THE MODERN CORPORATION AND PRIVATE PROPERTY

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CHAPTER I: PROPERTY IN TRANSITION

CORPORATIONS HAVE CEASED to be merely legal devices through which the private business transactions of individuals may be carried on. Though still much used for this purpose, the corporate form has acquired a larger significance. The corporation has, in fact, become both a method of property tenure and a means of organizing economic life. Grown to tremendous proportions, there may be said to have evolved a "corporate system"—as there was once a feudal system—which has attracted to itself a combination of attributes and powers, and has attained a degree of prominence entitling it to be dealt with as a major social institution.

We are examining this institution probably before it has attained its zenith. Spectacular as its rise has been, every indication seems to be that the system will move forward to proportions which would stagger imagination today; just as the corporate system of today was beyond the imagination of most statesmen and business men at the opening of the present century. Only by remembering that men still living can recall a time when the present situation was hardly dreamed of, can we enforce the conclusion that the new order may easily become completely dominant during the lifetime of our children. For that reason, if for no other, it is desirable to examine this system, bearing in mind that its impact on the life of the country and of every individual is certain to be great; it may even determine a large part of the behaviour of most men living under it.

Organization of property has played a constant part in the balance of powers which go to make up the life of any era. We need not resolve the controversy as to whether property interests are invariably controlling. The cynical view of many historians insists that property interests have at all times, visible or invisible, been dominant.

Following this grim analysis, one commentator on the rise of corporations observed that they had become the "master instruments of civilization." [1] Another expressed his depression at the fact that the system had at length reached a point definitely committing civilization to the rule of a plutocracy.[2] Still others have seen in the system a transition phase towards ultimate socialism or communism. Acceptance of any of these beliefs may be delayed; but the underlying thought expressed in them all is that the corporate system has become the principal factor in economic organization through its mobilization of property interests.

In its new aspect the corporation is a means whereby the wealth of innumerable individuals has been concentrated into huge aggregates and whereby control over this wealth has been surrendered to a unified direction. The power attendant upon such concentration has brought forth princes of industry, whose position in the community is yet to be defined. The surrender of control over their wealth by investors has effectively broken the old property relationships and has raised the problem of defining these relationships anew. The direction of industry by persons other than those who have ventured their wealth has raised the question of the motive force back of such direction and the effective distribution of the returns from business enterprise.

These corporations have arisen in field after field as the myriad independent and competing units of private business have given way to the few large groupings of the modern quasi-public corporation. The typical business unit of the 19th century was owned by individuals or small groups; was managed by them or their appointees; and was, in the main, limited in size by the personal wealth of the individuals in control. These units have been supplanted in ever greater measure by great aggregations in which tens and even hundreds of thousands of workers and property worth hundreds of millions of dollars, belonging to tens or even hundreds of thousands of individuals, are combined through the corporate mechanism into a single producing organization under unified control and management. Such a unit is the American Telephone and Telegraph Company, perhaps the most advanced development of the corporate system. With assets of almost five billions of dollars, with 454,000[3] employees, and stockholders

[1] Thorstein Veblen, "Absentee Ownership and Business Enterprise," N. Y. 1923.

[2] Walther Rathenau, "Die Neue Wirtschaft," Berlin, 1918.

[3] Annual Report of the American Telephone and Telegraph Company, New York, 1930, pp. 20 and 26, figures as of December 31, 1929. On December 31, 1930 the number of employees had dropped to 394,000 presumably a sub-normal condition.

to the number of 567,694,[4] this company may indeed be called an economic empire—an empire bounded by no geographical limits, but held together by centralized control. One hundred companies of this size would control the whole of American wealth; would employ all of the gainfully employed; and if there were no duplication of stockholders, would be owned by practically every family in the country.

Such an organization of economic activity rests upon two developments, each of which has made possible an extension of the area under unified control. The factory system, the basis of the industrial revolution, brought an increasingly large number of workers directly under a single management. Then, the modern corporation, equally revolutionary in its effect, placed the wealth of innumerable individuals under the same central control. By each of these changes the power of those in control was immensely enlarged and the status of those involved, worker or property owner, was radically changed. The independent worker who entered the factory became a wage laborer surrendering the direction of his labor to his industrial master. The property owner who invests in a modern corporation so far surrenders his wealth to those in control of the corporation that he has exchanged the position of independent owner for one in which he may become merely recipient of the wages of capital.

In and of itself, the corporate device does not necessarily bring about this change. It has long been possible for an individual to incorporate his business even though it still represents his own investment, his own activities, and his own business transactions; he has in fact merely created a legal *alter ego* by setting up a corporation as the nominal vehicle. If the corporate form had done nothing more than this, we should have only an interesting custom according to which business would be carried on by individuals adopting for that purpose certain legal clothing. It would involve no radical shift in property tenure or in the organization of economic activity; it would inaugurate no "system" comparable to the institutions of feudalism.

The corporate system appears only when this type of private or "close" corporation has given way to an essentially different form, the quasi-public corporation: a corporation in which a large measure of separation of ownership and control has taken place through the multiplication of owners.

Such separation may exist in varying degrees. Where the men ultimately responsible for running a corporation own a majority of the voting stock while the remainder is widely diffused, control and

[4] As of December 31, 1930. Standard Corporation Records.

part ownership are in their hands. Only for the remaining owners is there separation from control. Frequently, however, ownership is so widely scattered that working control can be maintained with but a minority interest. The Rockefeller family, for example, is reported to have retained direct or indirect minority interests in many of the Standard Oil Companies; and in the case of the Standard Oil Company of Indiana, this interest, amounting to only 14.5 per cent[5] combined with the strategic position of its holders, has proved sufficient for the control of the corporation. In such a case the greater bulk of ownership is virtually without control. Separation of ownership and control becomes almost complete when not even a substantial minority interest exists, as in the American Telephone and Telegraph Company whose largest holder is reported to own less than one per cent of the company's stock. Under such conditions control may be held by the directors or titular managers who can employ the proxy machinery to become a self-perpetuating body, even though as a group they own but a small fraction of the stock outstanding. In each of these types, majority control, minority control, and management control, the separation of ownership from control has become effective—a large body of security holders has been created who exercise virtually no control over the wealth which they or their predecessors in interest have contributed to the enterprise. In the case of management control, the ownership interest held by the controlling group amounts to but a very small fraction of the total ownership. Corporations where this separation has become an important factor may be classed as quasi-public in character in contradistinction to the private, or closely held corporation in which no important separation of ownership and control has taken place.

Growing out of this separation are two characteristics, almost as typical of the quasi-public corporation as the separation itself—mere size and the public market for its securities. It is precisely this separation of control from ownership which makes possible tremendous aggregations of property. The Fords and the Mellons, whose personal wealth is sufficient to finance great enterprises, are so few, that they only emphasize the dependence of the large enterprise on the wealth of more than the individual or group of individuals who may be in control. The quasi-public corporation commands its supply of capital from a group of investors frequently described as the "investing public." It draws these savings to itself either directly, as individuals purchase stocks or bonds, or indirectly, as insurance companies,

[5] See Table XII, p. 94.

banks, and investment trusts receive these savings and invest them in corporate securities. To secure these funds it must commonly avail itself of an open market in its securities—usually by listing shares on a stock exchange, or, less importantly, by maintaining a private or "unlisted" market. So essential, in fact, is the open market to the quasi-public corporation that it may be considered almost as characteristic of that type of corporation as the separation of ownership from control and the great aggregation of wealth.

These characteristics are not invariable. The private corporation may be, and in a few instances is, exceedingly large; witness the Ford Motor Company, still owned and directed by Mr. Ford and his immediate associates. Private or "close" corporations may and occasionally do avail themselves of a public market for their shares; the Aluminum Company of America, though most of its stock is closely held, has its shares listed on the New York Curb Exchange, and a small fraction of its stock is traded in there. But these instances are so exceptional as to prove the rule. In the overwhelming bulk of cases, corporations fall into the quasi-public class when they represent large aggregations of wealth and their securities are available in the open market; for in such corporations part or most of the owners have almost invariably surrendered control.

Though the American law makes no distinction between the private corporation and the quasi-public, the economics of the two are essentially different. The separation of ownership from control produces a condition where the interests of owner and of ultimate manager may, and often do, diverge, and where many of the checks which formerly operated to limit the use of power disappear. Size alone tends to give these giant corporations a social significance not attached to the smaller units of private enterprise. By the use of the open market for securities, each of these corporations assumes obligations towards the investing public which transform it from a legal method clothing the rule of a few individuals into an institution at least nominally serving investors who have embarked their funds in its enterprise. New responsibilities towards the owners, the workers, the consumers, and the State thus rest upon the shoulders of those in control. In creating these new relationships, the quasi-public corporation may fairly be said to work a revolution. It has destroyed the unity that we commonly call property—has divided ownership into nominal ownership and the power formerly joined to it. Thereby the corporation has changed the nature of profit-seeking enterprise. This revolution forms the subject of the present study.

Examination of the changes produced can properly commence with the new relationships between the owners on the one hand and control on the other, and it is these relationships with which this book will deal. This involves the area roughly termed "corporation finance"—the relations between the corporation as managed by the group in control, and those who hold participations in it—its stockholders, bondholders, and, to some extent, its other creditors. The change in internal organization—the relation of the corporation to its workers, its plant organization and its technical problem of production—we cannot consider at this time. Nor can we here deal with its external relationships, on the one hand with its customers—the terms on which it furnishes to them its products or its services—and on the other hand, with the political state—the government by which it may be in some degree controlled, or over which it may have a measure of dominance. Here we are concerned only with a fundamental change in the form of property, and in the economic relationships which rest upon it.

Outwardly the change is simple enough. Men are less likely to own the physical instruments of production. They are more likely to own pieces of paper, loosely known as stocks, bonds, and other securities, which have become mobile through the machinery of the public markets. Beneath this, however, lies a more fundamental shift. Physical control over the instruments of production has been surrendered in ever growing degree to centralized groups who manage property in bulk, supposedly, but by no means necessarily, for the benefit of the security holders. Power over industrial property has been cut off from the beneficial ownership of this property—or, in less technical language, from the legal right to enjoy its fruits. Control of physical assets has passed from the individual owner to those who direct the quasi-public institutions, while the owner retains an interest in their product and increase. We see, in fact, the surrender and regrouping of the incidence of ownership, which formerly bracketed full power of manual disposition with complete right to enjoy the use, the fruits, and the proceeds of physical assets. There has resulted the dissolution of the old atom of ownership into its component parts, control and beneficial ownership.

This dissolution of the atom of property destroys the very foundation on which the economic order of the past three centuries has rested. Private enterprise, which has molded economic life since the close of the middle ages, has been rooted in the institution of private property. Under the feudal system, its predecessor, economic organization grew out of mutual obligations and privileges derived by various individuals

from their relation to property which no one of them owned. Private enterprise, on the other hand, has assumed an owner of the instruments of production with complete property rights over those instruments. Whereas the organization of feudal economic life rested upon an elaborate system of binding customs, the organization under the system of private enterprise has rested upon the self-interest of the property owner—a self-interest held in check only by competition and the conditions of supply and demand. Such self-interest has long been regarded as the best guarantee of economic efficiency. It has been assumed that, if the individual is protected in the right both to use his own property as he sees fit and to receive the full fruits of its use, his desire for personal gain, for profits, can be relied upon as an effective incentive to his efficient use of any industrial property he may possess.

In the quasi-public corporation, such an assumption no longer holds. As we have seen, it is no longer the individual himself who uses his wealth. Those in control of that wealth, and therefore in a position to secure industrial efficiency and produce profits, are no longer, as owners, entitled to the bulk of such profits. Those who control the destinies of the typical modern corporation own so insignificant a fraction of the company's stock that the returns from running the corporation profitably accrue to them in only a very minor degree. The stockholders, on the other hand, to whom the profits of the corporation go, cannot be motivated by those profits to a more efficient use of the property, since they have surrendered all disposition of it to those in control of the enterprise. The explosion of the atom of property destroys the basis of the old assumption that the quest for profits will spur the owner of industrial property to its effective use. It consequently challenges the fundamental economic principle of individual initiative in industrial enterprise. It raises for reexamination the question of the motive force back of industry, and the ends for which the modern corporation can be or will be run.

The corporate system further commands attention because its development is progressive, as its features become more marked and as new areas come one by one under its sway. Economic power, in terms of control over physical assets, is apparently responding to a centripetal force, tending more and more to concentrate in the hands of a few corporate managements. At the same time, beneficial ownership is centrifugal, tending to divide and subdivide, to split into ever smaller units and to pass freely from hand to hand. In other words, ownership continually becomes more dispersed; the power formerly joined to it becomes increasingly concentrated; and the corporate system is thereby more securely established.

This system bids fair to be as all-embracing as was the feudal system in its time. It demands that we examine both its conditions and its trends, for an understanding of the structure upon which will rest the economic order of the future.

CHAPTER II: THE APPEARANCE OF THE CORPORATE SYSTEM

CORPORATE ENTERPRISE is no new institution. From the days of the joint stock trading companies which built up the merchant empires of England and Holland in the Seventeenth Century, the quasi-public corporation has been well known. Its entrance into the field of industry, however, dates from the early Nineteenth Century. In 1800 the corporate form was used in America mainly for undertakings involving a direct public interest: the construction of turnpikes, bridges and canals, the operation of banks and insurance companies, and the creation of fire brigades. Up to that year only 335 profit-seeking corporations appear to have been formed in the United States, nearly all incorporated in the last decade of the Eighteenth Century. Of these, 219 were turnpike, bridge and canal companies, and another 36 furnished water and fire protection or dock facilities. Banks and insurance companies had just begun to assume corporate form and numbered 67 at the opening of the century. Manufacturing industry lay almost wholly outside the corporate field, being represented by only 6 corporations.[1]

Though some of these early utility corporations were quasi-public in character, their stock being held by what was, for the time, a large number of stockholders, the first important manufacturing enterprise to be so organized dates from 1813. The Boston Manufacturing Company, first of the large New England textile firms, was established at Waltham, Massachusetts, during that year and was in many ways the prototype of the corporations of later date. Though insignificantly small in comparison with the corporate giants of today this company had all their essential characteristics. Within ten years of the date of

[1] Joseph S. Davis, "Essays in the Earlier History of American Corporations," Cambridge, 1917, Vol. II, p. 24.

incorporation, its stock, originally held by eleven stockholders, had become in a sense dispersed. By 1830 the stockholders numbered 76, no individual owned more than 8½ per cent of the stock, it took 12 to establish majority control, and the management lay with a board of directors whose combined holdings amounted to only 22 per cent. Twenty years later there were 123 stockholders, the largest of whom still owned 8½ per cent. Fifty-one per cent of the stock was distributed among 17 individuals while the management held only 11 per cent.[2]

Small though these figures seem in comparison with the hundreds of thousands of stockholders of the American Telephone Company today, they are none the less significant. The number of shareholders represented a very considerable dispersion for the par value of each share was $1,000 and the total number of available shares was small. The paid-in capital of $300,000,—increased in 20 years to $1,000,000,—was a very large sum for industrial enterprise in those days. The size of the industrial plant was correspondingly large in relation to those of competing concerns, and for the first time, all the textile processes, from breaking open the bale of cotton to shipping the finished cloth, were brought under a single direction. Here, too, the "promoter," so important a figure in the corporate system today, clearly appeared. By "selling out to the public," to use the modern phrase, the original organizers freed themselves and a large part of their capital from the fortunes of their first investment and were enabled to go on to organize further similar corporate units. This they did, forming a succession of large textile concerns, all corporate in form, all capitalized at $1,000,000 or more within a few years of organization, all equipped for large scale, mass production including every process, and all publicly held.[3] In every company, ownership rested with the public and direction with a management which owned a relatively small proportion of the stock. In 1842, the stock of one company, the Merrimack, was held by 390 people, including: [4]

80 administrators or trustees.
68 females.

[2] Derived from the Stock and Dividend Books of the Boston Manufacturing Company, preserved at the Harvard Business School, Cambridge, Massachusetts.

[3] The Merrimack Co. was formed in 1822, the Hamilton in 1825, the Appleton and Lowell Companies in 1828, Middlesex in 1830, Tremont and Suffolk Companies in 1831, the Boott and Massachusetts Companies in 1835 and 1839, all in the single city of Lowell. The same promoters launched similar concerns in other New England towns and founded in 1846 the new textile center of Lawrence. —C. F. Ware, "Early New England Cotton Manufacture," Boston, 1931. Appendix A.

[4] *Ibid*, p. 150.

52 retired business men.
46 merchants.
45 manufacturers and mechanics.
40 clerks, students, and unspecified.
23 lawyers.
18 physicians.
15 farmers.
3 institutions.

By virtue of their size and widespread ownership, these companies were always distinguished in New England as "The Corporations" in contrast to the small private concerns, though the latter were often incorporated.

The corporate development of this branch of the textile industry stood alone in the industrial field before 1860. Its growth, moreover, was arrested in the years after the Civil War when the corporate system was elsewhere growing apace, so that today, paradoxically, the textile industry is one of the few major industries which is not dominated by great quasi-public corporations.

More general in the ante-bellum period, and more significant for the future development, was the introduction of the corporate system into the railroad field. Railroad construction, involving a heavy initial outlay of capital, almost necessitated recourse to the corporate form. Once the first short lines had been constructed, this form made possible the next step, consolidation into larger systems. The first of the major groupings, the creation of the New York Central Railroad in 1853, was achieved through the devices which the corporation offered. The property of 10 small companies between Albany and Buffalo was transferred to a new corporation by exchange of stock and the 34 million dollars of securities, issued against the combined properties, were dispersed among 2,445 investors in Albany and other cities of New York State. No individual or group held a controlling financial interest in the new corporation.[5] Already the stock of railroad companies was familiar on the public exchanges and by the 'Sixties fights for control of their properties had become either market fights or more sinister legal battles.[6]

Since the Civil War, the quasi-public corporation has come to dominate the railroad field almost completely. Advantages of consolidation and the disastrous effects of competition drove companies into larger and larger units until, in 1930, 14 great systems operated

[5] F. W. Stevens, "The Beginnings of the New York Central Railroad," N. Y., 1926, pp. 352, 382.

[6] C. F. Adams, "Chapters of Erie," Boston, 1871, pp. 11, 13.

86.6 per cent of the first class mileage and 81.7 per cent of all road-road mileage in the country.[7]

Following the lead of the railroads, in the last part of the Nineteenth Century and the early years of the Twentieth, one aspect of economic life after another has come under corporate sway. Banking and insurance companies carried the system over from the earlier years of the century. So also did the public utilities, among which it has become practically universal.[8] Mining and quarrying followed close on the heels of the utilities, being 86.3 per cent corporate in 1902 and 93.6 per cent in 1919.[9] In the latter year, 99 per cent of the wage earners in the copper industry were employed by corporations, 98 per cent in iron ore, 97 per cent in lead and zinc, and 89 per cent in petroleum and natural gas.[10] It should be noted, of course, that the extent to which a field is incorporated is not an exact measure of the presence of the quasi-public corporation and the corporate system, since private corporations are included in the totals. The latter, however, represent in most cases a relatively small proportion of the wealth and activity involved and therefore do not seriously invalidate such figures as an index of the extension of the quasi-public corporation.

Except for the textile corporations mentioned above, the corporate system made slower headway in the manufacturing field. Its growth was stimulated in the period immediately following the Civil War by the enlargement of industrial units and the spread of mass production. In the closing decades of the Nineteenth Century it received a further stimulus from the trust movement of those years. By 1899 the census reported 66.7 per cent of all manufactured products as made by corporations [11] and corporate increase in the Twentieth Century has been most rapid; 87 per cent of goods were so produced by 1919 [12] and it is fair to assume that over 94 per cent of manufacturing is carried on by corporations at the present time.[13] Wage earners in the employ of manufacturing corporations have increased correspondingly from 65 per cent of those engaged in manufactures in 1899 to 92 per cent (estimated) in 1929.[14] Though in manufacturing, private corporations play a more important role than in the mining and utility fields, the growth in total corporate manufacturing reflects a large measure of growth of quasi-public corporations.

In a few manufacturing industries the transfer to the corporate form has been delayed, but even here the shift is noticeable. In 1920, the men's clothing industry, with a value product of over a billion dollars was only 54.6 per cent corporate, the bread and baking industry only 51.7 per cent, millinery and lace goods 46.9 per cent, automobile repairing 39.1 per cent, women's clothing 32.9 per cent, fur goods 30.1 per cent, cheese-making 20.7 per cent.[15] These are the most important manufacturing industries in which the corporate form has not become overwhelmingly predominant,[16] but in each case the 1920 figure showed a larger proportion of corporate production than the figure of the previous census. There is good reason, moreover, to believe that the recent census will show a very much greater proportion of corporate activity in most of these industries.

In the mercantile field the corporation is only just beginning to come into its own. Exact figures are not here available, but rough estimates place the per cent of wholesale sales made by corporations in 1909 at approximately 30 per cent and at 40 per cent in 1925. In the same sixteen-year period retail sales by corporations grew from 15 to 30 per cent of all retail sales.[17] The latter growth included some additional extension of wholesale corporate trade since in many cases the retail corporation also performed the wholesale function. Though these figures, at best only approximate, may be shown to be in error when the census of 1930 reports a thorough canvass of the mercantile field for the first time, the rapid growth of the corporation in this area cannot be questioned.

This expansion is almost synonymous with the development of the chain store. From 1919 to 1927 sales by chain groceries increased 287

[7] Derived from the report of the House Committee on Interstate and Foreign Commerce on the "Regulation of Stock Ownership in the Railroads," 71st Congress, 3rd Session, House Report No. 2789, Feb. 21, 1931, pp. LII, LIV.

[8] In 1922, 28 miles of electric railroads were in the hands of private individuals or partnerships. Census of Elec. Ind., Elec. R. R., 1922, p. 9. All telegraph companies were corporate by 1917. Census of Elec. Ind., Telegraphs, 1917, p. 9. All but $5,000,000 of capital of telephone companies in 1922 was corporate. Census of Telephones, 1922, p. 1. All but $5,200,000 of gross income of all non-municipal electric light and power companies was received by corporations in 1917. (99.0%.) Census of Elec. Ind., Cent. Elec. Lt. & Pr. Sta., 1917, p. 25. In these census figures the Massachusetts Trust is presumably included as a corporation.

[9] Statistical Abstract of the United States, 1925, p. 703.

[10] Abstract of 14th Census of the United States, 1920, p. 1278.

[11] 13th Census of United States, 1910, Vol. VIII, p. 135.

[12] 14th Census of United States, 1920, Vol. VIII, pp. 14, 108.

[13] Estimate obtained by projecting trend line based on log of figure for per cent of manufactured products not made by corporations according to the census figures of 1899, 1909, and 1919.

[14] Abstract of 14th Census of the United States, 1920, p. 1021 for 1899 and estimate (see note 13 for method) for 1929.

[15] Abstract of 14th Census of the United States, 1920, pp. 1022–1029.

[16] All industries reported in the Census as having a value product of over $140,000,000, less than 55 per cent of which was produced by corporations.

[17] Based on figures supplied by the National Bureau of Economic Research.

per cent while sales of 5 and 10 cent store chains grew 160 per cent.[18] The rate of growth of these chain stores is so far in excess of the growth of total retail sales as to represent a noteworthy encroachment of corporate upon private enterprise in distribution.

For the fields of construction and what the census calls "unclassified industries"—*i.e.*, personal services, amusements, rental of business buildings, professional activities of physicians, lawyers, etc.,—accurate figures are not available. Between forty and sixty per cent of all construction appears to be carried on by corporations,[19] and perhaps some 15 to 25 per cent of the unclassified industries.[20] It is impossible to discover the degree of growth in these fields. Certainly there has been a marked increase in the number of moving picture houses owned by corporations, particularly by the big chains, barber and beauty parlors are chained and incorporated to a growing but still small extent, restaurant chains have grown in the last twenty years, and corporations for the owning of business property have extended their operations. It is not possible, however, to measure whether these developments have been more rapid than the total growth of business in these fields.

One of the last areas of non-corporate activity, the field of real estate, shows signs of coming within the corporate sphere. Much real estate is held by private corporations. Real estate corporations such as the Equitable Office Building, Inc., with active securities on the exchanges, have already made their appearance, and a Real Estate Exchange has recently been formed in New York to deal solely in securities of corporations organized to take over real estate.

In agriculture the corporation has made least headway. In 1920, 61.1 per cent of all farms, measured by their value, were operated by the owner, while 34.9 per cent were operated by tenants. Only 4.0 per cent were operated by managers.[21] Presumably corporate farming was entirely restricted to the latter class, though lands held by a corporation and operated not by the corporation but by tenants would be included in the second group.

The operations of the government remain as the only field of economic activity not yet considered. Here, of course, the corporate system with its widely dispersed ownership is not in evidence. It should be noted, however, that even the government is beginning to

[18] National Bureau of Economic Research, "Recent Economic Changes in the United States, N. Y., 1930, p. 362.

[19] Based on figures supplied by the National Bureau of Economic Research.

[20] Rough estimate based on Income Tax data.

[21] 14th Census of United States, 1920, Vol. V, p. 130.

employ the corporate device—witness, for example, the Port of New York Authority. Even here the corporation may become the established form, ultimate ownership and, to the extent that the democratic machinery is effective, ultimate control, vesting with the people.

Thus, in field after field, the corporation has entered, grown, and become wholly or partially dominant. The date of its appearance and the degree of its dominance have in general varied with two factors, the public character of the activity in question and the amount of fixed capital necessary to carry on business. It came first in the fields of public utilities, common carriers, banks and insurance companies (which even in the 1840's were conceded to perform public functions) [22] and last in the areas of personal service and agriculture;—early, with the high fixed capital costs in railways and mines; late, in mercantile pursuits where capital consists to such a large extent of stock on hand. On the basis of its development in the past we may look forward to a time when practically all economic activity will be carried on under the corporate form. And wherever the corporation has become dominant, it has been in its quasi-public, not its private, rôle. It does not simply give a legal clothing to the private enterprise of individuals. It adds a new quality to enterprise—the quality of multiple ownership.

[22] According to Nathan Appleton, leading New England texture manufacturer, Ware, *op. cit.*, p. 290.

CHAPTER III: THE CONCENTRATION OF ECONOMIC POWER

THE CORPORATE system has done more than evolve a norm by which business is carried on. Within it there exists a centripetal attraction which draws wealth together into aggregations of constantly increasing size, at the same time throwing control into the hands of fewer and fewer men. The trend is apparent; and no limit is as yet in sight. Were it possible to say that circumstances had established the concentration, but that there was no basis to form an opinion as to whether the process would continue, the whole problem might be simplified. But this is not the case. So far as can be seen, every element which favored concentration still exists, and the only apparent factor which may end the tendency is the limit in the ability of a few human beings effectively to handle the aggregates of property brought under their control.

The size of the modern giant corporation is difficult to grasp. Many people would consider large a corporation having assets of a million dollars or an income of $50,000. Measured by the average corporation this idea would be justified. In 1927 two-thirds of all corporations reporting net incomes earned less than $5,000 each.[1] The average non-banking corporation in that year had an income of only $22,000,[2] and gross assets of but $570,000.[3] In comparison with the average corporation the million dollar company would be large. But in comparison to the great modern corporation both are pigmies. On the basis of assets, the American Telephone and Telegraph Company would be equivalent to over 8,000 average sized corporations, and both the United States Steel Corporation and the Pennsylvania Railroad Company to over

[1] Statistics of Income, 1927, p. 19.

[2] *Ibid.* pp. 16 and 17. Non-banking is here used to exclude banks, insurance companies, and investment trusts.

[3] *Ibid.* pp. 371 and 372.

4,000. A hundred million dollar company would be equivalent in assets to nearly 200 average corporations. Clearly such great organisms are not to be thought of in the same terms as the average company. Already the Telephone Company controls more wealth than is contained within the borders of twenty-one of the states in the country.

The great extent to which economic activity is today carried on by such large enterprises is clearly indicated by the accompanying list of the two hundred largest[4] non-banking corporations, compiled as of January 1, 1930. Nearly all of these companies had assets of over one hundred million dollars, and fifteen had assets of over a billion dollars. Their combined assets amounted to eighty-one billions of dollars or, as we shall see, nearly half of all corporate wealth in the United States.

These great companies form the very framework of American industry. The individual must come in contact with them almost constantly. He may own an interest in one or more of them, he may be employed by one of them, but above all he is continually accepting their service. If he travels any distance he is almost certain to ride on one of the great railroad systems. The engine which draws him has probably been constructed by the American Locomotive Company or the Baldwin Locomotive Works; the car in which he rides is likely to have been made by the American Car and Foundry Company or one of its subsidiaries, unless he is enjoying the services of the Pullman Company. The rails have almost certainly been supplied by one of the eleven steel companies on the list; and coal may well have come from one of the four coal companies, if not from a mine owned by the railroad itself. Perhaps the individual travels by automobile—in a car manufactured by the Ford, General Motors, Studebaker, or Chrylser Companies, on tires supplied by Firestone, Goodrich, Goodyear or the United States Rubber Company. He may choose among the brands of gas furnished by one of the twenty petroleum companies all actively seeking his trade. Should he pause to send a telegram or to telephone, one of the listed companies would be sure to fill his need.

[4] Largest according to gross assets less depreciation, as reported in Moody's Railroad, Public Utility, and Industrial Manuals. In the cases where a consolidated balance sheet was not given in Moody's, an estimate was made based on the assets of subsidiaries and the assets of the parent corporation minus its investments in affiliated companies. These estimates, while they cannot be perfectly accurate, are sufficiently so for the present purpose. In two cases, no balance sheet of the parent was given but a very rough estimate of the assets controlled was made, based on the bonds and stocks of the parent company and the assets of certain of its subsidiaries. No company is included in the list, a majority of whose voting stock was known to be owned by another corporation.

TABLE I: *The 200 Largest Non-banking Corporations in the United States*

Name	Gross assets on or about Jan. 1, 1930. In millions of dollars
Amusements	
Eastman Kodak Co.	163.4
General Theatre Equipment, Inc. (Fox Theatres)	360.0
Loew's, Inc.	124.2
Paramount Publix Corp.	236.7
Radio Corp. of America	280.0 (est.)
Warner Bros. Pictures, Inc.	167.1
Chemicals	
PETROLEUM	
Atlantic Refining Co.	167.2
Continental Oil Co.	198.0
Gulf Oil Corp.	430.9
Ohio Oil Co.	110.6
Phillips Petroleum Co.	145.3
Prairie Oil & Gas Co.	209.8
Prairie Pipe Line Co.	140.5
Pure Oil Co.	215.4
Richfield Oil Co. of California	131.9
Shell Union Oil Corp.	486.4
Sinclair Consolidated Oil Corp.	400.6
Sinclair Crude Oil Purchasing Co.	111.9
Standard Oil Co. of California	604.7
Standard Oil Co. of Indiana	850.0 (est.)
Standard Oil Co. of New Jersey	1767.3
Standard Oil Co. of New York	708.4
Texas Corp.	609.8
Tide Water Associated Oil Co.	251.4
Union Oil Associates	240.0 (est.)
Vacuum Oil Co.	205.7
OTHER CHEMICALS, SOAP, ETC.	
Allied Chemical & Dye Corp.	277.2
Corn Products Refining Co.	126.7
Du Pont de Nemours & Co.	497.3
International Match Corp.	217.6

Name	Gross assets on or about Jan. 1, 1930. In millions of dollars
OTHER CHEMICALS, SOAP, ETC. *(Continued)*	
Koppers Co.	250.0
Procter & Gamble Co.	109.4
Union Carbide & Carbon Corp.	306.6
Coal	
Consolidation Coal Co.	94.0
Glen Alden Coal Co.	300.0 (est.)
Philadelphia & Reading Coal & Iron Corp.	129.0
Pittsburgh Coal Co.	171.5
Food Products, Drugs, Tobacco, etc.	
DAIRY PRODUCTS	
Borden Co.	174.0
National Dairy Products Co.	224.5
FRUIT	
United Fruit Co.	226.0
MEAT	
Armour & Co.	452.3
Swift & Co.	351.2
Wilson & Co.	98.0
SUGAR	
American Sugar Refining Co.	157.1
Cuban Cane Prod. Co.	101.3
TOBACCO	
American Tobacco Co.	265.4
Liggett & Myers Tobacco Co.	150.3
Lorillard (P.) Co.	110.0
Reynolds Tobacco Co.	163.1
OTHERS	
National Biscuit Co.	133.2
Glass	
Pittsburgh Plate Glass Co.	101.6
Leather	
International Shoe Co.	111.3

joined to it becomes increasingly concentrated; and the corporate system is thereby more securely established.

This system bids fair to be as all-embracing as was the feudal system in its time. It demands that we examine both its conditions and its trends, for an understanding of the structure upon which will rest the economic order of the future.

CHAPTER II: THE APPEARANCE OF THE CORPORATE SYSTEM

CORPORATE ENTERPRISE is no new institution. From the days of the joint stock trading companies which built up the merchant empires of England and Holland in the Seventeenth Century, the quasi-public corporation has been well known. Its entrance into the field of industry, however, dates from the early Nineteenth Century. In 1800 the corporate form was used in America mainly for undertakings involving a direct public interest: the construction of turnpikes, bridges and canals, the operation of banks and insurance companies, and the creation of fire brigades. Up to that year only 335 profit-seeking corporations appear to have been formed in the United States, nearly all incorporated in the last decade of the Eighteenth Century. Of these, 219 were turnpike, bridge and canal companies, and another 36 furnished water and fire protection or dock facilities. Banks and insurance companies had just begun to assume corporate form and numbered 67 at the opening of the century. Manufacturing industry lay almost wholly outside the corporate field, being represented by only 6 corporations.[1]

Though some of these early utility corporations were quasi-public in character, their stock being held by what was, for the time, a large number of stockholders, the first important manufacturing enterprise to be so organized dates from 1813. The Boston Manufacturing Company, first of the large New England textile firms, was established at Waltham, Massachusetts, during that year and was in many ways the prototype of the corporations of later date. Though insignificantly small in comparison with the corporate giants of today this company had all their essential characteristics. Within ten years of the date of

[1] Joseph S. Davis, "Essays in the Earlier History of American Corporations," Cambridge, 1917, Vol. II, p. 24.

incorporation, its stock, originally held by eleven stockholders, had become in a sense dispersed. By 1830 the stockholders numbered 76, no individual owned more than 8½ per cent of the stock, it took 12 to establish majority control, and the management lay with a board of directors whose combined holdings amounted to only 22 per cent. Twenty years later there were 123 stockholders, the largest of whom still owned 8½ per cent. Fifty-one per cent of the stock was distributed among 17 individuals while the management held only 11 per cent.[2]

Small though these figures seem in comparison with the hundreds of thousands of stockholders of the American Telephone Company today, they are none the less significant. The number of shareholders represented a very considerable dispersion for the par value of each share was $1,000 and the total number of available shares was small. The paid-in capital of $300,000,—increased in 20 years to $1,000,000,—was a very large sum for industrial enterprise in those days. The size of the industrial plant was correspondingly large in relation to those of competing concerns, and for the first time, all the textile processes, from breaking open the bale of cotton to shipping the finished cloth, were brought under a single direction. Here, too, the "promoter," so important a figure in the corporate system today, clearly appeared. By "selling out to the public," to use the modern phrase, the original organizers freed themselves and a large part of their capital from the fortunes of their first investment and were enabled to go on to organize further similar corporate units. This they did, forming a succession of large textile concerns, all corporate in form, all capitalized at $1,000,000 or more within a few years of organization, all equipped for large scale, mass production including every process, and all publicly held.[3] In every company, ownership rested with the public and direction with a management which owned a relatively small proportion of the stock. In 1842, the stock of one company, the Merrimack, was held by 390 people, including: [4]

80 administrators or trustees.
68 females.

[2] Derived from the Stock and Dividend Books of the Boston Manufacturing Company, preserved at the Harvard Business School, Cambridge, Massachusetts.

[3] The Merrimack Co. was formed in 1822, the Hamilton in 1825, the Appleton and Lowell Companies in 1828, Middlesex in 1830, Tremont and Suffolk Companies in 1831, the Boott and Massachusetts Companies in 1835 and 1839, all in the single city of Lowell. The same promoters launched similar concerns in other New England towns and founded in 1846 the new textile center of Lawrence. —C. F. Ware, "Early New England Cotton Manufacture," Boston, 1931. Appendix A.

[4] *Ibid*, p. 150.

52 retired business men.
46 merchants.
45 manufacturers and mechanics.
40 clerks, students, and unspecified.
23 lawyers.
18 physicians.
15 farmers.
3 institutions.

By virtue of their size and widespread ownership, these companies were always distinguished in New England as "The Corporations" in contrast to the small private concerns, though the latter were often incorporated.

The corporate development of this branch of the textile industry stood alone in the industrial field before 1860. Its growth, moreover, was arrested in the years after the Civil War when the corporate system was elsewhere growing apace, so that today, paradoxically, the textile industry is one of the few major industries which is not dominated by great quasi-public corporations.

More general in the ante-bellum period, and more significant for the future development, was the introduction of the corporate system into the railroad field. Railroad construction, involving a heavy initial outlay of capital, almost necessitated recourse to the corporate form. Once the first short lines had been constructed, this form made possible the next step, consolidation into larger systems. The first of the major groupings, the creation of the New York Central Railroad in 1853, was achieved through the devices which the corporation offered. The property of 10 small companies between Albany and Buffalo was transferred to a new corporation by exchange of stock and the 34 million dollars of securities, issued against the combined properties, were dispersed among 2,445 investors in Albany and other cities of New York State. No individual or group held a controlling financial interest in the new corporation.[5] Already the stock of railroad companies was familiar on the public exchanges and by the 'Sixties fights for control of their properties had become either market fights or more sinister legal battles.[6]

Since the Civil War, the quasi-public corporation has come to dominate the railroad field almost completely. Advantages of consolidation and the disastrous effects of competition drove companies into larger and larger units until, in 1930, 14 great systems operated

[5] F. W. Stevens, "The Beginnings of the New York Central Railroad," N. Y., 1926, pp. 352, 382.

[6] C. F. Adams, "Chapters of Erie," Boston, 1871, pp. 11, 13.

86.6 per cent of the first class mileage and 81.7 per cent of all road-road mileage in the country.[7]

Following the lead of the railroads, in the last part of the Nineteenth Century and the early years of the Twentieth, one aspect of economic life after another has come under corporate sway. Banking and insurance companies carried the system over from the earlier years of the century. So also did the public utilities, among which it has become practically universal.[8] Mining and quarrying followed close on the heels of the utilities, being 86.3 per cent corporate in 1902 and 93.6 per cent in 1919.[9] In the latter year, 99 per cent of the wage earners in the copper industry were employed by corporations, 98 per cent in iron ore, 97 per cent in lead and zinc, and 89 per cent in petroleum and natural gas.[10] It should be noted, of course, that the extent to which a field is incorporated is not an exact measure of the presence of the quasi-public corporation and the corporate system, since private corporations are included in the totals. The latter, however, represent in most cases a relatively small proportion of the wealth and activity involved and therefore do not seriously invalidate such figures as an index of the extension of the quasi-public corporation.

Except for the textile corporations mentioned above, the corporate system made slower headway in the manufacturing field. Its growth was stimulated in the period immediately following the Civil War by the enlargement of industrial units and the spread of mass production. In the closing decades of the Nineteenth Century it received a further stimulus from the trust movement of those years. By 1899 the census reported 66.7 per cent of all manufactured products as made by corporations [11] and corporate increase in the Twentieth Century has been most rapid; 87 per cent of goods were so produced by 1919 [12] and it is fair to assume that over 94 per cent of manufacturing is carried on by corporations at the present time.[13] Wage earners in the employ of manufacturing corporations have increased correspondingly from 65 per cent of those engaged in manufactures in 1899 to 92 per cent (estimated) in 1929.[14] Though in manufacturing, private corporations play a more important role than in the mining and utility fields, the growth in total corporate manufacturing reflects a large measure of growth of quasi-public corporations.

[7] Derived from the report of the House Committee on Interstate and Foreign Commerce on the "Regulation of Stock Ownership in the Railroads," 71st Congress, 3rd Session, House Report No. 2789, Feb. 21, 1931, pp. LII, LIV.

[8] In 1922, 28 miles of electric railroads were in the hands of private individuals or partnerships. Census of Elec. Ind., Elec. R. R., 1922, p. 9. All telegraph companies were corporate by 1917. Census of Elec. Ind., Telegraphs, 1917, p. 9. All but $5,000,000 of capital of telephone companies in 1922 was corporate. Census of Telephones, 1922, p. 1. All but $5,200,000 of gross income of all non-municipal electric light and power companies was received by corporations in 1917. (99.0%.) Census of Elec. Ind., Cent. Elec. Lt. & Pr. Sta., 1917, p. 25. In these census figures the Massachusetts Trust is presumably included as a corporation.

[9] Statistical Abstract of the United States, 1925, p. 703.

[10] Abstract of 14th Census of the United States, 1920, p. 1278.

[11] 13th Census of United States, 1910, Vol. VIII, p. 135.

[12] 14th Census of United States, 1920, Vol. VIII, pp. 14, 108.

In a few manufacturing industries the transfer to the corporate form has been delayed, but even here the shift is noticeable. In 1920, the men's clothing industry, with a value product of over a billion dollars was only 54.6 per cent corporate, the bread and baking industry only 51.7 per cent, millinery and lace goods 46.9 per cent, automobile repairing 39.1 per cent, women's clothing 32.9 per cent, fur goods 30.1 per cent, cheese-making 20.7 per cent.[15] These are the most important manufacturing industries in which the corporate form has not become overwhelmingly predominant,[16] but in each case the 1920 figure showed a larger proportion of corporate production than the figure of the previous census. There is good reason, moreover, to believe that the recent census will show a very much greater proportion of corporate activity in most of these industries.

In the mercantile field the corporation is only just beginning to come into its own. Exact figures are not here available, but rough estimates place the per cent of wholesale sales made by corporations in 1909 at approximately 30 per cent and at 40 per cent in 1925. In the same sixteen-year period retail sales by corporations grew from 15 to 30 per cent of all retail sales.[17] The latter growth included some additional extension of wholesale corporate trade since in many cases the retail corporation also performed the wholesale function. Though these figures, at best only approximate, may be shown to be in error when the census of 1930 reports a thorough canvass of the mercantile field for the first time, the rapid growth of the corporation in this area cannot be questioned.

This expansion is almost synonymous with the development of the chain store. From 1919 to 1927 sales by chain groceries increased 287

[13] Estimate obtained by projecting trend line based on log of figure for per cent of manufactured products not made by corporations according to the census figures of 1899, 1909, and 1919.

[14] Abstract of 14th Census of the United States, 1920, p. 1021 for 1899 and estimate (see note 13 for method) for 1929.

[15] Abstract of 14th Census of the United States, 1920, pp. 1022–1029.

[16] All industries reported in the Census as having a value product of over $140,000,000, less than 55 per cent of which was produced by corporations.

[17] Based on figures supplied by the National Bureau of Economic Research.

per cent while sales of 5 and 10 cent store chains grew 160 per cent.[18] The rate of growth of these chain stores is so far in excess of the growth of total retail sales as to represent a noteworthy encroachment of corporate upon private enterprise in distribution.

For the fields of construction and what the census calls "unclassified industries"—*i.e.*, personal services, amusements, rental of business buildings, professional activities of physicians, lawyers, etc.,—accurate figures are not available. Between forty and sixty per cent of all construction appears to be carried on by corporations,[19] and perhaps some 15 to 25 per cent of the unclassified industries.[20] It is impossible to discover the degree of growth in these fields. Certainly there has been a marked increase in the number of moving picture houses owned by corporations, particularly by the big chains, barber and beauty parlors are chained and incorporated to a growing but still small extent, restaurant chains have grown in the last twenty years, and corporations for the owning of business property have extended their operations. It is not possible, however, to measure whether these developments have been more rapid than the total growth of business in these fields.

One of the last areas of non-corporate activity, the field of real estate, shows signs of coming within the corporate sphere. Much real estate is held by private corporations. Real estate corporations such as the Equitable Office Building, Inc., with active securities on the exchanges, have already made their appearance, and a Real Estate Exchange has recently been formed in New York to deal solely in securities of corporations organized to take over real estate.

In agriculture the corporation has made least headway. In 1920, 61.1 per cent of all farms, measured by their value, were operated by the owner, while 34.9 per cent were operated by tenants. Only 4.0 per cent were operated by managers.[21] Presumably corporate farming was entirely restricted to the latter class, though lands held by a corporation and operated not by the corporation but by tenants would be included in the second group.

The operations of the government remain as the only field of economic activity not yet considered. Here, of course, the corporate system with its widely dispersed ownership is not in evidence. It should be noted, however, that even the government is beginning to

[18] National Bureau of Economic Research, "Recent Economic Changes in the United States, N. Y., 1930, p. 362.

[19] Based on figures supplied by the National Bureau of Economic Research.

[20] Rough estimate based on Income Tax data.

[21] 14th Census of United States, 1920, Vol. V, p. 130.

employ the corporate device—witness, for example, the Port of New York Authority. Even here the corporation may become the established form, ultimate ownership and, to the extent that the democratic machinery is effective, ultimate control, vesting with the people.

Thus, in field after field, the corporation has entered, grown, and become wholly or partially dominant. The date of its appearance and the degree of its dominance have in general varied with two factors, the public character of the activity in question and the amount of fixed capital necessary to carry on business. It came first in the fields of public utilities, common carriers, banks and insurance companies (which even in the 1840's were conceded to perform public functions) [22] and last in the areas of personal service and agriculture;—early, with the high fixed capital costs in railways and mines; late, in mercantile pursuits where capital consists to such a large extent of stock on hand. On the basis of its development in the past we may look forward to a time when practically all economic activity will be carried on under the corporate form. And wherever the corporation has become dominant, it has been in its quasi-public, not its private, rôle. It does not simply give a legal clothing to the private enterprise of individuals. It adds a new quality to enterprise—the quality of multiple ownership.

[22] According to Nathan Appleton, leading New England texture manufacturer, Ware, *op. cit.*, p. 290.