

# Practical Activity

## The ascend of the Corporation

Economic History



## Suggested citation

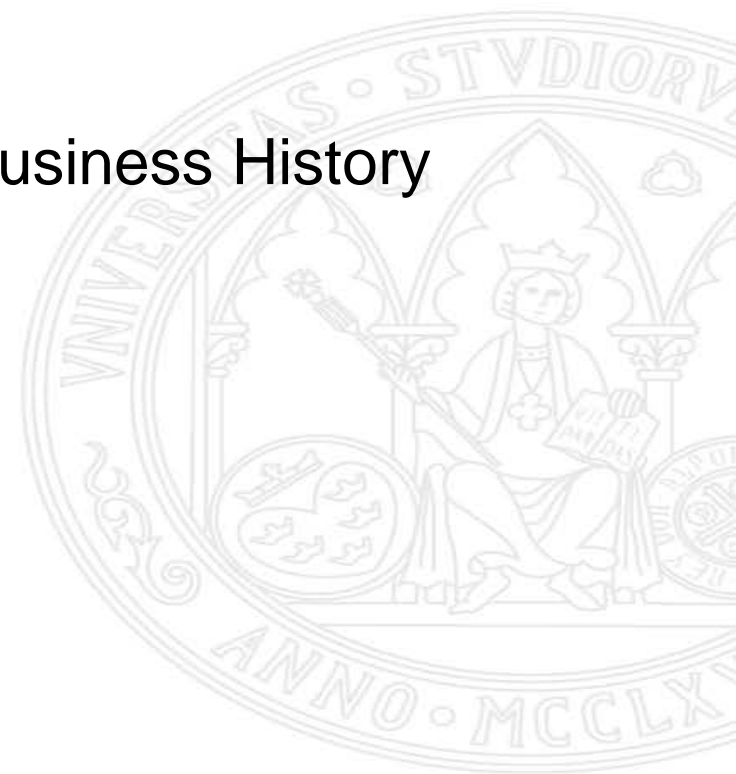
- MARTÍNEZ-RODRÍGUEZ, Susana. 2017. “PRACTICAL ACTIVITIES/SEMINARIES. Economic History. The Ascend of the Corporation.” Departamento de Economía Aplicada-Universidad de Murcia.
- Proofreading Services provided by [www.rachelbland.com](http://www.rachelbland.com)

- CONVOCATORIA PARA EL IMPULSO Y LA CONSOLIDACIÓN DE PROYECTOS DE DOCENCIA BILINGÜE DURANTE EL CURSO 2017/2018 (**Resolución Rectoral 787/2017, de 26 de julio de 2017**)

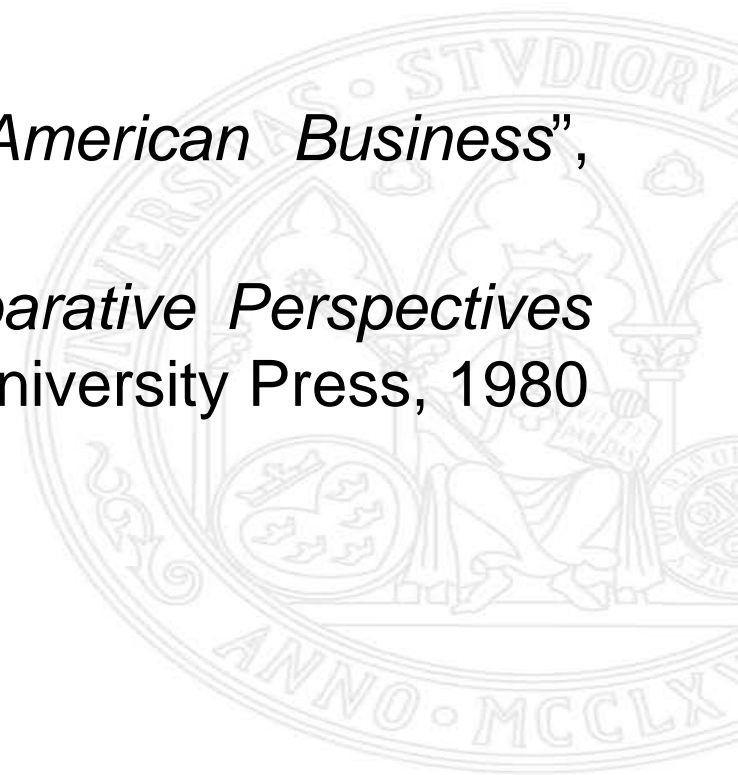




- **Alfred Chandler** (1918-2007)
- Relevant/"The most" important American historian
- Fundamental scholar in the development of the field of Business History
- Key references



- Key References:
- “*Strategy and Structure: Chapters in the History of the American Industrial Enterprise*”, MIT Press, 1969, reprint, 1990
- “*The Visible Hand: The Managerial Revolution in American Business*”, Belknap Press and Harvard University Press, 1977
- With Deams, H. (eds), “*Managerial Hierarchies: Comparative Perspectives on the Rise of Modern Industrial Enterprises*”, Harvard University Press, 1980



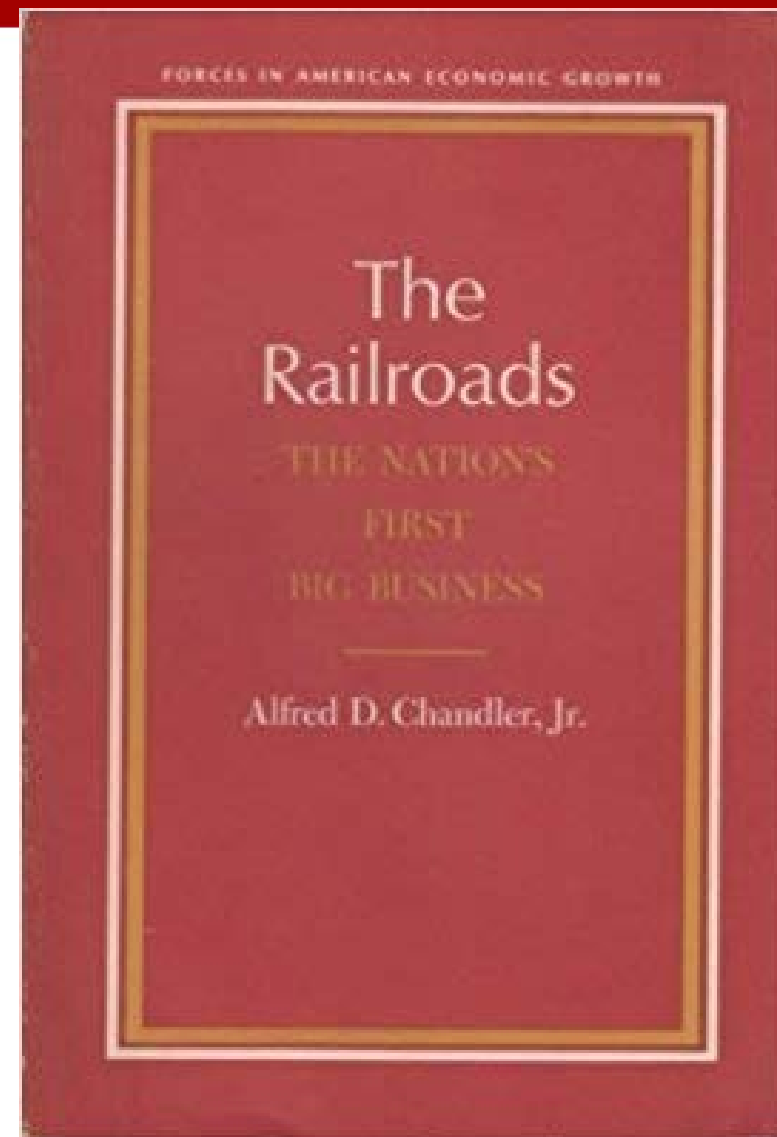
- He based his theory on an extensive study of large American corporations

## Corporation

**All members have limited liability**  
**Capital is divided into shares**  
**Shares are tradable**

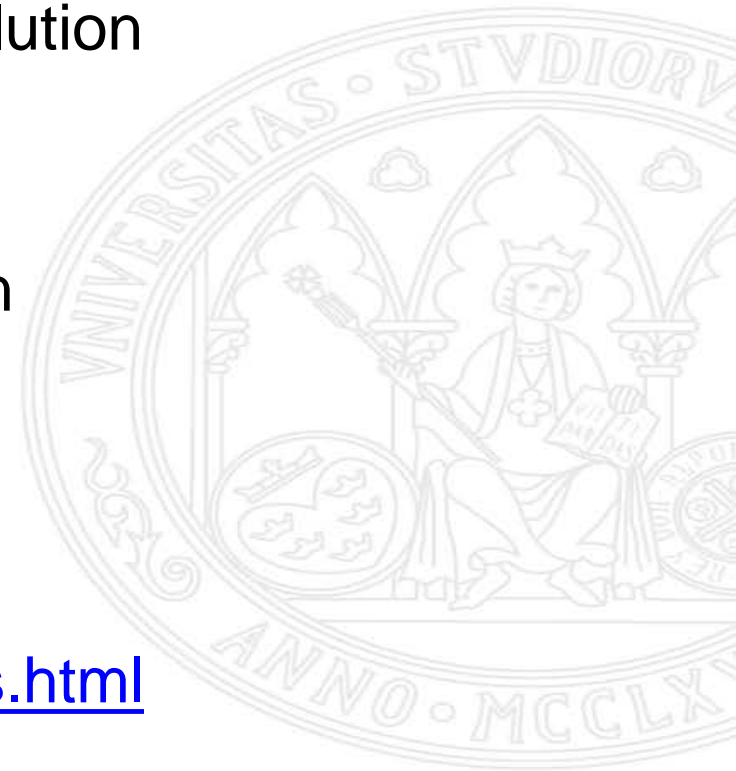


- The Railroads as Promoters of Economic Change,
- The Beginning of Modern Corporate Finance,
- The First Modern Corporate Management,
- The Beginnings of Modern Labor Relations,
- New Ways of Competition,
- The Beginnings of Modern Governmental Regulation of Business





- Historical evidence:
- The corporation became popular during the second revolution
- Capital intensive activity sector.
  - Transportation, civil work construction, communication
- Paradigmatic example: **Railways in the US**
- (Chandler relied on his family archives)
- <https://www.library.hbs.edu/hc/railroads/first-big-business.html>





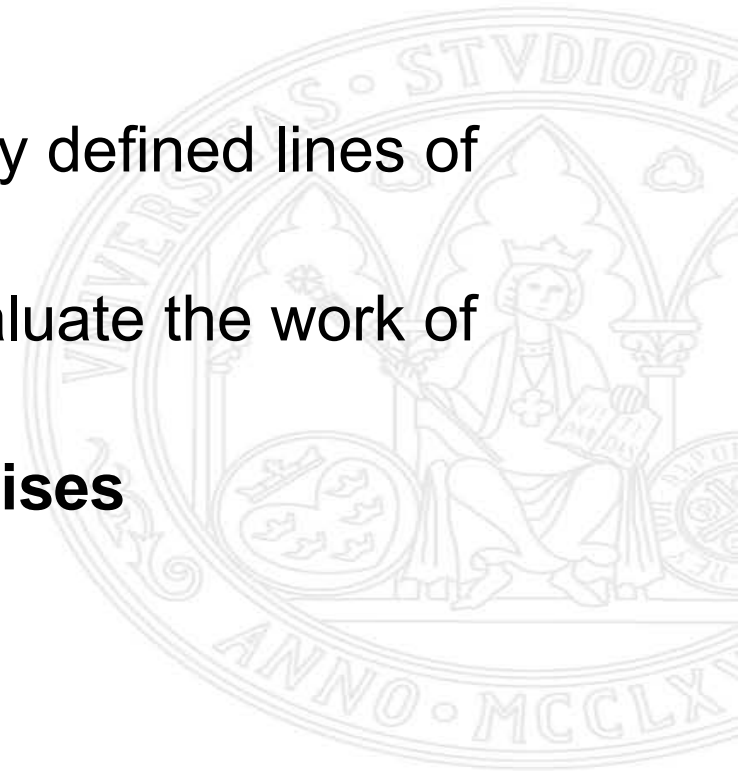


**1890**—This picture shows how the 1890 year was an early milestone. More than 70,000 miles of rail lines were added in 1890 alone. Including the lines that were up in 1880, the 1890 network made the country connected to the north. In 1890, the railroad network in the United States was 110,000 miles long. The 1890 year was the beginning of the railroad era of the Mississippi River. Railroad lines 1,700 to 11,000, and the population of that year increased rapidly.

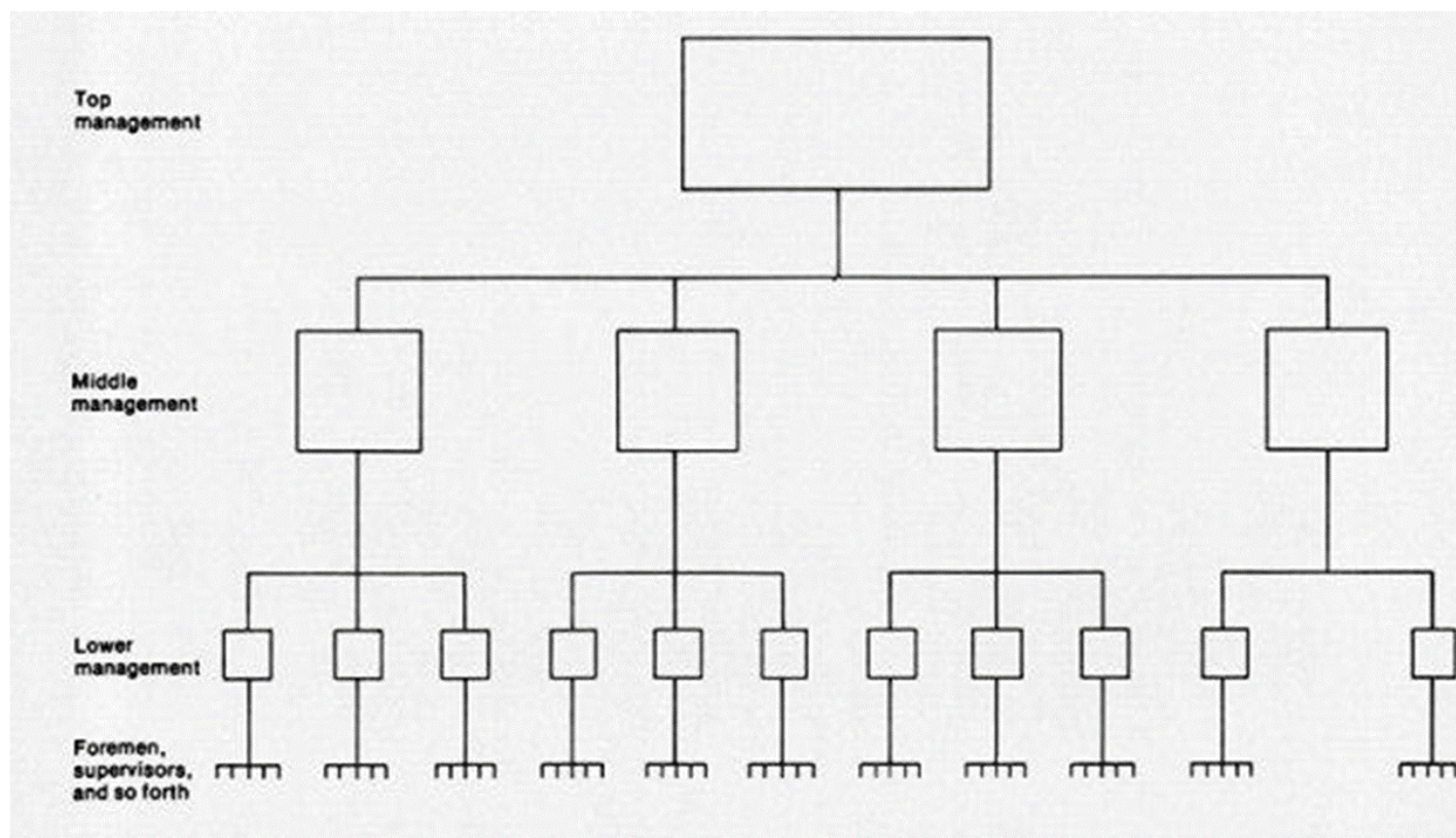


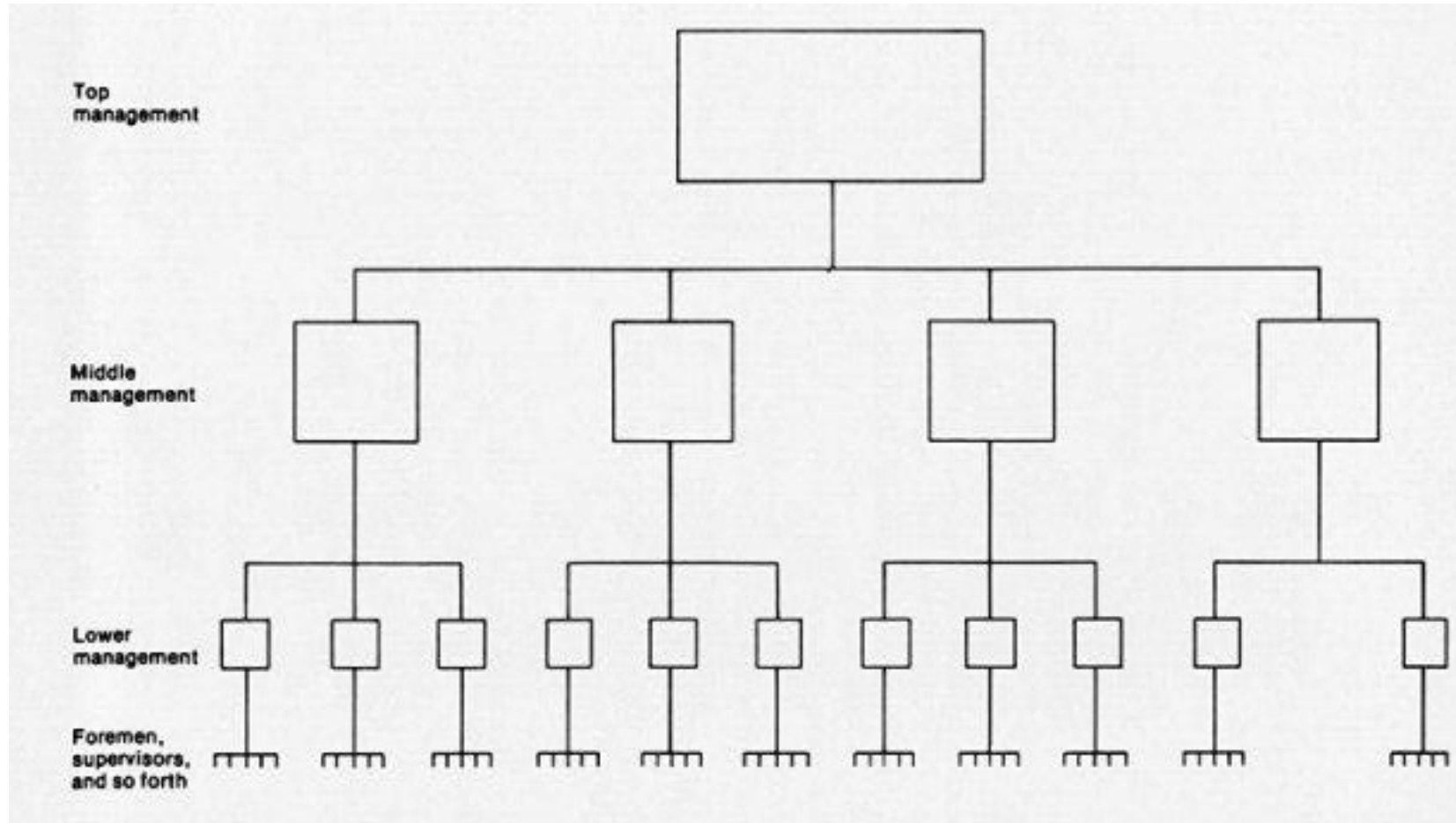


- The railroads were the first to
  1. require a large number of salaried managers
  2. have a central office
  3. build large internal organizational structure with carefully defined lines of responsibility
  4. develop financial and statistical flows to control and evaluate the work of many managers.
- **The railroads were the first modern business enterprises**



- According to Chandler, the origins of modern management hierarchies are in the rapid growth of the American railroads.

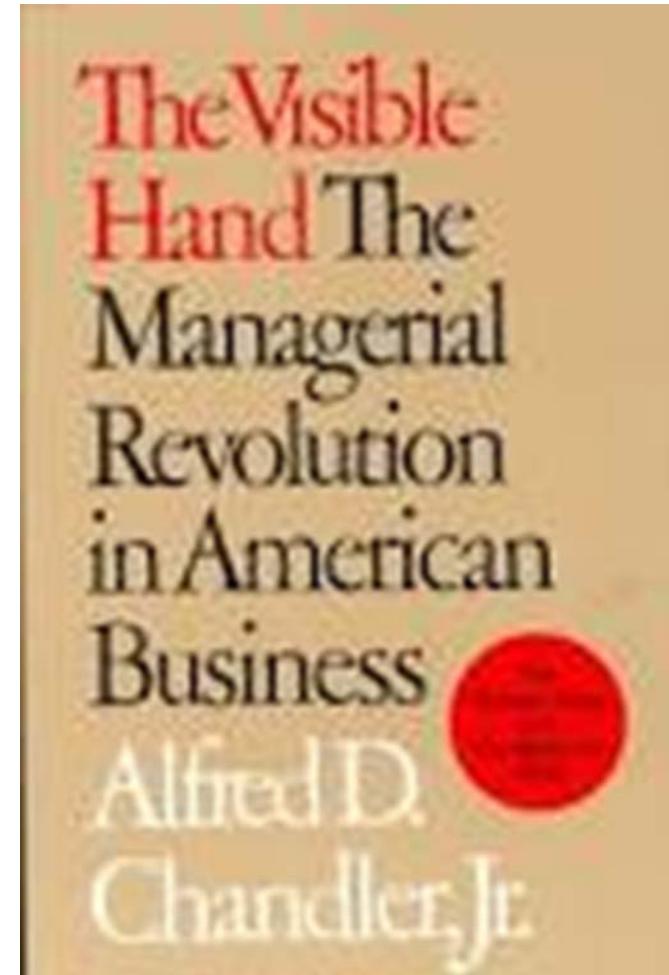




Alfred D. Chandler. 1977. *The Visible Hand: The Managerial Revolution in American Business.*

Harvard University Press

- The US modern multi-unit business replaced the small traditional enterprise
- Role of corporations in the modernization process.

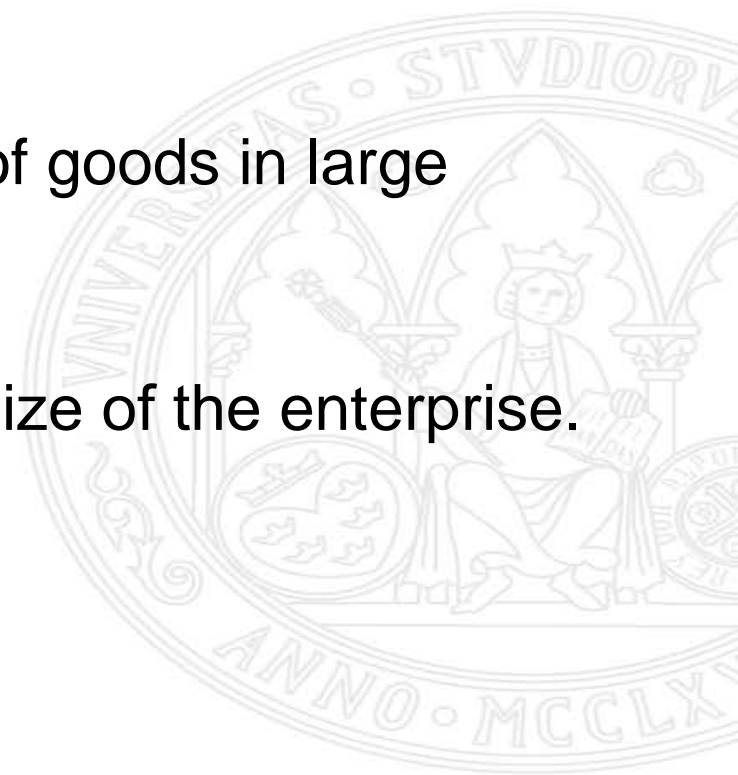




- Before the 19<sup>th</sup> C, individual merchants ruled the economy.
- Partnerships
- Specialization was already appearing in the distribution of goods in large cities.
- The scarcity of labor was a significant constraint on the size of the enterprise.

Main exceptions

- Armories
- Textile mills



- Revolution of transportation (R&D)
  - The railroads were the first modern business enterprises.
- The first railroad boom provided:
  - large-scale construction firms
  - modern investment banking houses



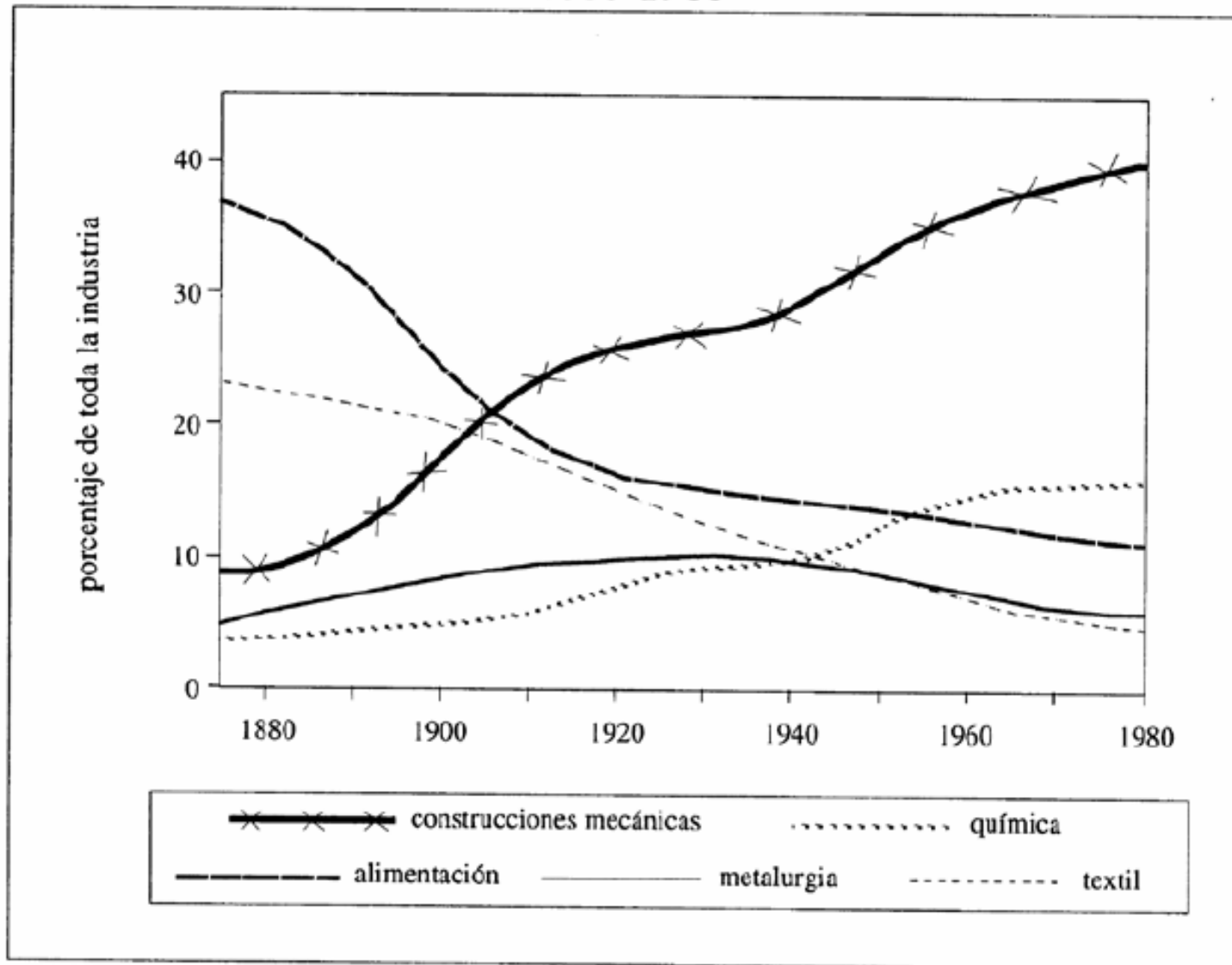
- Based on a database of 800 industrial firms, Chandler said that after 1880 a new type of firm appeared
  - capital intensive activities
  - new sectors
  - leading economies



	ESTADOS UNIDOS				GRAN BRETAÑA				ALEMANIA				JAPÓN			
	1917	1930	1948	1973	1919	1930	1948	1973	1913	1929	1953	1973	1918	1930	1954	1973
INDUSTRIA	29	31	27	22	61	63	53	33	26	28	22	24	31	30	26	18
Alimentación	6	5	5	3	3	4	6	4	1	1	0	6	1	1	0	0
Tabaco	6	4	8	3	26	21	17	10	15	24	26	4	54	62	23	11
Textiles	3	0	0	0	0	1	2	0	1	1	1	0	2	2	1	0
Prendas de vestir	3	4	2	4	0	0	0	2	1	0	0	0	3	1	0	1
Madera	0	1	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Mobiliario	5	8	6	9	3	5	6	7	4	5	3	2	12	6	12	10
Papel	2	2	2	1	5	10	7	7	0	1	0	6	1	1	0	2
Imprenta y ediciones	20	20	23	28	14	11	17	21	30	24	24	30	23	22	38	34
Química	22	26	22	22	3	4	3	8	5	7	6	8	6	5	11	13
Petróleo	5	5	5	5	3	3	2	6	4	2	5	3	0	1	1	5
Caucho	4	2	2	0	1	1	1	3	2	5	2	1	4	1	0	0
Cuero	5	8	6	7	2	7	8	16	7	7	6	15	16	14	8	14
Piedra, arcilla, vidrio	31	23	23	19	40	24	25	14	49	33	40	19	21	22	28	27
Metales primarios	11	10	6	5	1	8	7	7	5	3	5	14	4	3	6	5
Productos metálicos	17	19	23	16	7	6	10	26	25	19	28	29	4	4	10	16
Mecánica	5	5	7	13	6	10	11	14	7	11	8	21	7	12	15	18
Electromecánica	24	23	29	19	23	17	21	16	16	24	18	14	9	11	18	20
Medios de transporte	1	2	1	4	0	2	1	3	2	3	3	2	1	1	3	5
Instrumentos	1	2	2	1	2	3	3	1	0	2	3	1	1	1	0	1
Manufacturas varias	0	0	0	19	0	0	0	2	0	0	0	1	0	0	0	0
Conglomerados	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200

Fuente: Alfred D. Chandler, Jr. *Escala y diversificación. La dinámica del capitalismo industrial*, tomo I.

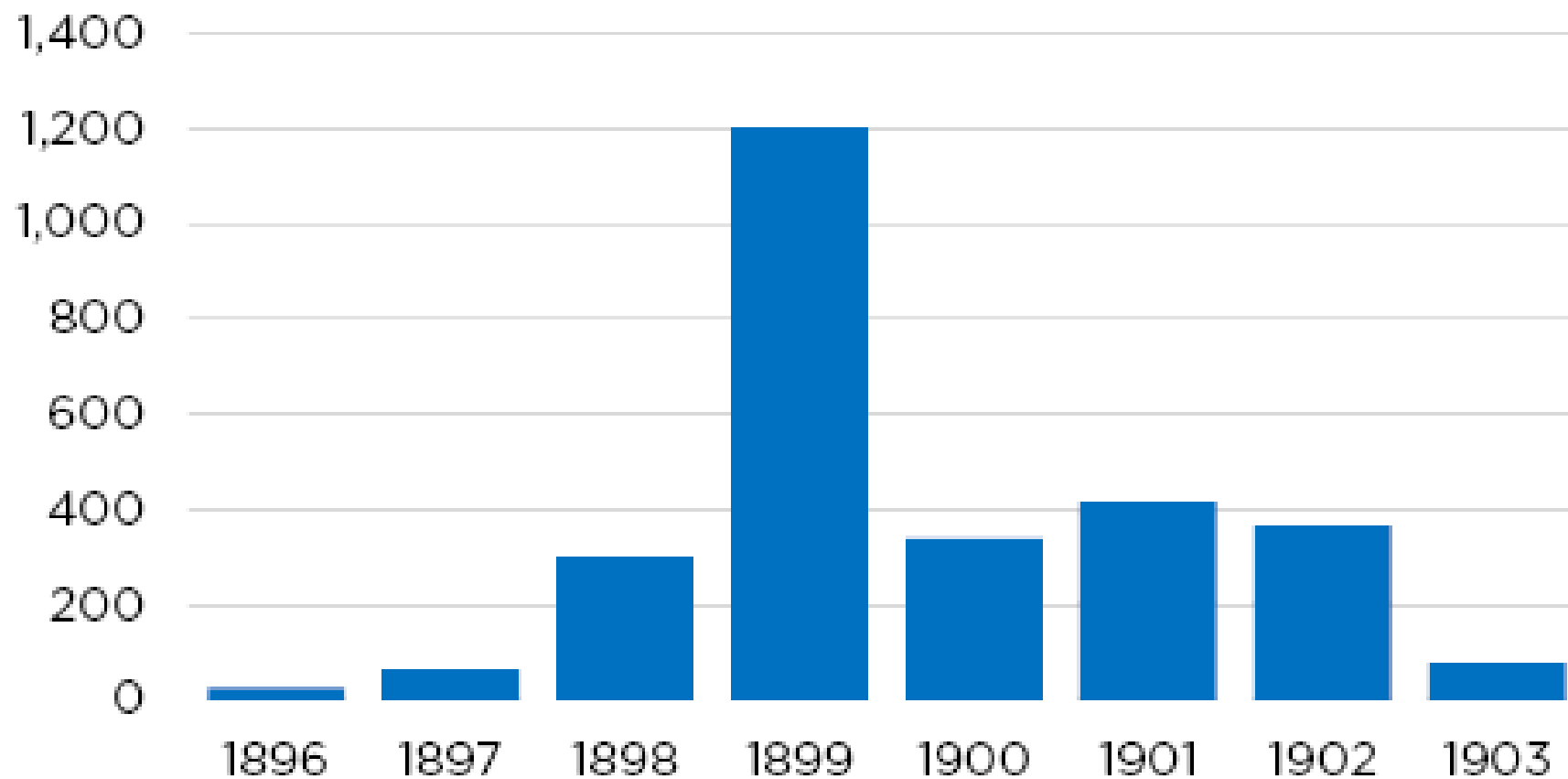
1880-1980



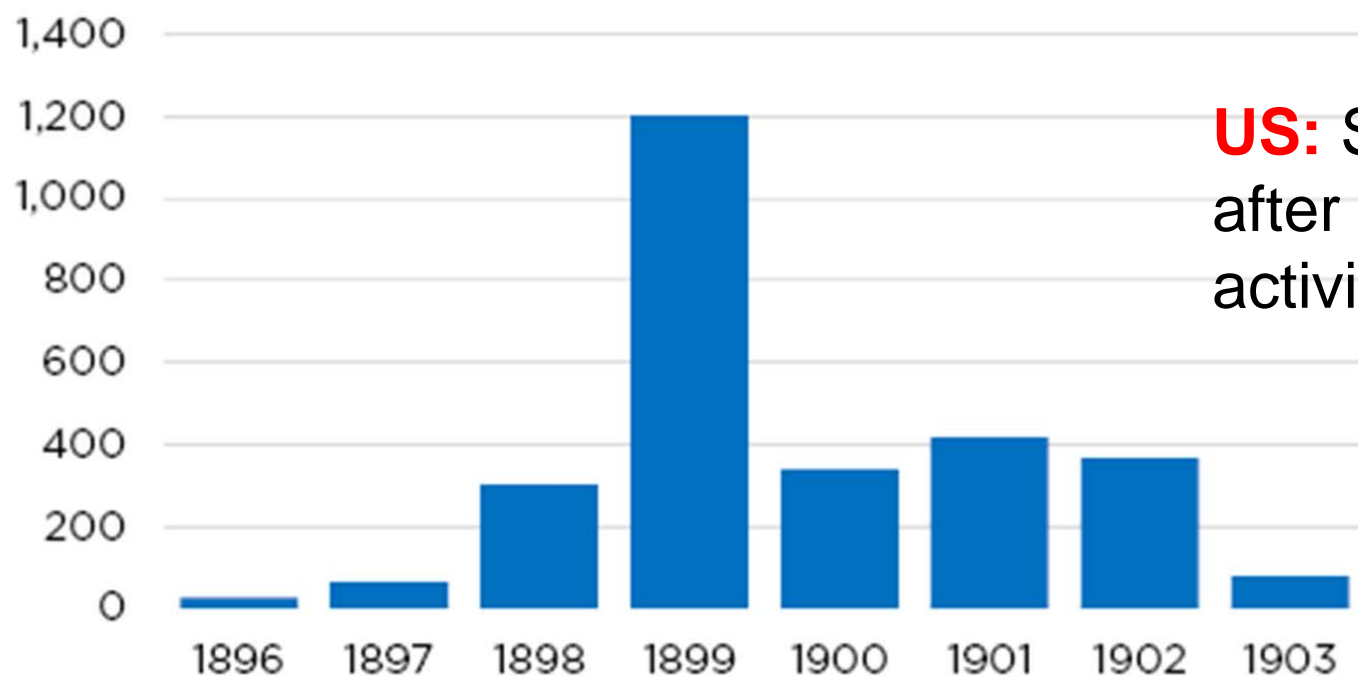
Fuente: AMBROSIUS - HUBBARD, *Historia social y económica de Europa en el siglo XX*, Alianza Universidad, Madrid, 1992, p. 238



## Firm disappearances through merger

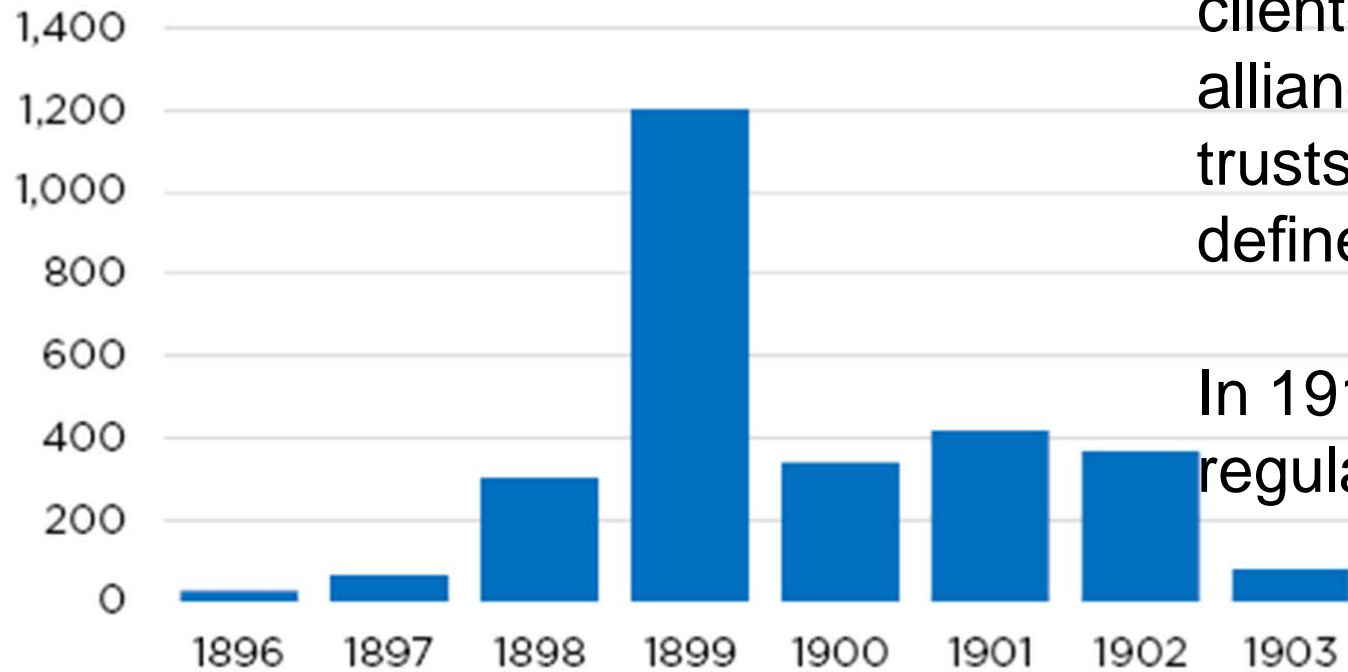


### Firm disappearances through merger



**US:** Sherman Act (1890). For a decade after this act, the act against monopolistic activities was rarely invoked

### Firm disappearances through merger



After 1899 lawyers were advising their clients to abandon all agreements or alliances carried out through cartels or trusts and to consolidate in single, legally defined enterprises.

In 1914 Congress passed new antitrust regulation



- What is a firm?



- “What is a firm?” by A. Chandler

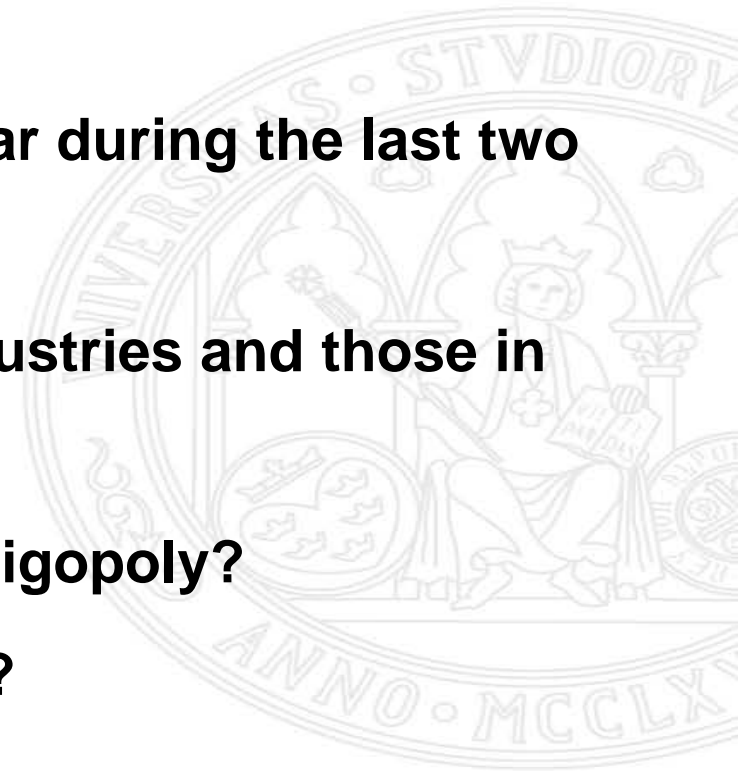
**1. What is a firm?**

**2. In which activity sector did a new type of enterprise appear during the last two decades of the 19<sup>th</sup> C.?**

**3. List some of the differences between firms in the new industries and those in the old ones.**

**4. Why did the new type of firms adopt the structure of an oligopoly?**

**5. Could you match “the new firm” to a particular legal type?**



- [[NOTE: next practical activity on firms & the history of firms]]

A warning about the impact of corporations (on economic development):

- **GUINNANE, LAMOREAUX, HARRIS, ROSENTHAL: “The economic consequences of the law”- Project Research NSF (2007-2010/11)**

Main idea:

- The superiority of the corporation is less clear for SMEs
- The PLLC in European economic-leaderships.
- Economic consequences of the law of business organizations in 4 major economies over the past 200 years.

