

Government 1521
Bureaucratic Politics:
Government, Military,
Social and Economic Organizations

D. Carpenter

Lecture 16: The Pre-History and
Revolutionary History of the Corporate Form

Larger Picture

Chandler, *The Visible Hand*: A narrative of the rise of the
bureaucratic (managerial, multidivisional, internalized)
form of economic organizations in the United States.

ARGUMENT: Move from market-based coordination of
production, distribution, finance to organizational
coordination of these activities.

Recent criticism: What Chandler calls “market”
coordination was often “network” coordination. Prices
used, but also interpersonal networks (familiarity, social,
kin-based as well as economic).

Traditional Enterprise in Commerce

Early 1800s: Increasing specialization

Finance and insurance

Production (expansion of household production,
expansion of employment)

Commerce/trade (brokerage houses, traders, larger
merchants)

Traditional Enterprise in Commerce

Role of the Town Merchant

“The activities of these producing units were coordinated through the business transactions of the merchants who resided in the port and river towns. The resident merchant distributed and marketed the products of these small enterprises and supplied them with raw materials, tools, and furnishings. For this reason, his all-purpose businessman dominated the economy. He exported, imported and sold all types of products at retail and at wholesale. He took title to the goods he purchased for his regular customers. He also acted as correspondent or agent for merchants in other ports, taking their goods on consignment and selling for a fixed commission.” [Chandler, *VH*, 17-18]

Traditional Enterprise in Production

Craft-based, artisanal economy, particular in many cities.

- Expansion of production, addition of journeymen and apprentices to craft work force.
- Household-based production (agrarian and industrial), hence less separation of “work” from “home” (*VH*, 62-3)
- All training is “on the job” or in guild-like institutions.

Factories only in textiles, almost no where else.

Manufacturing powered almost exclusively by water.

Exception: Springfield Armory



Exception: Springfield Armory

Produced firearms for U.S. Army. Workforce at 250 in 1820s, w/ 100 occupational specialties in 1825

Contrast: federal armory at Harper's Ferry, Virginia (WV today). Operated along craft lines.

Chandler's SUM: a "prototype of the modern factory" (72).

Exception: Springfield Armory

Main innovator: Col. Roswell Lee (1815-)

- Centralizes authority in office of superintendent
- Devises and implements a set of "controls"
- slow movement to piecework wage system
- Creates three shops (early "Fordist" design, mass production): metal fabrication, wood part fabrication, assembly.
- Each shop has foreman and inspector. These report to "master armorer," who reports to Lee.

Exception: Springfield Armory

Accounting system: workers place "private marks" on each piece made. Inspectors place additional marks. Supervisor submits monthly office report.

Bookkeeping system: "accounting for each transaction carried on within the enterprise involved in production through the use of standard double-entry accounts." (VH, 74)

SUM: "Modern factory management (but not, it must be stressed, the management of large modern multiunit enterprises) had its genesis in the United States in the Springfield Armory." (VH, 75)

What Changes in 1830s, 1840s?

I. Coal: New anthracite veins in eastern Pennsylvania, later modern-day West Virginia, Kentucky.

- Allows for blast furnaces (1840), quicker metal working
- Allows generation of steam power
- Enables railroad transportation and steamboat transportation (goods now access more and more distant markets)

What Changes in 1830s, 1840s?

II. Institutions

Second Bank of United States (Nicholas Biddle)
Branch banks finance American trade, make local loans.
Reduced cost of K.
But also induces Panic of 1837; extension of Jackson's Second Bank re-charter veto of 1832.

Later, Civil War and Rise of "Wall Street." Allows for bonds and securities markets in which massive K investment of RR expansion can be financed.

Railroads:

First Modern Business Enterprises

First modern managerial class.

Civil engineers: recruited from West Point and Army Corps (*VH*, 95)

By 1870s, 70,000 miles of track. Creates national (transcontinental) network of transportation (esp for freight).

Major Organizational Innovator:
Daniel McCallum (NY & Erie)

“A superintendent of a road fifty miles in length can give its business his personal attention, and may be constantly on the line engaged in the direction to its business are at once presented and acted upon; and any system, however imperfect, may under such circumstances prove comparatively successful.

In the government of a road five hundred miles in length a very different state exists. Any system which might be applicable to the business and extent of a short road, would be found entirely inadequate to the wants of a long one; and I am fully convinced that in the want of system perfect in its details, properly adapted and vigilantly enforced, lies the true secret of their [the large roads'] failure; and that this disparity of cost per mile in operating long and short roads, is not produced by a difference in length, but is in proportion to the perfection of the system adopted.” (VH 98)

Major Organizational Innovator:
Louis McLane (B&O)

Produces printed manual: *Organization of the Service of the Baltimore & Ohio Railroad*

Objectives “consisted in confining the general supervision and superintendence of all the departments nearer to their duties, and, by a judicious subdivision of labor, to insure a proper adaptation and daily application of the supervisory power to the objects under its immediate charge; in the multiplication of checks, and to effecting a strict responsibility in the collection and disbursement of money; in confining the company’s mechanical operations in their shops to the purposes of repairs, rather than of construction; in promoting the economical purchase and application of materials and other articles needed in every class of the service; and in affecting a strict and more perfect responsibility in the accounting department generally.” (VH, 99)

Emergence and Expansion of Eastern Railroads

I. RR expansion; the character of monopoly.

- A. RRs get off the ground in 1830s. Vigorous expansion in the 1850s.
- B. Competition is usually limited to a few companies for two reasons -- high fixed costs, and one track in most localities. Result: **regional monopolies**.
- C. Short-haul v. long-haul distinction.

II. Depression of 1870s ushers in era of competition. RRs start to adopt measures to insure themselves against loss.

- A. **pooling**. Created effective oligopolies btw two endpoints in the system.
- B. **price discrimination** – includes “rebates.”
- C. **short-haul/long-haul differential**.

Implications of Railroads for Agrarian Economy

I. The Roots of Agrarian Unrest

A. Long-term agricultural commodity price decline.

- (1) Restricted inflation by FK – no monetary expansion
- (2) ↑ value of U.S. currency → ↓ed exports
- (3) BUT, ↑ed ag production too (mechanization)
result = ↓ed domestic prices AND ↓ed exports

B. Dependence of farmer on 3 groups

- (1) grain elevator operators
- (2) RRs – local/regional monopolies over routes to E
- (3) banks-lenders – the debt problem

Agricultural Commodity Prices, 1865-1900


