Corporations

Because of the considerable role that large economic organizations, which are almost always corporate in structure and organization, have played and the [apparently] larger role they will play in the economic and social, cultural, and political areas of Americans lives, a detailed examination of this entirely artificial and abstract entity is necessary. It should be noted that the "Mom and Pop" sub-chapter S type of corporation, which employs at most a few people is specifically excluded from this discussion, and the use of the word "corporation" in this context simply shows why an extensive discussion of the seemingly simple word "corporation" is necessary. The forms, meanings, contexts, and functions of "corporations" has so greatly changed over time that it is reasonable to suggest that the same word has been and is being used for several different things, which causes large amounts of confusion. These corporate stages are identified as Corporation I through Corporation VI in the headings.

The MicroSoft Bookshelf Columbia dictionary defines corporation as:

cor· po· ra· tion (kôr´pe-râ¹shen) noun

Abbr. corp.

1. A body that is granted a charter legally recognizing it as a separate legal entity having its own rights, privileges, and liabilities distinct from those of its members.
2. Such a body created for purposes of government. Also called body corporate.
3. A group of people combined into or acting as one body.

This definition, while correct, is incomplete and therefore misleading.

Corporation I

The earliest entities which can be characterized as "corporations" were those created by royal charter with certain specific objectives and many limitations. Generally one of the basic objectives was to limit the amount of financial exposure or liability that a member (or owner of the corporation) had to the amount invested in the corporation (and thus shift it to someone else such as a creditor of the corporation), although the officers and directors were frequently excluded from this limitation. The typical activities of these organizations were high potential profit but high risk so such limitation was very desirable. It is not generally realized but many of the thirteen original colonies were corporations with royal charters, so in this sense, it is possible to say that the corporation is older than the country. However the following points seem to indicate that these archetype corporations were very different than those we see today. The points include:

1. The corporation required a charter by the king or later by parliament, which was time consuming and expensive to obtain. (The people issuing the charter also got "a piece a of the action," effectively adding a highly mercantile aspect to this form of corporation.)
2. The charter was generally for a limited period of time and / or a limited range of activities in a limited geographic area.
3. It was very foolish to attempt to defraud the stockholders as these tended to include the King, Chancellor, Prime Minister, etc. who were able, even eager, to enforce a certain level of managerial accountability[1] even without an SEC.

[1] See “Tower of London,” “Rack,” and “Draw and Quarter” for more information.

Corporation II

The American revolution ended or expelled these corporations, chartered by King or Parliament, and the individual states were very careful to limit the powers and number of corporations under their control, as abuse of power and privilege by the royal chartered corporations had been a major contributing factor to the revolution. A few corporate charters were issued for projects larger than could be undertaken by a partnership, such as canals and railroads, however these tended to combine the features of both a franchise which allows or specifies a particular activity and the permission to create a separate entity to conduct this activity. Additionally, the duration of many charters was limited to a few years and most contained specific language which allowed the legislature to revoke the charter in cases of behavior contrary to accepted public policy. Indeed, several writers [Grossman available:http://gladstone.uoregone.edu/~twilson/corp_cha.htm] have suggested that such revocations were not unusual. However, too much should not be read into these limitations. At this time real property ownership requirements were common (male) franchise requirements, women did not have the vote, and slavery was still legal (and common) in the south. Still it is interesting to speculate about the effect on current corporate behavior if the state legislatures had retained their power to dissolve or liquidate a corporation by revoking its charter when its actions and activities were found to be contrary to public policy and the common good[2].

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[2] For example corporate hog and chicken farms in Oklahoma.

Corporation III

Beginning about 1820, partially due to the continuing efforts of promoters and financiers and partially due to the forgetfulness (or death) of the electorate, corporate privileges were gradually allowed to increase. A perhaps unintended consequence of the requirement of the United States Constitution that any state must recognize the validity of the acts of any other state was that as soon as one state (New Jersey) began to issue corporate charters without an act of the legislature, without fixed terms, without specific franchise limitations, and for a fixed fee, most of the other states also rushed to do so because of the large income derived by New Jersey from the incorporation fees. [Chomsky, N. 45]

The industrial and infrastructure boom prior to and during the American Civil War resulted in the growth or creation of massive and highly profitable corporations. While this form of corporation provided a great deal of financial protection to and return for its stockholders, most were still not what is commonly perceived as the modern corporation because these were still largely driven by and assumed the persona of their major owners and executives, and indeed most were more in of the nature of special proprietorships with limited liabilities for the major players (owners, officers and directors) for their actions done through the corporation. The number of stockholders remained limited and necessarily confined to the "moneyed class." Still this allowed considerable abuses such s "watered stock" and speculators such as Drew, Vanderbilt, Fisk and Gould were able to derive huge fortunes from marginally legal activities[3] at the expense of the investors.

[3] Such as the attempt to corner the gold market in 1869 which resulted in the panic of "Black Friday"

Corporation IV

The corporate structure was changing before 1886, when the Supreme Court in Santa Clara vs. Southern Pacific Railroad held that a corporation was a person under the fourteenth Amendment and was entitled to full Constitutional protection and rights. [Horwitz, M. 66] After this decision corporate change was greatly accelerated. Even today, the reasoning that produced this ruling is at best murky, and at that time property ownership requirements and poll taxes were still commonly used to restrict the (male) franchise, women still did not have the right to vote or own property, and blacks were systematically excluded from full economic and political participation in most states, which the fourteenth Amendment was specifically enacted to redress. It is difficult to "prove" that this decision caused the very great increase in the number and size of corporations that then occurred, but such an increase did occur. Corporate trusts grew rapidly in the U.S. from 1880 to 1905, by which time Pres. Theodore Roosevelt had launched his famous “trust-busting” campaigns. [The Concise Columbia Encyclopedia] This was accompanied by basic changes in corporate ownership and ultimately corporate governance.

Perkins in his book "The Currency Problem and the Present Financial Situation" printed in 1908, excusing the apparent role of corporations in the then current financial panic[4] and attempting to blunt the drive to enact additional antitrust legislation[5], wrote:

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[4] Noted historical panics include the Mississippi Bubble of 1720 in France, the South Sea Bubble of 1720 in England, and in the United States, the panics of 1819, 1837, 1857, 1869 (Black Friday) 1873, 1893, and 1907. A financial panic is a widespread public fear that banks and other monetary institutions are in imminent danger of collapse. It is usually preceded by a period of feverish speculation in securities markets in which prices are driven to insupportably high levels. The history of financial panics,

During the past few months, when the campaign against corporations was most intense, and when our country was in a turmoil of business perplexity and doubt, the people who, we are told, have so suffered because of the trusts and are so bitterly opposes to their existence have been investing in these very securities to an unprecedented extent. To illustrate: during the past year the stockholders of the Great Northern Railroad have increased in number from 2800 to over 11,000. The stockholders of the New York Central have increased from 40,000 to 57,000. During the same period the number of stockholders in the Steel Corporation increased by over 30,000: the total number of individuals holding stock in that corporation now exceeds 100,000, and the average holding of the $868,000,000 of stock of the Steel Corporation is to-day about 98 shares per person. Can there, then, be any question that these great institutions have become semi -public, and when we contemplate the alternative of extermination or of regulating them, must we not realize that they are owned not by a few individuals, but by a vast number of people representing our thriftiest class? That these corporations have thus become not only vast business enterprises, but great

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however, is complex. In many earlier periods, their effect was largely limited to the financial sector without serious consequences to the average consumer (who was generally a subsistence farmer and substantially independent of the money economy) or capital goods industries.

[5] Legislation under which the U.S. government has acted to break up any large business combination alleged to be acting monopolistically to suppress competition. The first of these laws, which were based on the constitutional power of Congress to regulate interstate commerce, was the Sherman Antitrust Act (1890). It declared illegal every contract, combination, or conspiracy in restraint of interstate and foreign trade. It was supplemented (1914) by the Clayton Antitrust Act, which prohibited exclusive sales contracts, intercorporate stock holdings, and unfair price cutting to freeze out competitors. The last provision was strengthened under the terms of the Robinson-Patman Act of 1936.

and growing institutions for savings, surely imposes a new and more sacred responsibility, not only upon corporation managers, but upon legislators as well.

Mr. Perkins is an eloquent apologist, and his reasoning, although the language is somewhat dated, can be (and is) used today. Unfortunately, there are several exceptions and assumptions which cause this analysis to be somewhat suspect. Specifically there are implicit assumptions that:

1. All stockholders are equal. That is that a person experienced in finance and business operations who may hold 50% or more of the issued shares of a corporation and a novice than understands little about money, finance and business operations who owns a few shares of stock are equal in that both are "owners" of the corporation;
2. The people who operate corporations, with onl y a very few exceptions, are honorable people. Mr. Perkins appears to have been an honorable individual, and a common human trait (error) is to assume that most everyone is like yourself;
3. People who are able to purchase shares of stock are some how representative of (or at least more worthy of consideration than) the entire population; and
4. Corporate activities, and more specifically corporate disasters, fiascoes, debacles and desolutions affect only the stockholders and their elected (corporate) officers.

Each of these assumptions was at least partially true in earlier times, but with the extensive increase in industrialization and urbanization, and the attendant inclusion of most of the population into the money economy by the turn of the century none of these was even partially correct in 1908.

The major modification or adaptation by corporations during this time seems to have been the beginnings of the "professionalization" of management and elimination of the "cult of personality" centered on the founder / director. These trends continue, but a "cult of personality" still tends to surround the founders. Examples of this are Ford, Walmart (Sam Walton), Hewlett-Packard, and MicroSoft (Bill Gates). However this "cult" generally disappears after the death of the founder unless the immediate family continues to be active in the management, as was the case with Ford, and the differences, foibles and eccentricities which differentiated that corporation from other corporations begin to disappear. Thus corporations began to assume the form of:

1. Relative uniform organization (with the assumption that a good manager could manage anything) as stressed by the many B schools;
2. Organizations identified with or by their own corporate identity and not the personality of the officer(s);
3. Organizations over which the nominal owners (stockholders) had minimal influence because of their small (relative) size and inability to coordinate actions;[6]
4. Organizations with primary responsibilities only to themselves;
5. Organizations whose primary (and possibly only) objectives were their own survival and ever-increasing earnings, generally through growth; and
6. Organizations staffed with and directed by trained professionals which implies a reasonably uniform outlook, a high degree of interchangeability within their area of expertise, and a high degree of loyalty.

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[6] Which in many cases was (and is) forbidden by law.

Corporation V

These trends and characteristics continued into the 1970's with little change. Several events then occurred which had a profound impact on corporate behavior and activities. These included:

1. A very large increase in number and size of pension and mutual funds which created ownership of large enough blocks of stock to have significant impact on corporate decisions;
2. The revision of investment banking, insurance and financial regulations[7] in ways such as to not only allow but encourage hostile takeovers of large corporations;
3. The re-appearance of the "cult of personality" in some "high-profile" corporations which resulted in not only public adulation but enormous compensation packages, for example Asner at Disney, Allen at ATT and Iacoca at Chrysler;
4. The adoption by other corporations of a "stealth" strategy whereby the public awareness of the corporation and the extent of its holdings and subsidiaries was minimized, for example PepsiCo and ARA; and
5. A realization that the rate of return possible by the production of concrete goods such as food, clothing, consumer electronics, and automobiles could approach that which could be obtained by (speculative) financial activity only under exceptional circumstances, for example Nike. This resulted in an emphasis on the conversion or cannibalization of existing (production and manufacturing) assets into cash (for speculative financial activity) to improve quarterly performance even at the

expense of long-term viability. A variation of this was the realization that it was far easier, cheaper, quicker and certain to increase market share and earning by acquisition than it was through competition in the market-place.

Corporation VI

These trends continued into the 1980's and when combined with collapse of the USSR resulted in the apparent perceptions (admittedly ascribed by this investigator) by the corporate cadre and the major corporations collectively that:

1. Most managers, like the hourly workers before them, are no longer an intrinsic, vital and basic part or component of the corporation but are an expense and cost, to be minimized like any other, especially with the phasing out of most concrete (production) activities;
2. Any attachment to a particular country is simply a manifestation of mercantilism and chauvinism which are not only obsolete concepts but which interfere with the free operation of the market;
3. It is the duty of the corporation to buy at the minimum possible cost and sell at the highest possible cost in order to maximize profit;
4. Governments do not understand the market and the need to maximize profits and so should be avoided as much as possible in this context; and

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[7] For example the purchase of "high yield securities"(junk bonds) by Savings and Loans or insurance companies which provided much of the capital for hostile takeover bids.

5. Governments have a responsibility to control their citizens[8] and safeguard[9] corporate investments and assets in order to minimize risks and maximize profits.

While it may appear that this is attributing evil motives or objectives to corporations this is not the case. Rather the objective is to show that the corporation is an elemental force such as fire and therefore is neither good nor evil. The caution is that corporations have proven to be, like fire, both highly useful and highly dangerous thus requiring continuous oversight and careful control. The danger to representative democratic government that uncontrolled corporations represent is <u>not</u> theoretical. The public record shows that American corporations have overthrown at least three democratically elected and legitimate governments. Specifically the governments of Iran by a group of American oil companies (Mosaddeq 1953), Guatemala by the United Fruit Company (Arbenz 1954), and Chile by International Telephone and Telegraph [ITT] (Allende 1973)

The most immediate impact on American education and vocational education of these shifting corporate characteristics is the <u>massive reduction in taxes paid by corporations at all levels of government</u>. For example, in the 1950's corporations paid about 39% of all federal income taxes but by the mid 1980's this had been reduced to about 17%. More importantly, as most education is funded locally, corporations which had paid 45% of local taxes in 1957 paid only 16% in 1987. [Barlett & Steele p47] This 2/3s reduction in

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[8] For example by passing legislation forbidding farmers from planting seeds from their previous crops in order to insure that they must either buy new seed every year from (or pay royalties to) the multinational agribusiness corporations such as Cargill which "own" the plant line in accordance with the intellectual property rights provisions of the GATT now enforced by the WTO. [Zoll]

[9] For example the proposed Multilateral Agreement on Investment [MAI] or alternatively Multilateral Investment Agreement [MIA] through the World Trade Organization [WTO] which effectively strips national governments of any oversight and control of international investments. available: http://www.webcon.com/bnp/multi.html

the share of local taxes paid by corporations was accompanied by increasing strident criticism of and demands by corporations for improvements in the amounts and types of education received by their employees.

Examples of corporations using their economic "clout" to extort incentives from local and state government are not difficult to document. For example, in the February 27, 1998 issue of USA Today in the Across the USA section on page 11A it was reported that MasterCard International had obtained $44 million in state and local incentives to keep its "Global Technology and Operations Center" in St. Louis, Missouri. These are not high level jobs but are the information age equivalent of sweatshop employment. Currently the MasterCard International employs 1,100 people and "plans" to add 500 more. This is $40,000 per current job and if the additional people are actually hired, $27,500 per job. This appears to be a typical result. To be very explicit about it, it is not at all clear that equivalent (or even better) economic results could not be obtained if the governmental agencies would select 2,200 lucky citizens at random and give them $20,000 dollars each with the requirement that them must spend the money locally within one year. The money is much more evenly distributed and (at least on the initial cycle) is spent within the local economy rather than being exported to the parent corporation as "profits."

It is does not appear possible to separate the evolution / development of the corporation from the economic stages in which these changes are embedded. That is it does not appear possible to determine if the changes in the corporations caused the changes in the economy, the changes in the economy caused the changes in the corporate structure, the economy and corporate structure co-evolved, or there was a third, independent causal factor.

Under the accretion model discussed in other sections of this study, it appears that corporations in various stages of evolution are simultaneously active in the American economy. Most likely these are limited to stages IV through VI, although it could be argued that closely regulated public utility type corporations remain, at least partially, in stage III, pending the effects of the latest de-regulation legislation. Where it seems appropriate and useful, the corporate stage will be considered in the analysis of Vocational Education. It should be explicitly noted that stage V and VI corporations require minimal numbers of domestic skilled employees, generally in sales or information processing jobs, and in many cases only on a temporary basis. As part of the innate corporate drive to reduce costs to the maximum possible extent, off-shore sourcing and de-skilling of the remaining jobs will be a priority.