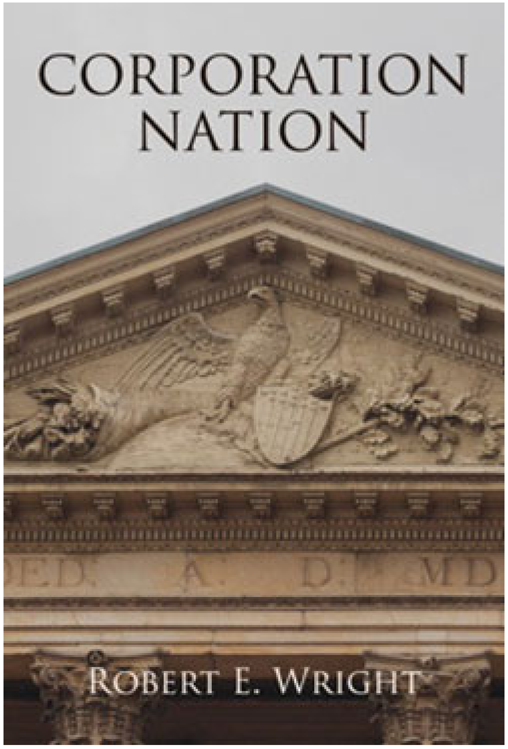
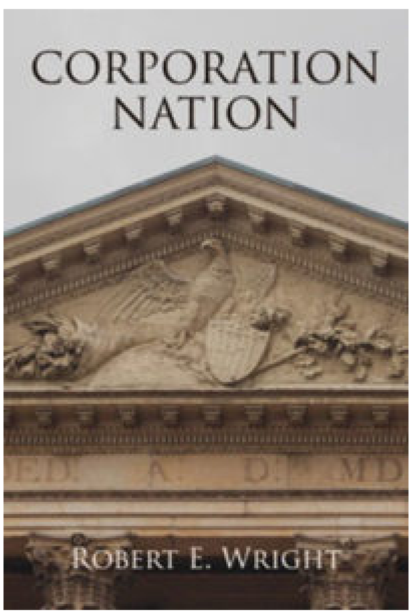
Of “Shared” Governance





Robert E. Wright, Corporation Nation. Philadelphia: University of Pennsylvania Press, 2013. 328 pp., $69.95.

In his sweeping new study of the useful rise and moral fall of the American corporation, Robert E. Wright has simultaneously provided a timely means to help us understand the corporate form and corporate behavior, a scathing account of evolving corporate ills and abuses, and a preliminary prescription for their reform. In doing so Wright demonstrates just how, in the matter of corporate governance, history *can be* Americans’ best teacher. *Corporation*

Nation traces the life of the corporate form in America from colonial times to the recent financial debacles of 2007-2009 to show how American corporations have transformed from governable local enterprises into unwieldy, ungovernable entities that have reached a nadir in public opinion and confidence.

In the late eighteenth century, “[C]orporations were not merely a convenient means of improving economic efficiency and living standards,” Wright explains, “they were often indispensable to those lofty goals because they provided unique ways for people to cooperate” (7). The ratification of the Constitution in 1789 spurred an explosion of state-chartered corporations. Americans were not subject to “predatory government[s]” like the inhabitants of the world’s poorer countries, so they “eagerly sought to create wealth because they were assured that they could keep the fruits of their hard work and acumen” (25). Corporations “lifted overall living standards,” and the “poor also benefited, primarily when they purchased low cost goods,” from corporations which did not wield monopolistic market power (7). In fact, many “low income individuals also received wages from corporations” (8). As the corporate form became more ubiquitous in the new nation, however, it gave rise to an anti-corporate sentiment. Wright traces this critique to the influential writings of no less than Adam Smith himself, who despised corporations because “[T]hey skewed incentives in ways that caused or perpetuated inefficiencies” (28).

Early national American corporations typically provided or performed important local functions or services that benefitted discrete communities. Their impact on local economic growth enticed local investment and interest. When annual shareholder meetings and elections were held by these locally based corporations, attendance was high, information about corporate performance was readily evident, and shareholders were able to act as involved proprietors of the operation. This arrangement encouraged corporate accountability as elected directors (ideally heavily invested in the venture) became answerable to stockholders who could voice their opinions and enforce change on directors, or even vote them out if they felt that corporate affairs were being poorly managed. This system of corporate governance, which predominated in the antebellum era, worked best, in Wright’s opinion. In tandem with growing market competition, it forced corporations (the successful ones, at least) to do right (or at least try to do right) by their shareholders.

Scholars of the early republic (particularly those studying the Jacksonian era) cite rising anti-corporate sentiment as a motive force in America’s partisan political development. Wright insists however that “critics of corporations were in earnest but were probably not as numerous or as strident as some historians seem to believe.” Republican traditions made Americans wary of any institutions that could potentially threaten their liberties. Yet Americans recognized that properly governed corporations not only “proved incapable of reinstating tyranny [but] by strengthening the nation’s economy they helped ensure continued American independence.” Rather than prevent the rise of corporations, Americans allowed them “to proliferate and check one another through competition” (46). State governments chartered corporations in increasing numbers, securing both needed revenue streams and firepower for their economic competition with rival states. Wright emphasizes that the Jacksonians' regulation of corporations indicates their anti-*monopolism*, which he believes too many scholars conflate with anti-*corporatism*. Public opinion, explosive economic growth, and jealous state legislatures would not countenance the abolition of corporations. Recent scholarship by John Majewski has made clear the widespread level of small-holding in corporate shares that also tied the public interest to corporate success. Competition and good internal governance were the keys to insuring that the public's interest in corporations was served and that the interests of shareholders, large and small, were protected.

However, by the mid-nineteenth century, the most productive American corporations became larger, more powerful, and more numerous. As the national economy grew in terms of scope, integration, and GDP, American securities markets increasingly reflected these trends and shareholding became even more widespread and more geographically dispersed. A trend toward lower share prices in secondary markets and the increasing desirability of portfolio diversification resulted in greater numbers of stockholders; "the cost was weaker governance" (99). Corporate managers took advantage of the geographical diffusion of shareholding to concoct various unsavory means by which to make voting inconvenient or impossible for many shareholders, or to simply buy or rig votes. Soon enough, "the inability of stockholders to eliminate fraud and other forms of governance failure opened the way for increased state-centered regulation," which eventually "proved itself to be more costly and less responsive than stockholder governance" (173). One of several reasons state regulation proved so ineffective, Wright argues, was that U.S. senators and state legislators could be bought just as easily as corporate directors or anyone else. Hence, railroads and other trusts proved adept at shaping the course of regulatory legislation so that its effects fell most heavily on their smaller competitors. During the years between the Civil War and World War I, the geographic diffusion of stockholding in mega-corporations made it easier for a rising class of entrenched executives to ride roughshod over corporate decision-making. Boards of directors that formerly ran businesses in trust for attentive stockholders rubber-stamped the initiatives of overpaid managers whose prime interest was personal aggrandizement. The long-developing separation of ownership and control was nearly complete as "stockholders came to be seen as annoyances rather than owners" and even "selective disclosure of corporate information slowly died" (195).

Wright concludes with a look at the recent financial meltdown and an attempt to shake modern Americans from their complacency. Wright tells us that "much of the recent debate about corporations" sees Americans in two camps debating whether corporations should focus on being more profitable for shareholders, or more socially redemptive. The ideological parameters of this debate, according to Wright, animate our culture to such a degree that we miss the central point and thereby enable uncontrollable executives because it "helps deflect attention from the real problem: their complete control of most large, publicly traded corporations” (217). Americans’ preoccupation with associating concepts such as ninety-nine percent and one percent with partisan brand names deepens the problem. Nature abhors a vacuum, and as the polity continues to divide over ideologically charged issues, power further concretizes in corporate boardrooms. Wright clearly sees these mavericks as the problem and he ends his book by proposing six steps that government, boards of directors, and stockholders must take to rehabilitate the American corporation and return it to a governable state that will restore public confidence and benefit the American economy. “U.S. corporate governance is broken,” Wright confirms, “and corporations are too economically important not to fix” (219). Academics whose retirement plans hinge upon the performance of their CREF stock would do well to take note. Historians of the early republic who have come to know Jacksonian-era bankers and their ilk as villains, may (or may not) be surprised to learn that what Wright views as the good corporate governance principles of the antebellum era, along with the earliest state-level regulatory reforms, offer the best models from which we should learn and proceed.

Corporation Nation is a fine piece of business history scholarship that acknowledges politics, ideology, and political culture, but often in a passing manner that many readers may find dissatisfying. The brand of politics with which Wright is concerned is the internal politics—or governance structure—of the corporation itself and its relationship to its constituents, or shareholders. He is well at home with his subject and ably conveys sometimes difficult economic and business concepts in very clear terms. Early republic scholars concerned with the relationships between the states and their corporations, or who work with seemingly obtuse business documents and correspondence, will find this book a valuable tool for understanding how and why corporations operated. Moreover, more than one contemporary legislator or political candidate might benefit from this volume. It is a timely scholarly exposition of how specific conditions allowed for corporate wrongdoing to arise, and what Americans might do, while there is time, to try to right the ship.

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