petitions required great influence and resources. In the Commonwealth of Pennsylvania alone, between 1790 and 1860, special acts of the state assembly created 2,333 corporations. State government charters at the time included clauses that mandated that significant percentages of the stock offerings of the new companies be subscribed to by the states. The Commonwealth of Pennsylvania invested in \$100 million of state revenues in canal and railroad construction in the antebellum period. In New York, 315 municipalities pledged more than \$37 million for the purchase of shares in transportation companies chartered in the state (as required in chartering of these firms).⁴

The corporations created in the early republic for the greater good—for public purposes—were superseded in the late nineteenth century by the big businesses associated with the likes of Carnegie and Rockefeller. Popular and scholarly attention focuses by and large on this phase of

⁴ Classic studies on early American corporations include: Louis Hartz, *Economic Policy and Democratic Thought: Pennsylvania, 1776-1860* (Cambridge, Mass., 1948); Mary and Oscar Handlin, *Commonwealth: A Study of the Role of Government in the American Economy, 1774-1861* (Cambridge, Mass., 1947); Harry Schreiber, *Ohio Canal Era: A Case of Government and the Economy, 1820- 1861* (Columbus, Ohio, 1969); Ronald Seavoy, *The Origins of the American Business Corporation, 1784-1855: Broadening the Concept of Public Service during Industrialization* (Westport, Ct., 1982).

long history of the corporation—and understandingly so. In recent decades, considerations of the emergence of the large-scale, corporately-owned, bureaucratically-managed business enterprises that have dominated the economic landscape since the turn of the twentieth century, have been shaped by the scholarship of the pre-eminent business historian of our times, Alfred D. Chandler (Chandler died in 2007)—and it is Chandler and his critics that provide grist for complicating the corporation as a subject of inquiry and concern.

Chandler bequeathed a model of the rise and embedding the American corporation that casts the Great Robber Barons/Industrial Statesmen to the very far sidelines. Chandler emphasized the role of impersonal forces, demographic, technological and market. Human interventions are critical to the story, but his heroes are not the headline-capturing founders, but rather the middle-level managers who conceived the administrative schemes that allowed the behemoths to run efficiently and on sustained bases (small “g”, small “m”, great men, if you will).⁵

Chandler’s account starts with the vast growth in population in the United States in the mid-nineteenth century—due almost entirely to immigration—and the growing concentrations of people in urban areas, city dwellers beholden to markets for their very livelihoods and even the bare necessities of life, much less creature comforts. A great stimulus simultaneously occurred with the building of a national transportation and communications infrastructure—including canals, most importantly, railroads, and telegraph systems. According to Chandler, this major development created a national marketplace where firms no longer could operate parochially with known, loyal suppliers and customers. Heightened competition then demanded that companies transform themselves and that necessarily entailed growth. Here, Chandler points to

⁵ The great Chandler works include: Strategy and Structure: Chapters in the History of Industrial Enterprise (Cambridge, Mass., 1962); The Visible Hand: The Managerial Revolution in American Business (Cambridge, Mass., 1977); Scale and Scope: The Dynamics of Industrial Capitalism (Cambridge, Mass., 1990).

standard avenues of expansion, vertical and horizontal integration, but it is vertical integration that is the key for him: a realm of remarkable innovativeness.

To maintain competitive advantage, achieving efficiencies through control of the accessing of raw materials often proved critical. If suppliers cannot deliver parts on time, of required quality and tolerance, and at low price, then companies move to establish departments for the direct ownership and administration of the supply function—and greatly expand in the process (U.S. Steel formed in 1901 provides a classic example with its acquisitions of iron ore fields, coal mines, fleets of vessels, extensive rail facilities, coke works, and steel mills). Of course, there is no imperative to assume the high costs of so-called backward integration if there is a competitive world of suppliers in reach. Chandler, in this regard, devotes much greater attention to the “forward” side: the pressure placed on all firms by a developed national marketplace on the merchandising of products. With no guaranteed customers, companies had to allocate significant resources to distribution, warehousing, advertising, and wholesale and retail selling. Entirely new branches of operations with sizable work forces had to be created. In some instances as Chandler shows with one of his favorite case studies, the meat-packing enterprise of Gustavus Swift, the merchandizing end of the company far outgrew the production side. Chandler rarely dealt with the financing of expansion—finance capital is a missing, even a dismissed element in his works—but a safe assumption is that growth required substantial investments, that expanding firms had to resort to raising funds in equity markets, and that big business and incorporation went hand in hand.

Chandler thus attributes the *rise* of the corporation to impersonal demographic, technological and market forces. But, that is not the entire story. To succeed, to become *embedded* required the intervention of professionally trained and capable managers, men who

developed the organizational flowcharts, accounting systems, and information feedback mechanisms that allowed firms to achieve efficient through-processing—economies of scale and scope—from the accessing of raw materials through the automated production of goods to the purchasing of brand name products by eager customers and consumers. Permanence, however, involves a further step in Chandler's narrative: the seizing of strategic decision-making, not just day-to-day administration, by the new managerial class. Less wedded to the intentions and accomplishments of the original founders and owners, the managers analyzed circumstances and saw especially the potential problem of overproduction and saturated markets, of sticking with success, in others words. They developed new strategies of diversification, of using accumulated knowledge and capital capacities to create new product lines and, effectively, new markets, spreading risk in the process. Diversification also required fresh organizational arrangements and innovative managers developed accordingly decentralized schemes of operation, including fairly autonomous product divisions and central offices charged with overall coordination and long-range planning. Chandler illustrates these developments with two other of his favorite cases, Du Pont, the great chemical works, and General Motors, the giant carmaker. With Du Pont, company managers faced the great loss of business after World War I as the firm lost customers for its prime product, gunpowder; decisions were then made to use the massive chemical facilities of the enterprise to produce a vast range of consumer products—paints, nylon, etc.--and with a centralized structure of management in place, the task remained to create an effective divisionalized one. While Du Pont thus built downward, GM built upward. The firm originated through the merger of five automobile manufacturing companies. Here, managers developed a strategy to produce cars for different market tiers—from high end Cadillac's to Chevrolet's, the people's car—and the administrative challenge was to establish an overarching

headquarters to the already operating and autonomous divisions. Through his case histories, Chandler offers prescriptions for corporate success: separation of ownership from management; administration by trained professionals; diversification as a key strategy; and clear divides of responsibility between staff and line offices, between entrepreneurial decision makers in headquarters and tactical division leaders who are afforded independence in their command of day-to-day operations. American corporations in Chandler's hands emerged through impersonal forces, but became ensconced through the "visible hand" of management; he is, in that sense, the historian of and torch bearer for a development heralded by Adolph Berle and Gardiner Means and labeled by James Burnham decades before the publication of his influential works, "the managerial revolution."⁶

Horizontal integration—the growth of firms through merger—occupies only a scant place in Chandler's voluminous studies of the genesis and architecture of the American corporation. Collusive practices and sheer economic power lie at the heart of this history, not organizational innovation. Chandler's overall model holds to a point in the consolidations of business that occurred in the late nineteenth and early twentieth centuries with demographic and technological developments leading to a highly competitive national marketplace. In the case of horizontal integration, however, the response notably was not within but among firms. To counter ruinous competition and falling profits, American companies began to collude. The first step typically involved the reaching of informal accords to set floors on prices and to divvy market territories. These agreements rarely held as parties to them cheated in one way or another; resort was then made to more formal arrangements, commonly in the 1870s and 1880s to the establishment of trade associations. These organizations set rules of behavior; they often functioned as well for

⁶ Adolph Berle and Gardiner Means, *The Modern Corporation and Private Property* (New York, 1932); James Burnham, *The Managerial Revolution: What is Happening in the World* (New York, 1941).

the sharing of information, particularly on labor agitation, and for lobbying for tariffs and other beneficial government action. The trade associations too faced difficulties in keeping their members abiding to pacts on prices and market shares and a more severe answer came in the forming of holding companies. Here member firms, while maintaining their identities, relinquished control to elected directors who had the power to discipline the undercutting of agreements.

The step-like progression of associative activity among firms to curb competition and stabilize profits is well illustrated by John D. Rockefeller's successive efforts to bring order to the oil refining and transmission trade that emerged full-blown after the Civil War with earlier discoveries of oil in Pennsylvania and Ohio. Rockefeller had prospered as a merchant in Cleveland, Ohio and he decided to invest (with a group of partners) in the burgeoning oil business (which, at first, centered on the production and sale of kerosene). To succeed, he needed to reach agreements with other handlers of oil to collectively purchase crude oil from drilling operators to bid supply prices down and to work together rather than compete with each other in dealings with railroads and other transporters of refined oil products to urban markets. When informal and trade association pacts dissolved, Rockefeller moved to agglomerate firms into a powerful holding company. As the issue of whether a company chartered in one state could have operating holdings in other states remained unclear at the time, Rockefeller's lawyers formed a trust (an estate in a sense), whose board of trustees could direct the far-flung enterprise. With the passage of the Sherman Antitrust Act in 1890, legislation enacted with the Rockefeller juggernaut in mind, straightforward merger became the final step in the path toward consolidation (Rockefeller's operations while a prime example of horizontal integration did expand through great attention to distribution and merchandizing; and of course, the mega

Standard Oil was broken into thirty-four separate companies, substantial ones in their own rights, through a Supreme Court antitrust ruling in 1911).⁷ Merger, as an endpoint in the collusive activities of American businesses in the second half of the nineteenth century, reached a crescendo between 1895 and 1904, a period dubbed the Great Merger Movement, as approximately 1800 firms disappeared in absorption into 130 corporate entities, the new consolidated businesses controlling between 50 and 70 percent of market shares.⁸ Little of this story appears in Alfred Chandler's ode to the managerial revolution.

Chandler's monumental books have stimulated great research and debate. His work has been critiqued on several grounds—his inattention to horizontal integration represents only a small part of the criticism. Challenges to the Chandlerian perspective speak to the question of the corporation, democracy and citizenship, albeit, indirectly. A sample follows.

Small is Beautiful. In the 1970s amid a confusing economic collapse—marked by high inflation and high unemployment, U.S. businesses suddenly facing stiff competition from foreign producers, and the nation no longer having eased access to world resources—the American workplace came under close scrutiny. Government investigations, newspapers reports and scholarly works pointed to great losses in productivity and growing job dissatisfaction and alienation among American workers. Critiques of American corporate enterprise then ensued that spotlighted the inflexible and sclerotic state of the country's vaunted mass producers. The critics of what was dubbed "Fordism" found alternatives: enclaves of thriving small-to-medium size, nimble firms that honored skill and quality (the industrial north of Italy and the Silicon

⁷ For an encyclopedia academic work on John D. Rockefeller and his Standard Oil Company, see: Ralph W. Hidy and Muriel E. Hidy, History of Standard Oil Company (New Jersey : Pioneering in Big Business 1882–1911) New York, 1987; for a recent popular rendition, see Ron Chernow, Titan: The Life of John D. Rockefeller, Sr. (New York, 1998).

⁸ For statistics on mergers, 1895-1904, see Naomi Lamoreaux, The Great Merger Movement in American Business, 1895-1904 (New York, 1985), pp. 1-4.

Valley served as prime examples); they similarly honored large companies that produced on the basis of empowered teams of workers (Toyota was thus extolled).⁹

Historians joined the dialogue but largely in response to Chandler and less to the economic crises of the times. New historical research increasingly challenged notions of the inevitability of corporate dominance and pointed to alternative paths to economic development and growth; frequently cited, this work provided ammunition to critics of late twentieth-century corporate America. Historians took Chandler to task on two fronts. Statistically-minded scholars analyzed data that indicated that large-scale, corporately owned, bureaucratically managed firms operated no more efficiently than their smaller counterparts, nor were they necessarily sites of greater invention and innovation.¹⁰ More important, local historical studies revealed that Chandler in focusing on big business entirely discounted the vast amount and variety of goods produced outside the corporate realm in family and partnership-owned and managed, specialty enterprises operating in small town and metropolitan America alike. Philadelphia, for example, emerged by the turn of the Civic War and remained into the twentieth center as a premier industrial center with the following features: a prevalence of small-to-medium sized proprietorships, product diversity and diversity of work settings, custom production, and reliance on skilled labor. Philadelphia manufacturers did not prosper by competing with mass producers of goods in other parts of the country, but rather by operating in niche markets fashioning high-quality wares or by concentrating in single aspects of production (in textiles, for example, separate establishments emerged respectively to spin special fibers,

⁹ Key critiques of "Fordism" include: Charles F. Sabel, Work and Politics: The Division of Labor in Industry (New York, 1982); Michael J. Piore and Charles F. Sabel, The Second Industrial Divide: Possibilities for Prosperity (New York, 1984). See also essays anthologized in: Steven Tolliday, The Rise and Fall of Mass Production: Volume II (Cheltenham, UK, 1998).

¹⁰ William G. Roy, Socializing Capital: The Rise of the Large Industrial Corporation (Princeton, N.J., 1997), Chapter 2; Jeremy Atack, "Industrial Structure and the Emergence of the Modern Industrial Corporation," Explorations in Economic History (1985): 29-52.

weave fine clothe and dye elaborate fabrics). Even in the case of Philadelphia’s famous (but relatively few) large firms, specialty production remained the hallmark (as did non-corporate forms of ownership).¹¹ In diverse manufacturing centers throughout the United States--and Philadelphia is just one example--networking also benefitted small-to-medium-sized firms as they symbiotically bought and sold to each other, shared information on technology and markets, and as their workers moved among them, thereby augmenting and spreading expertise.¹² Evidence of the salience of networks—even in places where corporations dominated the economic landscape, Chicago, a notable case in point here—has contributed to theoretical revisions of the Chandlerian perspective.¹³ Throughout the U.S., theorists have proposed, firms operated in different milieus, pure market forces shaping operations and prospects in some instances, networks and hierarchical administration respectively in others.¹⁴

The “small is beautiful” critique of Chandler has its own fault lines and detractors. Small specialty businesses persist, for example, but, as been argued, they increasingly become beholden to corporations that exploit them for supplies and outsourcing; a “dual economy” has emerged in this way of thinking, with a corporate core and a periphery of fragile, supplicant small firms. Chandler’s critics have also tended to over-romanticize the world of proprietary capitalism, especially in imputing harmonies between owners and employees and among networked firms. Petty producers can operate insularly and in sweatshop fashion, a cutthroat rather than a mutualistic order prevailing. Consumers, too, broadly benefit more from the

¹¹ Philip Scranton, Proprietary Capitalism: The Textile Manufacture at Philadelphia, 1800-1885 (New York, 1983); Philip Scranton, Figured Tapestry: Production, Markets, and Power in Philadelphia Textiles, 1885-1941 (New York, 1989).

¹² Philip Scranton, Endless Novelty: Specialty Production and American Industrialization, 1865-1925 (Princeton, N.J., 1997).

¹³ Robert Lewis, Chicago Made: Factory Networks in the Industrial Metropolis (Chicago, 2008).

¹⁴ Naomi Lamoreaux, Daniel, Raff and Peter Temin, “Beyond Markets and Hierarchies: Toward a New Synthesis of American Business History,” American Historical Review, 108 (April 2003): 404-433.

cornucopia of goods that issue from well-heeled and oiled corporations than from their small-batch producing lesser competitors. Finally, exposes of America's bureaucratic workplaces spurred reforms—with the flattening of hierarchies and greater authority and input afforded so-called quality work teams—but research has shown that recent “re-engineerings” of the American shop and office floor have been cosmetic at best and ephemeral, structures of power hardly budged.

Skeptics and nay-sayers aside, the “small is beautiful” challenge to Chandler has succeeded in giving due respect to the significant place of small-scale specialty production in the grand history of American enterprise and shaken notions that corporations are inevitable, necessary, and unalterable fixtures of modern life. Non-hierarchical workplaces have existed, excelled and added greatly to the economic well-being of Americans. There are good grounds to argue for the virtues of democracy and citizenship at the settings where most adults spend the greater parts of their waking hours.

Contingent Moments: The 1830s. If corporations are not inexorable by-products of modernization, then they must be creations of particular circumstances. With that point of view in mind, scholars have isolated moments in U.S. history where a confluence of events led to the rise and embedding of corporations; had events been otherwise, history would have unfolded differently. The 1830s is pinpointed as one such moment. Two developments played roles during the decade: an economic depression that spanned roughly the years 1836 to 1845 (there is vast disagreement among scholars as to the causes of this crash) and an upsurge in anti-monopoly politics (that often gets subsumed under the less-than-helpful title, Jacksonianism). By the 1830s, state governments had made substantial investments in chartered companies established for the greater good and with the economic downturn, state treasuries now held worthless

securities. Legislators and government officials soon made decisions to suspend the practice of states taking equity positions in corporations. At the same time, opposition to the whole notion of dispensing privileges to men of influence, groups of merchants especially, who secured incorporation rights through special legislative acts, had grown. Such anti-mercantilist sentiment had been percolating since the dawn of the new republic (and was manifest in the vying political economic visions of Hamiltonians and Jeffersonians); in the 1830s, it led to calls for and passage of general incorporation laws. In a democratic republic, the right to incorporate and have such advantages as limited liability should be open to all and by simple application to administrative agencies. The separation of the corporation from public purposes—“privatization”—and the ease of its adoption as a business form: this principle and practice thus became established in the United State in the 1830s through the peculiar intersection of an economic depression and the anti-monopoly politics of the day.¹⁵ Similar events did not unfold in Europe at the time, as scholars who emphasize contingency in the rise and embedding of the corporation note. There incorporation remained a privilege granted by national parliaments and assemblies, corporations functioning with public ends in mind and under tight government regulation.¹⁶

Contingent Moments: The 1890s. Circumstances of the last decade of the nineteenth century are seen as even more important in the history of the corporation by some scholars. Again, anti-monopoly politics and a great depression are at play; but, in this moment, there is an additional factor, the interventions of finance capital. The passage of the Sherman Antitrust Act, as already noted, spurred the merger movement of the 1890s. As a contrast, European nations at the time did not ban the collusive activities of companies. In Germany, in fact, cartel

¹⁵ Roy, *Socializing Capital*, Chapter 3.

¹⁶ Colleen Dunlavy, *Politics and industrialization: Early Railroads in the United States and Prussia* (Princeton, N.J., 1994); Frank Dobbin, *Forging Industrial Policy: The United States, Britain, and France in the Railway Age* (New York, 1994).

arrangements—where dozens of firms worked together to stabilize industries—were legitimated by the Bismarkian state to further German industrialization and national power.¹⁷ The anti-monopoly politics of American farmers, workers and middle-class citizens in the late nineteenth century, it should be added, had a different character from the mobilized opposition to corporations of an earlier era. As anti-mercantilist, the attack on the chartering of corporations of the late eighteenth and first decades of the nineteenth centuries was anti-statist. When the state acted, it did so to create privilege and concentrations of power (albeit, in the name of nation state building). Democratizing incorporation proceedings fit with the ideals of a self-regulating small-producers' republic: a vision upheld by both those who imagined a republic of virtuous, non-aggrandizing, mutualistic yeoman producers and those who envisioned a nation thriving through small-scale, market-oriented, competitive enterprises (that would be unhindered by corporations advantaged by the state). Anti-monopoly movements of the late nineteenth century retained both ideals, but they now looked to the government to counter corporate power through state regulation and prosecutorial action. Irony, of course, marked both the early and late nineteenth century upsurges of anti-corporatism: in each era, anti-monopoly politics led to the spread of the privatized corporate form of business and concentrations of economic power.

A significant shift in the role of finance capital also occurred during the 1890s that furthered mergers. Until the 1890s, investment houses focused primarily on the financing of railroad companies; they stayed clear of the industrial fold. Chandler, in fact, hardly references financiers in his tomes and for good reason. Manufacturing firms did not raise capital through the sale of stocks and bonds, but rather through partnerships, pooling of monies of wealthy individuals (usually commercial wealth), and by the plowing back of profits for expansion. With

¹⁷ Jürgen Kocka, "The Rise of the Modern Industrial Enterprise in Germany," in Alfred D. Chandler, Jr., and Herman Daems, eds., Managerial Hierarchies: Comparative Perspectives on the Rise of the Modern Industrial Enterprise (Cambridge, Mass., 1980), pp. 77-116.

a plateau reached in the early 1890s in the building of railroads and the coming of a disastrous depression that lasted from 1893 to 1898, investment firms looked for new business—specifically, in encouraging mergers of industrial enterprises (with great profits to be attained in commissions and watered stock by financiers as they facilitated and underwrote mergers).¹⁸ The great operator here, of course, is J.P. Morgan and his handiwork is everywhere: in combining the holdings of steel magnate Andrew Carnegie with the capacities of several other major firms to form U.S. Steel (which achieved a 67 percent hold on domestic production of steel); in controlling competition among railroads in the northwest by creating the overarching Northern Securities Company; in coordinating railroad and mining company operations in the Pennsylvania anthracite region through interlocking directorships; and in joining the McCormick Harvesting Machine Company and the Deering Harvester Company to form the mega International Harvester.¹⁹

The history of the American corporation was thus written anew in the 1890s—with mammoth corporations now embedded—and this occurred, again according to scholars who point to the contingent nature of developments, through specific events and circumstances, including: the ironic impacts of antitrust legislation; a shift in the activities of finance capitalists; and an economic downturn that pushed financiers to be agents of corporate creation and mergers in the industrial sector (with declines in stock values and widespread bankruptcies during the great depression of the period, firms could be acquired cheaply, another inducement to consolidations). One last ingredient can be added to the mix of circumstances. In the 1890s, competition prevailed among states to house the headquarters of major corporations. As a result, there was pressure for the writing of permissive codes of incorporation and New Jersey

¹⁸ On the role of law and finance capital in the 1890s, see: Roy, [Socializing Capital](#), Chapters 5-8; Lamoreaux, [The Great Merger Movement](#).

¹⁹ Ron Chernow, [The House of Morgan: An American Dynasty and the Rise of Modern Finance](#) (New York, 1990).

assemblymen, followed by their counterparts in Delaware, proved most willing to oblige. Legislators in both states revised general incorporation laws that allowed for the chartering of holding companies that operated across state lines and permitting companies to purchase potentially controlling stock in other firms.²⁰ This, too, proved an impetus for business consolidations.

Government Structures, Politics, Judicial Rulings, and Power. Chandler's well-managed corporations arose in a political vacuum, as many of his critics have noted. Impersonal demographic, technological and market forces may have generated corporations and managerial innovations embedded them, but the entire process was shaped by the American political order. A federal system of government, for example, contributed to the widespread adoption of the corporate form of enterprise, liberal incorporation laws and procedures enacted by some states furthering the process; legislation inspired by anti-monopoly politics erased notions of the public purposes of corporations, eased access to the privileges of incorporation, and drove mergers. Key judicial decisions also played critical roles, most famously, the Supreme Court's ruling in the 1886 case of *Santa Clara v. Southern Pacific*, where the court affirmed the legal conveyance of personhood to corporations by extending the equal protection clauses of the Fourteenth Amendment—aimed, of course, at guaranteeing the rights of freed slaves--to them. This decision and similar subsequent rulings did not place a check on government regulation of corporations, but in not defining corporations as servants of the commonweal, they legitimized the private nature of their existence. Court decisions in antitrust suits also functioned to ensconce the corporation. The courts could have read the Sherman Antitrust act strictly: to wit, that mergers leading to significant market share control inherently restrain trade and inhibit competition. Through a series of cases in the first decades of the twentieth century, capped by a decision in a

²⁰ Roy, *Socializing Capital*, Chapters 7-8.

suit brought against U.S. Steel, the Supreme Court wended its way to a fixed but middle position: business combinations were not illegal *per se*; the issue would be the means—“reasonable” or illicit—by which market dominance was achieved. Business consolidations were here to stay; only clear conspiratorial activity would be punished.²¹

Considerations of the role of government, politics and law in the history of the corporation raises the larger issue of *power*, a matter not broached at all by Chandler and one raised by his critics. The control and influence of corporations through the liquid and capital resources at their disposal are manifold: the ability to create and structure consumer preferences and markets, quell labor unrest, appear as inevitable, even beneficent, and leverage the state, for obvious example. The latter capacity speaks to a tricky subject, “corruption.” There is literal and measurable corruption: the purchasing of the favor of state officials. Here, some scholars have argued that the rise and embedding of the corporation in the U.S. in the nineteenth century was due in no small part to not just persuasive lobbying, but the buying of the assistance of governors and state legislator (add this to the list of contingencies).²² The role of corruption can be simply dismissed as one of the costs of doing business, the necessary greasing of the wheels of commerce. In this regard, influence and incorporation have always gone hand in hand since the first group of men of means had the wherewithal to petition the state for corporate privileges. The greater symbolic effects of corruption on democracy and citizenship, of course, are harder to determine. Corruption can rankle and mobilize opposition to corporations as well as deflate senses of power and affect and immobilize citizens. The impact of the corporation, again, is indefinite.

²¹

²² Charles Perrow, Organizing America: Wealth, Power, and the Origins of Corporate Capitalism (Princeton, N.J., 2002), pp. 141-157.

Finance Capital. Alfred Chandler dismissed the role of financiers in the rise of big business and criticism of his work on this score is well warranted. To be sure, until the 1890s, the extraordinary growth of American manufacture did not rest on the raising of capital in equity markets (the story is entirely different for the development of the nation's extensive transportation infrastructure). The great consolidation movement of the late nineteenth and early twentieth centuries (and merger upsurges of later times) did transpire through the interventions of finance capitalists and their inclusion in the history of the rise and embedding of the American corporation is essential. However, qualification is in order (of a sort not provided by Chandler). The great merged enterprises fabricated by the likes of J.P. Morgan did not necessarily succeed. Scholars have estimated that at least 40 percent of corporations formed in the period of the great merger movement failed within twenty years.²³ Some had been created not for straightforward economic reasons, controlling competition or achieving economies of scale, but for the quick paper profits to be captured by Wall Street promoters. Others failed to achieve either steady profits or market dominance, because an expanding American economy at the time prevented monopolization. Poor management did in the rest (perhaps, they did not follow Chandler's recipe for success). The key here is to understand the unsteadiness of the corporation.

Labor Conflict. Chandler wrote his influential studies of American business at a time of the flowering of American social history, of writing history from the "bottom up," and, in some sense, he can be considered a social historian, because he delved below the famous, went into the black box of the firm, and discovered important actors who had escaped the eye of scholars, middle-level managers (although they remain fairly nameless and faceless in his work and it has remained for researchers following in his footsteps to bring them fully to life). Chandler, of

²³ Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900-1916* (New York, 1963), pp. 26-29.

course, never went below the managerial ranks to determine the place of labor relations and conflict in the rise and embedding of the corporation. Corporations in the late nineteenth century certainly stirred labor and populist unrest, but a question arises as to whether conflict itself contributed to business consolidations in the period. The issue remains unexamined by and large by historians, but the few studies suggest that replacing labor, particularly skilled labor that exerted critical controls on the shop floor, with automated technologies manned by low-paid workers was seen as a solution to the tumultuous strikes of the period.²⁴ This required substantial investments, another incentive for consolidation of resources. Labor conflict is another contingent element in the history of emerging place of the corporation in American life, perhaps of lesser weight. The subject does provide segue into looking inside the corporation--to its internal dynamics and their impacts on democracy and citizenship.

In the 1950s, the American corporation drew the attention of social scientists, popular writers and even filmmakers. The economic performance of the country's great firms was not at issue—as during the 1970s. Rather, what triggered concern was a much profounder matter: totalitarianism. Immediately after World War II, American intellectuals and pundits fixated on the rise of Fascism in Europe and the succumbing of people to demagogues and authoritarianism. Could it happen here was the question. Some commentators found solace in the exceptional, non-ideological, consensual underpinnings of American life—it could not happen here. Others saw potential and pointed a finger at the corporation as a breeding ground for conformism and submissiveness. Success in these organizations required allegiance to company goals and ways, agreeableness, and sacrifice of one personal instincts and values to group norms: to be “other”

²⁴ James Livingston, “The Social Analysis of Economic History and Theory: Conjectures on Late Nineteenth-Century American Development,” *American Historical Review* 92 (February 1987): 69-95.

rather than “inner-directed,” an “organization man” in a “gray flannel suit,” in the great phrases of the day (the sociological exposes of the times always cast male, white collar figures). In the late twentieth and early twenty-first century, there has been an interesting return to viewing the corporation as problematic in terms of personality development/disorder (not in terms of economic functionality, again as during the 1970s). With glaring examples of wrongdoing in the inner sanctums of these organizations, concerns have been raised as to how the internal dynamics of the corporation contribute to dishonest, illegal and immoral behaviors. In either instance, the corporation as breeder of conformists or lawbreakers, there is little delving into the question of what it is about the corporate form of enterprise that makes for such personal orientations. Is it a matter simply of bureaucracy: bureaucracy the source of submissiveness or behaviors that compromise better moral judgment (“I was only following orders,” that infamous refrain)? Or is it not a matter of bureaucracy per se, but of corporate bureaucracy? Perhaps, separation of ownership from management, of the imperative to keep share prices high and shareholders receiving their dividends at all cost, of the very confusion of stakeholders (investors, boards of directors, managers, employees, suppliers, and customers): all that induces hazardous behaviors. Commentaries that link the corporation to personal dereliction rarely push the issue.

Concerns about the internal workings of the corporation at various moments in the post-World War II period are a far cry from the anxieties of earlier times. From the late 1870s and the rise of big business to World War II, the issue was pure and simple: labor conflict (nothing to do with personality here). Relentless, violent labor strife accompanied the rise and embedding of the American corporation. There are the famous confrontations: the great railroad strikes of summer 1877 that paralyzed the commerce of the nation; the strike at the McCormick Reaper works in Chicago that led to the Haymarket Riot in May 1886; the Homestead Strike in 1892 that

saw pitched battles between workers at Andrew Carnegie's major steel mill and hired Pinkerton guards; the momentous Pullman Strike of summer 1894 that brought the economy to a standstill and fame to Eugene Victor Debs; the extraordinary Anthracite Coal Strike of 1902 that also paralyzed commerce and required the mediating interventions of President Theodore Roosevelt and financier, J.P. Morgan; the dramatic strikes led by the Industrial Workers of the World in Lawrence, Massachusetts in 1912 and Paterson, New Jersey in 1913; the mammoth strike against U.S. Steel in 1919 (during a year of radically-tinged strikes throughout every sector of the economy and region of the country); the Railway Shopmen's Strike of 1922 that required presidential intervention to restore business activity; and, of course, the remarkable drives to organize workers in the mass production industries under the aegis of the Congress of Industrial Organizations in the 1930s. These are the just some of the legendary strikes, but countless other small battles erupted in every year and in every nook and cranny of the U.S. as the American business corporation came to dominate the economic landscape. In the earliest moment of this history, for example, the decade of the 1880s, government investigators counted 1,000 strikes per year on average, with 125,000 workers involved and 12,000 businesses affected on average per year. These numbers more than tripled in the decade of the 1890s.²⁵

The threat that corporations posed to cherished notions of independent producership, economic hard times (depressions practically every twenty years), low wages, long hours, and poor working conditions: all contributed to the great labor unrest of the period (and radical ideas and radical organizers fueled the flames). But, the source of conflict can also be found in the internal workings of the corporation—with all sorts of implications for the issue of democracy and citizenship—and nowhere was this more evident than in the stations, yards and shops and along the tracks of American railroads.

²⁵ The legendary strikes of American history are vividly portrayed in Jeremy Brecher, Strike! (Boston, 1972).

Alfred Chandler placed a spotlight on American railroads not just because they created the transportation and communications infrastructure for a national marketplace, but because they also were pioneers in the corporately-owned, bureaucratic-managed form of business enterprise in the U.S. Railroad managers developed the divisionalized organizational structures and accounting systems and feedback mechanisms that served as models for later industrial conglomerates. Chandler, however, documented all the charts and official procedures, but never looked to see whether the railroads operated according to plan at the ground. He was not, in effect, a labor historian.

Nothing, in fact, operated according to the plans of Chandler's innovative managers on America's railroads in the early years. In spite of articulated rules and regulations, authority in the new behemoths devolved to local foremen, who took full charge on their own terms of hiring, training, disciplining, rewarding, firing, and retiring of railway employees. Even with posted manifests of pay rates and hours of employment, local foremen paid the men and allocated workloads as they saw fit. Nepotism and extortion were rampant. Critically, in the case of injuries and fatalities on the job—which were everyday occurrences—local supervisors at their discretion saw to the needs of the families affected—keeping favored workers on payroll, employing their older sons, and offering company monies for medical and funeral expenses. As government investigators discovered in trying to fathom the intensity of labor conflict on American railroads in the late nineteenth and early twentieth centuries, the issue was not wages and hours, but the capricious rule of foremen inside the supposed impersonally-administered railroad corporations. The testimony of Franklin Mills, a railway employee discharged by the Baltimore & Ohio Railroad Company for his participation in the Pullman Strike of 1894, to a

special federal commission investigating the upheaval is revealing and representative on this score:

Commissioner Kernan: What was the feeling among the men on the Baltimore & Ohio with regard to striking prior to the time they struck?

Mills: It was not very favorable.

Commissioner Kernan: Had there been any cuts in wages about which they were dissatisfied?

Mills: Not lately. The most of difficulty on the Baltimore & Ohio was favoritism, pets and maladministration of some of the petty officers.

To counter the whim of supervisors, railroad workers starting in the late 1870s began to organize by craft (in so-called Brotherhoods) to gain union contracts aimed at a modicum of justice and security. Top managers of the railroads found the rule of foremen to be disruptive to operations and they began to recognize the Brotherhoods and accept the rules for hiring, training, disciplining, rewarding, benefits in cases of injury and fatality on the job, firing, retiring, and pensioning advocated by union negotiators. In effect (and famously for the railroads), union work rules became management rules. In effect, bureaucratization came as much from below as from on top. There were gains and losses for workers in this détente: the end of the rewards of nepotism for some and routinization of work for all, on one hand; fairness and security, on the other.²⁶

The history of labor conflict and relations on American railroads, the country's largest corporations by far before the 1930s, complicates the subject of the corporation. For one, corporations were sites of contest, with opposition from the outside, notably from farmers, and inside from workers. Second, railroad corporations were not set entities in spite of all the

²⁶ Walter Licht, "The Dialectics of Bureaucratization: The Case of Mid-Nineteenth Century American Railwaymen," in Charles Stephenson and Robert Asher, eds., Life and Labor: Dimensions of American Working-Class History, (Albany, N.Y., 1986): 92-114.

organizational flowcharts and rules and regulations; they were pliable and workers had agency. Citizens engaged the corporations, but their actions—whether in successfully petitioning for government regulation of their market activity or for rules written by and for employees—did not challenge their very existence and worked to further embed them. The history is thus best understood dialectically.

The history of labor conflict in American's major industrial corporations took a different course than on the railroads, but the endpoint is fairly similar. The thorns in the side of the major manufacturers were skilled workers who maintained through their knowledge, expertise and solidarity, significant controls over production processes. Top managers initially fought back with the stick: they used every means at their disposal, including armed guards, to rid their operations of the fairly power craft unions of the skilled men (the Homestead Strike of 1892 was such an epic battle); they formed trade associations to exchange information about labor agitators and collectively blacklist them; they hired the likes of Frederick Winslow Taylor to come into their plants, to study tasks, break them down into elements to which less skilled men could perform them, and then develop incentive systems to boost productivity (with all the publicity surrounding the implementation of scientific management techniques, Taylor and his disciples could count few successes as foremen and workers sabotaged the experiments of the consultants and executives discovered Taylorism to be an administrative nightmare when there were shifts in product lines and needs for retooling); top managers at great expense could also invest in technology to produce on mass assembly-line bases, supposedly reducing the need for skilled workers (this too proved chimerical as Henry Ford discovered—he needed the skilled men to produce the finely fabricated parts that could be easily installed by semi-skilled assembly-line workers and high turnover of these workers because of the demands and ardors of conveyor-belt

production forced Ford to offer his famed \$5 a day). After all these experiments, most manufacturers recognized or continued to recognize the craft unions, engendering the loyalty of their needed aristocrats of labor through negotiation.²⁷

As to other workers, lower-level managers, white collar employees and semi- and unskilled workers, corporate leaders also faced the problem of engendering discipline and loyalty in their mega operations. The old incentive to work hard with the end in mind of eventually achieving mastership just did not work anymore. People would have to be convinced that they could have successful lives within the corporation. Corporate executives applied the stick in certain instances, but also began experimenting with carrot approaches: offering a panoply of fringe benefits to which one was vested after a period of dutiful service (everything from turkey give-aways at Thanksgiving and company picnics to profit-sharing, health insurance and pension plans). The 1920s thus saw the heyday of so-called welfare capitalism. Corporate leaders also brought “democracy” to the shop floor at the time with suggestion boxes and employee representation committees (the latter an obvious ploy to avoid unions). And to encourage ongoing loyalty, corporations also began to develop career lines within firms, with promotion systems, often creating new titles for the same old jobs in the process. Unfortunately, for the workers in these benevolent firms, practically all of the “carrot” programs and initiatives of the 1920s were jettisoned in the 1930s with the exigencies of the Great Depression. In fact, part of the dynamic of the mobilizations of mass production workers in the nation’s major industrial firms involved the restoring of benefit programs that had been established in the 1920s, but this time as part of union contracts and with union management of them.²⁸

²⁷ Licht, Industrializing America, pp. 166-186.

²⁸ Walter Licht, "Fringe Benefits: A Review Essay on the American Workplace," International Labor and Working-Class History, 53 (Spring 1998): 164-78.

From approximately 1 million workers having the benefits of unionization at the time of Franklin Delano Roosevelt's ascension to the presidency in 1933 to 10 million men and women working under union contract at the time of his death in 1945—from less than 10 percent of workers unionized to 35 percent writ large and upwards of 80 percent in the mass production industries—the organization campaigns of CIO unions in the period represented a great sea change. There are any number of ways to explain these advances—citing political, demographic and economic developments (and efforts to restore lost benefits)—but the issue here is what labor organizing in the 1930s tells about the place of the corporation in American life. As with the railroads, industrial corporations were not set institutions. In the face of labor conflict or the need for new incentive systems, corporations constantly experimented with programs to engender discipline and loyalty and laboring people had agency in the process. Even mass-assembly technologies installed to embed the pace of production in machinery did not work according to plan. As the great sit-down strikes in General Motors plants in the winter of 1936/37 showed, all workers had to do was flip the electric switches to “off;” throwing monkey wrenches into the cogs of the conveyor belt system was not necessary. CIO unions also brought democratic practices to the shop floor with grievance procedures administered by shop stewards and union work rules that put an end to the capricious actions of foremen. As with the successes of the railroad Brotherhoods, there were gains and losses in achievements of the CIO. As executives in industrial firms discovered that working with CIO leaders could bring needed peace to the factory and that it was easier to work with single industrial unions rather than a multiplicity of craft unions, labor conflict became rationalized, legitimized and bureaucratized; management and union officialdom could meet in hotel rooms with government mediators if need be to work out complicated contracts, grass roots involvement and insurgency thus stilled.

Contractualism brought fairness and security, but did not challenge the existence of the corporation; in fact, it contributed to its further entrenchment in the American landscape.²⁹

The accommodations reached by so-called Big Business and Big Labor entailed in the compacts signed between CIO unions and the likes of U.S. Steel and General Motors as of the late 1930s can be pinpointed as the final step in the embedding of the American corporation. However, there are other moments and developments that could earn the distinction. Some scholars argue for World War I and the extent to which the participation of corporate leaders in wartime planning and mobilization of the economic resources of the country placed a damper on muckraking attacks on them as they emerged as true patriots. Or the 1920s (or the 1950s) and the efflorescence of mass consumerism can be touted: when a consumerist ethos supplanted producer values (let the treats flow; why care about where and how they are fabricated?). Or the coming of Keynesian macroeconomic policies and practice and the focusing on purchasing power. Or... The point here probably is that the history of the embedding of the corporation is ongoing.

This paper has been a foray into the history of the American corporation and its internal workings—with an eye to the issue of democracy and citizenship. The writings of Alfred Chandler and his critics have served here as a means for examination. What now is to be concluded?

The corporation is an unsettled institution. The organizational configurations of corporations shift, they are not carved in stone—in other words, they have histories. Impersonal

²⁹ Basic works on the organizing of mass production workers in the 1930s under the aegis of the CIO include: Robert Zieger, *CIO: 1935-1955* (Chapel Hill, N.C., 1995); Lisabeth Cohen, *Making a New Deal: Industrial Workers in Chicago, 1919-1939* (New York, 1991).

demographic, technological and market forces may have impelled the rise of the corporation, but its embedding has been enabled and shaped by government structures, politics, and law and sets of circumstances and interventions (including those of administrative innovators and finance capitalists). Tensions within corporations persist between impulses of managerialism and democracy. American corporations have been sites of intense conflict, with opposition from without and pressures from within from employees. The resisters to corporate hegemony historically have had great agency in forcing government regulation and just labor practices—though in the process, they have contributed to the entrenchment of the corporation.

Corporations have rankled citizens and spurred democratic mobilizations; they need not be pacifiers. These stirring words may ring hollow in an age of labor defeats and concessions, where anti-monopolism as a deep strain in American political life is seemingly long gone, and where CEOs are unaccountable for their destructiveness—in their environmental practices, financial shenanigans, and leave-taking of communities through capital flight--and obscenely rewarded whether they succeed or fail. History holds some messages for us, though: there is nothing fixed or ineluctable about the corporation.