COMMENTARY ON HUGHES AND PRATT

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The two papers we have just heard perhaps illustrate why, as business historians, we meet separately from the Economic History Association. In his erudite and penetrating paper, Jonathan Hughes has probed some aspects of the long history of nonmarket social controls on business activity. Joe Pratt in his extended case study has suggested a socio-political dimension that should be taken into account in any theoretical work on the growth of the firm. Both papers deal with extra-market phenomena that are vital conditioning factors of economic and business activity, yet themselves are not susceptible to economic analysis, let along quantitative measurement.

Both these scholars seem to be telling us that to understand economic behavior, be it competition or expansion of the firm, one must look at it as social activity fully as much as an economic phenamenon. They both seem to be saying that efforts to reduce either the institutional framework of business activity or its internal growth patterns to a set of economic propositions is a potentially misleading oversimplification. Something important is going to be left out, and the omission may be crucial to understanding both the institutions and the firm.

I find little to disagree with in such an approach to economic and business history. There is no question in my mind that in both instances we are dealing with forms of social history, as Professor Hughes reminds us. And, as Mr. Pratt implies, "political economy" is a more accurate term than "economics" in describing many economic and business activities.

I hope that neither Professor Hughes nor Mr. Pratt would claim great novelty for their papers. Their contribution rather lies in new documentation for some well established positions. It is of course important that Hughes reminds us that in America we were inheritors not innovators in social controls of business activity, but this is scarcely news for the historian. Pratt cites chapter and verse in the history of a major oil company to prove what all undergraduates of my acquaintance take for granted: namely, Uncle Sam and Big Oil have long presented a united front not only to consumers but to undeveloped countries that could supply us with crude oil. In this connection, Hughes supplies an insight that Pratt could have used to advantage--government is not concerned about the scarcity of a resource until a country has become dependent upon it. Only then, in an economic sense, can scarcity exist. At that point, we might hypothesize, government becomes an active ally of the threatened industry abroad and, depending on the severity of the situation, a potentially active opponent at home. The present situation stemming from the Arab oil embargo is a case in point.

Each paper seems to have an intellectual godparent, whose contribution should not go unmarked. In Professor Hughes' case I would suggest Henry Demarest Lloyd, who recognized that socially uncontrolled competition had only one conclusion--the destruction of competition. Attacking the trusts of his day, he cited an 1893 Congressional investigation of coal combinations where the committee reported, "It is a law of business for each proprietor to pursue his own interest." Not so, wrote Lloyd. "The true law of business is that all must pursue the interest of all. In the law, the highest product of civilization, this has long been a commonplace. The safety of the people is the supreme law. We are in travail to bring industry up to this." And he continued, "The true _laissez faire_ is, let the individual do what he can do best, and let the community do what the community can do best."[1]

Lloyd has no illusions that _laissez faire_ in this sense existed in nineteenth century America, and I venture to suggest that Professor Hughes has invented a convenient strawman when he declares that we believe that our past was one of _laissez faire_. Since the early 1950s, at least, this has been no staple of academic economic or business historians. The work of the Handlins, of Louis Hartz, and others should have long since demolished this myth. Yet Professor Hughes has resurrected it when he writes, "We hear constant appeals to our history as the mother lode of the _laissez faire_ tradition." Perhaps in trade journals and business house organs this appeal is heard, but the very behavior of businessmen suggests that it is not believed.

Hughes also leads us astray, I fear, when he writes that beginning with the Interstate Commerce Act and the Sherman Act, we began the development of "the powerful system of nonmarket controls that now bless this country." A careful reading of the history of regulation since 1887 shows this form of social control to have been not powerful but distressingly weak. Lloyd put his finger squarely on the difficulty. "The policy of regulation," he wrote, "disguise it as we may, is but moving to a compromise and equilibrium within the evil all complain of. It is to accept the principles of the sovereignty of self-interest of the individual and apply constitutional checks to it."[2] Gabriel Kolko, among others, has demonstrated that businessmen, whatever their public position on regulation, recognized its essential weakness.

James Weinstein has carried this idea further in terms of a new corporate vision of society held by corporation executives in the early decades of this century. For them "responsibility" meant the responsibility of all classes to "maintain and increase the efficiency of the existing social order." By this, they did not mean as did Jane Addams, Judge Ben Lindsey, and apparently Professor Hughes, the responsibility of society to individual Americans or underprivileged social classes, but rather the maintenance and promotion of stability, social efficiency and cooperation. Therefore, as Weinstein sees it, business leaders supported institutional adjustments that adapted the ideals of middle class social reformers, social workers and socialists to these business objectives.[3] State intervention to supervise corporate activity was sought, not rejected, by key corporate executives. In this interpretation, which I believe has considerable validity, the changes that Hughes sees since 1887, while indeed part of a long line of social controls, can be interpreted not as establishing effective corporate constraints but as a manipulation of long-held beliefs and ideals to serve a new corporate purpose.

None of this takes away from the validity of Hughes' basic point that the social context in which American business developed was extremely important, and his work in the English sources is impressive. He is quite correct in emphasizing the central role of the courts. James Willard Hurst has expanded on this theme, especially with respect to the first half of the nineteenth century. He points out that we were interested in using law as a means of releasing creative energies. Thus the power of the state, and more particularly the courts, was used to protect the dispersion of power, to protect against private intrusions on private property as well as against those of government itself. Accordingly, emphasis was not, as in England, on the protection of the <u>rentier</u> class, but on expediting the fulfillment of the American promise, easing the way for those who wanted to make something happen. Judges exercised their invention on the law of negotiable instruments, of factors, of agency, of insurance and banking. The law of contract dominated the century, and Hurst points out that this compulsory force of the state "to set a framework of dealing" must "materially qualify appraisal of the <u>laissez faire</u> element of our policy."[4]

To me the most interesting and novel idea in the Hughes paper is the suggestion that the special legal treatment accorded common carriers originated not from their economic characteristics but from a legal void. Symmetry, he suggests, required special treatment for these carriers since they fell clearly into neither the manorial course nor those of the towns or boroughs. While this appears to have been an intuitive insight, and Hughes does not elaborate, it is clearly a hypothesis that deserves further investigation.

Turning now to Mr. Pratt, I would suggest that his intellectual godfather in this instance is Charles Beard, who more than sixty years ago stressed the important relationship of politics and economics in our country. Even then, Beard's work was a formal testing and demonstration of what we had instinctively known and practiced as a people from colonial days, quite aside from the English experience that Professor Hughes might cite. But, to be fair, Mr. Pratt is addressing us as academics, and he is quite correct in saying that we cannot understand the firm if we look only at its management of its business affairs. He properly suggests that political decisions affect the conditions of economic and business decisions and therefore themselves deserve to become the subjects of management study. Having made this important point, he illustrates it through the history of Standard Oil's overseas activities.

Whether contemporary theorists of the firm should be taken to task for not including this element in their constructs is questionable. After all, theories and models are only ways of getting at questions that their aurthors are most interested in answering. By definition, they must simplify reality and exclude areas that are not directly germane to the questions they are asking. Their utility is correspondingly limited. To suggest that current models have overlooked something that both Mr. Pratt and I consider important should not suggest that they are necessarily inadequate for their stated purposes. Progress in these matters is slow and incremental. Having called attention to questions that are not yet answered and demonstrating that they are important is but a first step. Professor Chandler has made his contribution. The challenge is now for Mr. Pratt and his generation of business historians to add theirs.

Footnotes

[1]Henry Demarest Lloyd, Wealth Against Commonwealth, Edited and with an Introduction by Thomas C. Cochran (Englewood Cliffs, N. J., 1963), 160-161.

[2]Ibid., 182.

[3]James Weinstein, The Corporate Ideal in the Liberal State: 1900-1918, (Boston, 1968), X-XIII.

[4]James Willard Hurst, Law and the Conditions of Freedom in the Nineteenth Century United States (Madison, Wisconsin, 1956), 15.