The Megacorp as a Social Innovation and Business History

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An earlier paper [28] has suggested a conceptual framework for organizing the study of American history. The purpose of this paper is to see how business history, in particular, fits within that framework. The first section summarizes the earlier paper, calling particular attention to one of the points it makes, namely, that the modern corporation, or megacorp, as it emerged within the American context is one of the most important, if not *the* most important, institutional innovation helping to explain early 20th century American economic growth and late 20th century world growth. The rest of the paper examines business history to see what light it can throw on this very specific example of institutional innovation.

I.

History can be seen as the process by which human beings have developed the tools called social institutions, not just to give themselves some control over the forces of nature but, even more generally, to enhance the options available to them over their lifetimes. From this perspective, to understand history one must be able to comprehend the nature of social institutions, including their very real limitations as enhancers of individual options. Here the student of history will find himself up against the intellectual poverty of the sister discipline of sociology. Only Talcott Parsons among contemporary sociologists has attempted to provide any general theory of social institutions; yet in deliberately choosing concepts without any real-world counterparts except as figments of that reality and by refusing to specify any behavioral models to accompany his scheme, Parsons has made his work unusable for historians.[1]

It is for this reason that Eli Ginzberg and Eichner, coming out of institutional economics rather than sociology and building on their work as part of the Conservation of Human Resources Project at Columbia University, have attempted a different

approach to the study of social institutions.[2] It is an approach which views historical development in terms of the interaction among four institutional dimensions -- the normative, the political, the economic and the anthropogenic, or human developmental.[3] The delineation of the four separate dimensions provides the taxonomic base for the conceptual framework employed; it is under at least one of these four categories that all social phenomena can be classified. Still, the analysis goes beyond mere taxonomy. Each dimension of society is viewed as having its own separate dynamic, one which at least some academic discipline has attempted to elucidate. Moreover, when a particular social phenomenon has more than one institutional dimension, the attendant dynamic is likely to be quite different from what a knowledge of any one discipline would suggest. It is by bringing out the nature of this interaction among the several dimensions, and in particular by relating it to social change, that the Ginzberg-Eichner conceptual framework begins to approach a theory of societal development.

The normative dimension of society consists of all values, or implicit assumptions, which underlie the behavior of individuals in the course of everyday life. To say "hello" when greeting acquaintances on the street, to be at work on time, not to steal from one's neighbors -- these may all be part of the normative structure, or value orientation which characterizes a particular society. Values of this sort, which have important implications for the way in which society functions, can be distinguished from mere preferences -- such as for shiny yellow sports cars, Mozart concertos, and Chinese cooking -- which bear only on which specific options are exercised, not on the range of options available.

It can, of course, be questioned whether values, as just defined, have any existence separate and distinct from the behavior of either the individuals or the institutions which make those values manifest. And indeed, the value orientation of a society is in a certain sense basic to the way in which all other social institutions function. In the broadest sense, an institution is merely a habitual way of doing things (see [3]). But this only means that the four dimensions coexist, not that one dimension can be subsumed under the others. Just as a particular point on a cube exists along the scalar dimension of width as well as the scalar dimension of length, so a particular social phenomenon, say, the belief that government should be organized along parliamentary lines, can be viewed as part of the value orientation of that society as well as part of the same society's political structure.

What makes it necessary to consider the value orientation separately in its own right is the fact that part of the value orientation of any society deals with values themselves -- that is, with the process by which certain values come to be legitimated and accepted. Since values represent the implicit

assumptions upon which human behavior is predicated some such process is essential -- for consistency and coherence of behavior, if for no other reason. Whether in fact the assumptions which values represent are true is not an unimportant question, for it will determine whether the behavior predicated upon those values, or assumptions, will be appropriate to the actual situation which exists. It is therefore useful to know how appropriate a given value orientation is, the basis for determining this being the scientific method which has gradually developed over the last 500 years as the yeast of Western civilization (see [52 and 43]). The more appropriate the value orientation of a society, the greater will be the options -- in an existential sense -- which the individual members of that society will have.

It was along this institutional dimension that the original settlers of this country gained an early advantage over other societies. Not that the Puritans and other first Americans were more "scientific" than their European brethren. Far from it. Rather it was that the combined effect of the challenges posed to prevailing beliefs by the harsh realities of the New World and the differential nature of those who came and survived in the colonies created a ferment in values which has continued to the present day. Almost from the very beginning Americans were known to be more pragmatic about what they would accept as true and this has led to a value orientation even more dynamic than that found in the Anglo-Saxon lands from which the colonists came. The result was to give the Americans one leg up on the process of societal development.

The second institutional dimension of society, the political, encompasses all the social institutions which serve to resolve the conflicts which inevitably arise among the various members of any society. Since the resolution of conflict involves making a decision, choosing one alternative over another, the political dimension is the one in which societal decisions are made. This political dimension of society includes not only that portion of the value orientation which consists of political beliefs and which therefore defines the parameters of political activity, but also the actual organizations through which societal decisions are made. These political organizations, in turn, include both the formal bodies which constitute the "government" with its monopolistic exercise of coercive power and the informal bodies through which coalitions are successfully forged for gaining control over the government. Indeed, the forging of coalitions is the quintessential political activity in which men engage, just as the making of decisions through conflict resolution is the primary function which political institutions serve.

It is by the quality of the decisions made that political institutions can be judged.[4] These decisions may bear on how political decisions themselves are to be made as, for example,

when constitutional questions arise. More typically, however, especially in a politically mature society, the decisions bear on some other dimension of society. The systems which operate along two of those other dimensions, the economic and the anthropogenic, are to some extent self-regulating. Still, they are incapable of functioning entirely on their own, at least without giving rise to results which are unacceptable to the majority of persons living within the society. When the economy goes into a slump or cannot provide some essential item, when children are left without parents or the parents are unable to provide them with something essential to their development, the government as the formal part of the political system usually offers the only recourse. The political institutions, then, are society's standby steering device [19 and 29], responsible for filling the breach when other institutions fail and the only means in any case by which society as a whole can consciously influence the future. The mark of how well those institutions perform is the quality of the direction they give society.

Along the political dimension, too, the early Americans were particularly fortunate. The strong federal union they were able to create in 1787, organized along embryonic democratic lines and consisting of smaller units similarly structured, gave the new nation a system of government that would be particularly responsive to the will of its citizenry. It also brought domestic peace, with one notable exception, to what would eventually become a nation of continental size. Together with the free-trade area which was thereby established and the rich natural endowment of the land, this was virtually all that was needed to launch the United States on the path of rapid economic growth which can be observed during the 19th century. The critical decisions made by the government, as in the areas of the tariff and transportation, were largely foreshadowed by the type of government created in 1787. Indeed, the establishment of the federal union was the first major institutional innovation helping to explain the subsequent rapid development of American society.

The third institutional dimension of society, the economic, also includes a portion of the society's value orientation. In this case, it is the portion consisting of economic beliefs -- the importance placed on material goods, the desirability of cooperative forms of production, the necessity of a gold standard, and so on. These beliefs define the parameters of economic activity. The economic system includes a portion of the political structure as well, this being the portion which makes economic decisions. Finally, the economic dimension includes the actual organizations through which, either directly or indirectly, physical commodities are "produced," that is, transformed from some previous state, and then distributed among the individual members of the society.

At the heart of this process is the allocation decision, the choice of using a particular resource among one of several competing ends. This decision can be made politically, that is, through the exercise of the government's command powers. In that case, there will be no separately distinguishable economic mode of allocation. Alternatively, the decision can be made through a market process by which one party gives up something in exchange for something else. Indeed, the effecting of an exchange is the quintessential economic activity, just as the supplying of the individual's material needs is the primary function which economic institutions serve. Yet exchange by itself is seldom sufficient. Before there can be something to exchange, that something has to be produced; and this must generally be done in an organizational setting that involves little or no formal exchange. The economic institutions, then, combine elements of both exchange and command, the proper balance between them varying with the circumstances.

It is by the ability to meet the material needs of the individual members of the society, conventionally measured by per capita income, that the economic institutions can be judged. The greater the quantity of physical commodities available to the individual -- and to the institutions upon which the individual is dependent -- the fewer will be the choices foreclosed to him for lack of the material wherewithal. It is in this sense that the institutions which operate along the economic dimension can be said, so far as they succeed in producing a higher per capita level of income, to increase the options available to the individual.

Along the economic dimension, too, the development of American society was speeded by a major institutional innovation. That innovation was the modern corporation, or megacorp, initially resisted as a threat to the competitive order when it emerged in the form of a "trust" or "holding company" but today firmly established as the diversified, multinational enterprise. This point will be elaborated on in the second half of this paper.

The fourth institutional dimension of society is the human developmental, or anthropogenic, dimension; and its delineation is one important way in which the Ginzberg-Eichner conceptual framework differs from earlier analyses of societal development.[5] The anthropogenic dimension encompasses all the institutions which have emerged over time, beginning with the prehistoric family, for developing competences on the part of individual members of society. These competences include not only specific cognitive motor skills but also the ability, through the internalization of certain values, to utilize those skills in a social setting. Competences, in other words, are various capacities to play selected social roles in life.

The anthropogenic dimension, like the political and the economic, includes part of the society's value orientation. In this case, it is that part of the value orientation which concerns the development of human beings -- such as beliefs about the social malleability of individuals, homilies like "spare the rod and spoil the child," and the importance attached to human life itself. These values define the parameters of anthropogenic activity. The anthropogenic dimension also includes part of the political structure -- the subcomponent which makes decisions affecting the development of the individuals -- and part of the economic structure -- the subcomponent which determines the allocation of human resources. Finally, the anthropogenic dimension includes the actual organizations which play a role in developing individual competences.

These anthropogenic institutions are of three types. There is first the family, into which the individual is initially born (or by which he is subsequently adopted). The family is the primary developmental institution, and its function is to provide the emotional support, as well as the rudimentary competences, which every individual needs if his development is not to be retarded or thwarted altogether. Then there is the school, in which the individual in more advanced societies is subsequently enrolled. The school is the secondary developmental institution, and its function is to supplement the efforts of the family, concentrating particularly on the development of cognitive skills. Finally, there is the employing organization, to which every individual eventually becomes attached. The employing organization is the tertiary developmental institution, and its function is to provide the real-life experience through which the competences partly acquired in the classroom become more refined.

The family and the school, if not the employing organization, have long been the subject of study by social scientists. The Ginzberg-Eichner model, however, considers these institutions not only as separate entities but also as part of a larger societal process by which individual competences are produced. What links these institutions is the developmental path which every individual, during his lifetime, follows. This developmental path involves the act of affiliating with successive and, in some cases, complementary developmental institutions, beginning with birth into a particular family and continuing sporadically thereafter as the individual moves through his life cycle. Indeed, affiliating with a developmental institution is the quintessential anthropogenic activity, just as the development of individual competences is the primary function which anthropogenic institutions serve.

The basis, then, for evaluating anthropogenic institutions is the extent to which they develop competences. The greater the number of those competences and/or the more advanced they

are, the greater will be the options open to the individual. This is true for two reasons: first, because the individual himself will be capable of doing more, and thus of taking advantage of additional opportunities; and second, because the institutions which serve the individual will be able to draw from a richer talent pool in staffing their positions. It is thus by developing individual competences that the anthropogenic institutions contribute to the quality of life.

This anthropogenic dimension, too, has had its major American institutional innovation. This has been the democratization of education, beginning initially with the common school and now proceeding at the college level.

The four institutional dimensions of society which have just been delineated suggest a way of bringing some order to what often appears to be a confusing historical record. If the history of man is the account of how his social institutions have evolved, then it follows that there are four types of institutions -- the normative, the political, the economic, and the anthropogenic -- whose evolution can be traced. This taxonomy corresponds somewhat to the distinction which historians themselves customarily make between intellectual, political, economic, and social history.

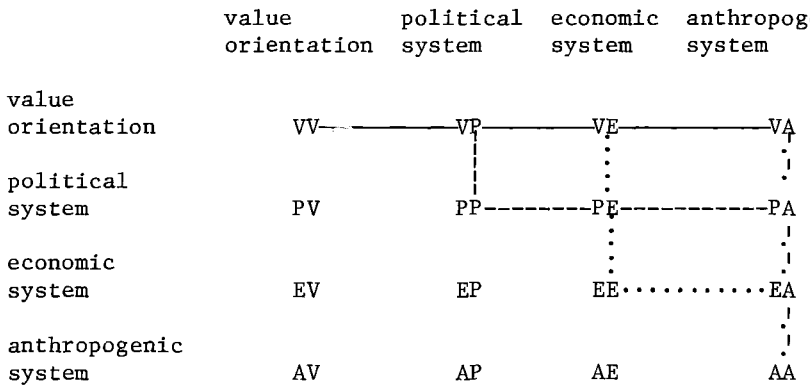
Of course, no one institutional dimension is independent of the others. This important point has already been brought out, at least implicitly, in the discussion of the four separate dimensions where parts of each have been included as parts of others. Indeed, what has been described so far is the top half of the following four-fold matrix:

	value orientation	political system	economic system	anthropogenic system
value orientation	VV	VP	VE	VA
political system		PP	PE	PA
economic system			EE	EA
anthropogenic system				AA

Moving horizontally across the matrix, one can systematically consider the effect that one dimension of society has on another. On the other hand, moving vertically down the matrix as far as the main diagonal (indicated by the box containing the same two letters) and then proceeding horizontally, one can trace out all the components of the dimension listed at the head of the

column. As for the main diagonal itself, this simply delineates where the institutions of a particular type operate in their purest form, without any other dimension of society having to be taken into account.

All that remains, to complete the picture of interaction among the four dimensions, is to fill in the bottom half of the matrix.



It should be noted, however, that although this will bring out additional ways in which one dimension of society affects another, it will add no new components to any of the dimensions. As a case in point, although the decisions made by the political system are likely to influence society's value orientation (box PV), that influence does not itself constitute a part of the value orientation as traced out by the solid line. In other words, the botton half of the matrix shows only the influences of one dimension on another, not the components of any particular dimension.

Thus the order in which the dimensions are listed in the matrix is not arbitrary. There is, in fact, a certain logical sequencing to the development of the four dimensions. The emergence of anthropogenic institutions, separate and distinct from the family, is predicated on the economic system's ability to generate the necessary social surplus, that is, margin above subsistence, to support a class of workers not engaged in the production of commodities. The development of the economy above the household subsistence level is, in turn, dependent on the existence of a government, willing and able to carry out certain types of economic decisions. And finally, the existence of a government presupposes that a group of individuals occupying a certain geographical area share enough values in common so that they can agree on how the instruments of coercion should be used to enforce whatever collective decisions may be reached. In other words, development along any one dimension -- except, of

course, the normative -- requires that development along the antecedent dimension has reached a certain critical, or minimal, level.

This view of the developmental process gives rise to both a static and dynamic model of society. In the static model, each set of social institutions has implicit within it an ultimate limit on the levels of development that can be reached. The value orientation may, for example, be compatible with the development of an effective political structure in the sense that the government is able to carry out the decisions essential for the survival of the society. The value orientation may even be compatible with growth of an economy above the subsistence level as well as the emergence of some anthropogenic institutions in addition to the family. But if the value orientation does not allow for the possibility of a change in the value orientation itself, the development will ultimately come to a halt as the full potential of the closed system of values is exhausted. Some might say that this is the model which best describes Chinese society from the time of Confucius until relatively recently.

But it is not just the value orientation which may set the ultimate limit on the development of a society. The political, economic, and anthropogenic institutions may each in their own way, by proving impervious to change, bring the evolution of the society to an end. Indeed, all four dimensions are so closely interrelated that it is usually only a matter of perspective as to which is seen as the source of rigidity. As long as all the institutions, taken together, can confine the deviations in the established patterns of behavior which inevitably and continuously occur, doing so within limits that preclude any significant, that is, qualitative, change in those institutions, the society will remain a static one. This of course, presumes the use of sanctions to suppress the deviant behavior of individuals and the existence of a mythology to explain away any shortcomings in the institutions themselves.

How, then, do social institutions become transformed? In trying to answer this question, it is instructive to look at one of the institutional innovations already identified, the rise of the modern corporation, or megacorp. Some of the tentative points which emerge not only contribute elements to a dynamic theory of societal development, they also suggest a conceptual model for organizing the study of business history itself. This is the subject matter of the section which follows.

II.

The argument so far represents an attempt to apply systems theory, including cybernetics, to the study of social institutions through history. Indeed, the institutions which operate along three of the dimensions can be seen as cybernetic systems,

using deviation-reducing, or "negative," feedback to alter their behavior and bring it more in line with the changing goals of those who constitute the society. In the case of the political system, at least when it is organized along democratic lines, the feedback consists of the voting behavior of the electorate. In the case of the economic system, the negative feedbeck consists of the spending decisions of consumers. And in the case of the anthropogenic system, the negative feedback consists of the time and energy commitments individuals are willing to make. Systems theory, however, includes the concept of positive feedback as well as that of negative feedback.[6]

Positive feedback is likely to be observed when a system can no longer survive simply by responding to the ongoing challenge of its environment in the usual way, that is, by altering its behavior in light of the new informational inputs but without changing the mode of response itself. When exogenous shocks threaten to overwhelm the system's capacity to deal with negative feedback, only a fundamental reorganization of the system's internal structure, resulting in a new mode of response, will suffice to assure the continued survival of the system. When a system responds to some external threat in that manner, it can be described as exhibiting "positive" feedback. Indeed a positive feedback response of this sort at the institutional level is what is meant by institutional innovation.

The emergence of the megacorp can be understood precisely in these terms. The preexisting system of economic organization, based on small, owner-managed proprietorships linked together by competitive markets, was faced with a challenge which it could meet only by radically restructuring itself. As a result, small, owner-managed proprietorships were transformed into megacorps, with control following from executive position within a corporate hierarchy rather than from equity holdings, and the competitive markets were transformed into oligopolistic ones. Seeing the emergence of the megacorp in these terms suggests four major types of questions: (1) What was the nature of the challenge which the preexisting system of economic organization proved unable to cope with? (2) What were the antecedent and/or parallel developments which made the restructuring of the economic system possible, that is, what were the elements out of which the new structure was created? (3) What were the sources of resistance which the new structure, like every social innovation, faced and how was this resistance finally overcome? and (4) What appear to be the limits within which the new mode of economic organization is able to continue coping with the challenges from its environment? These questions -- at least the first three of them -- suggest one basis for organizing the study of business history. To fill in the outline somewhat, each of these questions will be taken up separately in turn.

The Challenge to the Old Order

The inability of the preexisting system of economic organization to survive can be understood at two levels. At the more superficial of these two levels, one can observe the effects of what was contemporaneously referred to as "ruinous competition." Playing by the rules of the game, which meant cutting prices whenever demand fell, businessmen found themselves with no choice but to continue supplying the market at prices which failed to cover their long-run average total costs. What confronted them, therefore, was the prospect of their capital eventually being expropriated by the forces of competition just as Marx had prophesied. A large number of individual industry studies, building on earlier, more general work, has confirmed the prevalence of this situation toward the end of the 19th century.[7] One must ask, however, what lay behind the crisis, so unexpected in light of economic theory.

Here one comes up against the fundamental force of the evolving technology from the late 18th century on, particularly its economically exploitable component. There were two main thrusts of that technology, one to reduce real space distances limiting human communication and interchange, the other to make possible the production of standardized commodities on a continuous basis with little restriction on accelerated output. The first served to create new national markets, initially based on canals, later on railroads. The second made it possible to supply the expanding markets with a long-run falling cost curve. Bringing out the nature of these two aspects of the evolving 18th and 19th century technology is one of the more important subject matters of business history.[8]

As long as the new markets being opened up enabled demand to keep ahead of the supply capacities of the new industries that were simultaneously being created, the twin-headed thrust of the evolving technology posed no threat to the existing system of economic organization. Indeed, it led to a "Golden Age" of competition, with the number of separately competing units rapidly swelling. But once the full potential of the new technology to expand output with ever declining costs began to be realized, the situation changed drastically (see [25, Chs. 1 and 5; 10; and 61, Ch. 2]. With demand no longer able to keep pace with the growing supply capabilities, prices started to slip below long-run average costs, at least for those firms with older plant and equipment. Here businessmen ran up against the irreversibility of social processes. The heavy fixed, or "sunk," costs to which they had been forced to commit themselves by the capital-intensive nature of the new production techniques made it impossible to respond as merchants had usually reacted to falling prices, that is, by withdrawing from the market. With a high ratio of fixed to total costs, it was best to continue producing even at prices that failed to cover all expenses. The industrialists

who had succeeded the older commodity merchants found themselves caught in the grip of forces beyond their control. Whatever tendency there was for such a decentralized system of economic organization to generate cyclical fluctuations in demand only added to the woes of the industrialists.

Not only were these industrialists unable to respond as merchants customarily had done by withdrawing from the market in times of depressed prices, they also found it all but impossible to respond in another usual way, that is, by coming together and agreeing either to restrict output or maintain prices. The need for volume production to reduce the burden of the fixed costs forced every firm to grant special price concessions in order to attract additional business. As a result, agreements to restrict output or maintain prices usually collapsed as quickly as they were worked out. Since the agreements were unenforceable under the common law, businessmen could expect no help from the courts. They were caught in a classic "prisoners' dilemma" as the common interest in having the price level shored up was inexorably undermined by a situation which compelled each individual firm to pursue its own narrow self-interest to the detriment of all [17; 18; 48, pp. 95-96; and 63].

What the New Development Was Able to Build on

The modern corporation, or megacorp, which emerged after the turn of the century out of the ruins of the older competitive order was not created entirely out of new elements. It represented, like all innovation, an imaginative restructuring of elements already at hand or clearly in reach. At least three of these critical building blocks, in addition to the evolving technology already noted, can be identified. They are (1) changes in corporate law, both statutory and case law; (2) the development of sophisticated financial markets, and (3) progress in management techniques, especially in the area of accounting. Although some have mistakenly seen one or more of these developments as a sufficient explanation for the corporate revolution, there is perhaps some justification for the reduced claim that each was, in its own way, a necessary precondition. It is perhaps no accident that these three important antecedent developments involved all of the four societal dimensions earlier delineated except one -- the normative.

It is well known that general incorporation laws were adopted by most of the states as part of the Jacksonian movement of the 1830s; that a similar change in the British law was delayed, as a reaction to the debacle over the South Seas Company early in the 18th century, until much later, and that first New Jersey and then other states changed their general incorporation laws so as to permit holding companies. What is not so well known is that incorporated enterprises were the exception rather than the

rule in manufacturing before the corporate revolution; that British firms seem not to have been as hampered by the lack of general incorporation laws as has generally been presumed, and that the provision enabling one corporation to own stock in another was not what was unique about the 1888 change in the New Jersey law (see [65, p. 571; 53; and 39]). Indeed, there is much that is not known at all about the effect of the law in shaping business organization -- or about the factors, including the desires and needs of businessmen, which in turn influenced the development of the law. With the exception of the Sherman Act and the subsequent antitrust litigation (see [68; 46; and 20, Chs. 9-11]), this has been a much neglected field of historical inquiry, perhaps because it falls in the crack between legal and business history (but see [15]). That the evolution of corporate law played a key role in the response to the crisis of the old economic order can hardly be doubted, however.

What has just been said about the changes in corporate law would apply, with only slight modification, to the development of financial markets and the progress in management techniques. The little that is known is far outweighed by what still remains to be brought out by further research. We know, for example, as a result of T. R. Navin and M. V. Sears's work [55], that a market for industrial securities did not emerge until the first trust certificates began to circulate widely in the late 1880s. But how was the investment in manufacturing financed before then? Indeed, how important has external financing been throughout the history of manufacturing in the United States? If it has been as important as the fragmentary evidence would suggest, then in what way was the development of a sophisticated securities market essential for the emergence of the megacorp? So far as management techniques are concerned, we know it must have made a significant difference once the heads of companies were no longer able to provide direct supervision over the workforce. But how was control still maintained? What experiments with different internal management structures took place, and how were the lessons learned in one firm absorbed by other firms? Indeed, what was the role of improved accounting techniques in this process by which those with the final executive authority became increasingly divorced from day-to-day operational responsibilities? In this area, as well as in the others delineated, the final definitive work still remains to be written.[9]

In talking about the antecedent elements out of which the megacorp was created, it is important not to lose sight of specific institutional prototypes. Alfred D. Chandler, Jr. and Stephen Salsbury [13] have already pointed out that the railroads were pioneers in most of the areas which have been identified here as being crucial to the development of the megacorp. That suggestive essay has not been adequately followed up by other scholars, however. The pioneering role of the textile industry

should also not be overlooked -- even though this was an industry which, until very recently, entirely escaped the corporate revolution. Indeed, the reason why it did so, as well as why the railroads subsequently lost their position as the cutting edge of the new institutional developments,[10] is itself a question which business historians might profitably pursue. It may well be that one can learn more from the situations in which megacorps failed to develop or their growth was stunted than from successful cases. This point especially should be kept in mind if one wants to learn about the sources of resistance to the innovation.

The Sources of Resistance

An institutional innovation, by its very nature, can be expected to encounter resistance. As a new way of doing things, and thus as a challenge to prevailing preconceptions, the innovation is likely to evoke the same sort of response that a foreign substance does when it enters an individual's bloodstream. That is, it will be regarded as a threat which must be mobilized against. In taking up the specific example of the megacorp, it is useful to examine the sources of resistance through the prism of the fourfold institutional matrix developed in the first part of this paper.

As already noted, it was only along the normative dimension that the megacorp failed to build on earlier developments. It is hardly surprising therefore that it was along this dimension that the resistance to the megacorp was sharpest and most unyielding. Nothing in the field then known as political economy, not even in the writings of the most vociferous critics, prepared the public for the notion that scrapping the existing competitive order would prove less than disastrous. Indeed, even now, more than 75 years later, the situation is little different. Despite the doubts which both Schumpeter and Galbraith have tried to implant in the minds of their colleagues, economists -- whatever their other differences -- are still inclined to view the megacorp and its accompanying oligopolistic market structure as a departure from the ideal of multitudinous enterprises competing in atomistic markets. The megacorp remains the bastard child of economic theory, its very existence, let alone its continued success, a source of embarrassment. If one accepts the truth of J. M. Keynes's observation [40, p. 375] that "practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist," then one can begin to appreciate the hostile environment, so far as the norms of society are concerned, in which the megacorp has been forced to operate. Indeed, it becomes all the more remarkable that the initial political response to the emergence of the megacorp did not snuff out the innovation.

That initial response, which constituted one facet of what historians have termed the Populist-Progressive movement, did not gain any significant momentum at the national level until Theodore Roosevelt by chance succeeded McKinley as president. The subsequent history has been variously interpreted (see [36, 70, and 42]). Suffice it to say that there emerged out of the political debate a major division between those who saw the megacorp as primarily a threat to the country's democratic institutions of government and those who saw it as a threat to the economic order as well; between those who viewed only some of the consolidations as culpable and those who viewed every departure from competitive conditions as a situation requiring firm corrective action; between those who regarded some form of regulation as the most appropriate remedy and those who regarded the breakup and dissolution of all combinations as the minimal solution.

The outcome of this debate was shaped by two factors. The first was the growing accommodation by the megacorps themselves to the sensitivities of the general public. It was not just that they became more "public relations conscious" -- though that was certainly part of it. What really counted was that, in industries where strong rivals had not already arisen, market shares were allowed to decline to the point where no one firm had more than half the business. Oligopoly, it was discovered, served almost as well as monopoly to give the megacorp control over prices. In addition, megacorps learned to do without some of the more notorious means of limiting outside competition, such as rebates from the railroads.

The other factor shaping the outcome of the debate over the megacorp was the gradual realization by political leaders that the older competitive order, once destroyed in a particular industry, was virtually impossible to restore. The experience following the break-up of Standard Oil, American Tobacco, and DuPont companies clearly demonstrated this point. On top of this came the realization, as a result of the nation's efforts to mobilize against the Axis countries during World War I, that the megacorp was a much more efficient social institution for organizing production and distribution than what it had replaced. It was against this rock of the megacorp's greater capacity to supply goods at lower cost that the "bust-'em-up" approach eventually floundered. Although the country has, from time to time, returned hesitatingly to that approach as the alternative to regulation has proved no more successful, the fact was that by 1920, with the Supreme Court's decision in the steel case, the megacorp had largely surmounted the political threat to its continued existence (see [25, Ch. 11; 20, Ch. 16; and 16]).

The economic threat was of a different order. For a long time it was believed that combinations in restraint of trade, no matter how successful in the short run, would eventually be undone

by the new suppliers attracted to the market as a result of the artificially raised prices. This was the reason it was considered sufficient for the common law merely to refuse to enforce any restrictive agreements, without prohibiting them outright. Indeed, it was on this basis that the Supreme Court in 1895 refused to apply the Sherman Act to holding companies. The economic threat which the megacorp faced, then, was from new firms entering the industries which had been consolidated and undermining the price structure. That not all the consolidations were successful in meeting this challenge can be seen from the companies, such as National Cordage and the original Corn Product Company, which were subsequently forced into receivership (see [21, 22, and 47]). Still, the majority of newly created megacorps did find ways to deal with the problem. While some of these techniques for restricting entry were later to be proscribed as being beyond the bounds of acceptable business behavior, others -- such as acquiring control over all known deposits of some essential raw material, building up consumer loyalty through advertising, creating a technological enclave through patents or establishing an exclusive dealer network -- were soon devised to take their place. Reinforcing the market position of every megacorp is at least some factor precluding easy entry by potential rivals.

The anthropogenic threat was also of a different order from the political one. Here the problem was to recruit and train a new class of men, different from those who customarily went into business and indeed different even from those founding the megacorp. Previously, going into business meant being able to supply a certain amount of initial capital, together with the ability to engage in the give-and-take of haggling in the market place. Generally, the training came from relatives who were in business themselves and were thus willing to suffer the cost of a neophyte's on-the-job learning. For the new class of managers which the megacorp requires, the prerequisite background is instead some sort of technical skill, such as a knowledge of accounting, engineering, law, or the like, together with the ability to work together as part of an executive team. The megacorp already has capital enough, and the ability to haggle in the market place is seldom called upon when price competition is being suppressed. The problem of how to recruit such a class of managers has, of course, been solved by the development of the business school as a part of the American university system. Executive training programs, developed in most cases by the megacorps themselves, supplement the work of the business schools. In some ways, this has been the easiest challenge for the megacorp to meet.

Each of the four types of challenges which the megacorp has faced -- and so far, successully met -- involves a border area between business and some other branch of history. This means

that in order to carry through on the story of the megacorp as a social innovation it is necessary either to broaden the usual parameters of business history or to combine business history with other fields of historical inquiry.

Limits on the Development of the Megacorp

It is probably too soon to say what will be the limits on the ultimate development of the megacorp. What is impressive are the limits which the megacorp has already been able to transcend. The potential check on its growth from membership in a particular industry, one subject to eventual decline in the face of changing technology, has been avoided by the megacorp's shift into diversified, conglomerate activities (see [8, 11, 12, 14, and 23]). Similarly, the check on its growth from placement within a particular national economy has been avoided by the shift into multinational activities (see [68 and 70]). At present, there is little reason to doubt that the megacorp will remain the dominant economic institution throughout the world for decades to come -- even though specific firms may rise and fall as fortune dictates. What will be the new challenges along the normative, political, and anthropogenic dimensions which the megacorp in its most recent incarnation as a diversified, multinational enterprise has yet to overcome is still not clear, however. One can see the same clash between prevailing beliefs, existing political structures, and ongoing patterns of recruitment and training on the one hand and the needs of the megacorp on the other which earlier marked American history now being played out on a global stage. Since history does not always repeat itself, and certainly not in the same way, it would be foolish to venture a prediction as to what the eventual outcome will be.

NOTES

1. For the main body of Parsons's work see [57 and 58]. But see also [60]. For interpretative commentary on this not always lucid body of work, see [5, 54, and 4]. Also helpful is Parsons's own intellectual biography [59].
2. See [33]. On the earlier work, see [31, 32, 26, and 27].
3. These categories can be compared with the Parsonian ones of pattern maintenance, goal attainment, adaptation, and integration.
4. In David Easton's terms [24], decisions are the output of the political system.
5. See the sources cited in Note 2.

6. On systems theory, see [45, 41, and 1]. On the concept of "positive" feedback, see [50].

7. See, for example, [51, 35, 72, 56, 67, 62, 25, 44, 38, and 34.] For a recent general treatment, see [61].

8. Although George Rogers Taylor [66] deals adequately with the first of these technological thrusts, the second has been touched on only in passing in the works cited in Note 7. But see [6 and 64].

9. The starting point for this definitive treatment would be Chandler's work [7, 8, and 13]. See also James Baughman's collection [2] of the most significant articles from the *Business History Review*, including the 1959 and 1965 Chandler pieces [7 and 9]. On the role of accounting techniques, see [30 and 37].

10. Albro Martin [49] has emphasized the effect of regulation.

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