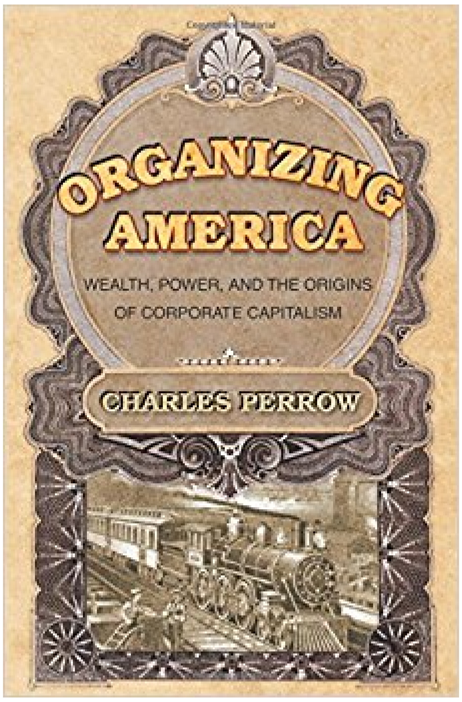
Organizing America: Wealth, Power, And The Origins Of Corporate Capitalism



Synopsis

American society today is shaped not nearly as much by vast open spaces as it is by vast, bureaucratic organizations. Over half the working population toils away at enterprises with 500 or more employees--up from zero percent in 1800. Is this institutional immensity the logical outcome of technological forces in an all-efficient market, as some have argued? In this book, the first organizational history of nineteenth-century America, Yale sociologist Charles Perrow says no. He shows that there was nothing inevitable about the surge in corporate size and power by century's end. Critics railed against the nationalizing of the economy, against corporations' monopoly powers, political subversion, environmental destruction, and "wage slavery." How did a nation committed to individual freedom, family firms, public goods, and decentralized power become transformed in one century? Bountiful resources, a mass market, and the industrial revolution gave entrepreneurs broad scope. In Europe, the state and the church kept private organizations small and required consideration of the public good. In America, the courts and business-steeped legislators removed regulatory constraints over the century, centralizing industry and privatizing the railroads. Despite resistance, the corporate form became the model for the next century. Bureaucratic structure spread to government and the nonprofits. Writing in the tradition of Max Weber, Perrow concludes that the driving force of our history is not technology, politics, or culture, but large, bureaucratic organizations. Perrow, the author of award-winning books on organizations, employs his witty, trenchant, and graceful style here to maximum effect. Colorful vignettes abound: today's headlines echo past battles for unchecked organizational freedom; socially responsible alternatives that were tried are explored along with the historical contingencies that sent us down one road rather than another. No other book takes the role of organizations in America's development as seriously. The resultant insights presage a new historical genre.

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Customer Reviews

Winner of the 2003 Max Weber Award"Organizing America is a provocative and passionate account of the nineteenth century origins of modern American corporate governance and its far-reaching effects. It is highly appropriate for our times."--Michael H. Best, The Journal of Economic History"An ambitious and important book that is sure to provoke controversy. . . . Organizing America takes on fundamental issues in a way that is provocative, compelling, and all too rare . . . and provides a wealth of insights. . . . [T]his is an important book that will stimulate research and debate for decades to come."--Robert Freeland, Administrative Science Quarterly"Perrow’s book . . . is clearly and cogently expressed, and his refutations of alternative theories are often strong and convincing. This is a useful and stimulating book. . . . The passionate intensity of the author and the lack of obfuscation in his arguments are refreshing."--Gerald Zahavi, American Historical Review

Winner of 2003 Max Weber Award

for school

Returned... Dropped class

Capitalists seek profits, but the organizations that they build in the process determine social costs that the society will bear, and the powers and freedoms that the organizations will have. And it is these organizations that turned America, whose culture long upheld the principle of "individualism" and "entrepreneurship", into a highly hierarchical and mechanic "society of organizations". Density and concentration of organizations are unprecedented: more people are now dependent on wages of fewer organizations. Charles Perrow chased the source of this transformation back to early 19th century history, when alternative socioeconomic paths were brought up in textile industry but eventually eliminated by the private railroad conglomerates . For Perrow, this historical process looked somewhat "accidental". He insisted that there is nothing INEVITABLE in the path dependency history, but priori conditions of American Continent plus several occasions the in the early 19th century kicked off a transformation that made organization permeation of the society desirable and inevitable. Initial settlers' fear of strong states and church back in England tilted them towards a federal system with weak state. Scarce native population with infirm traditional culture, vast land and rich resources were the foundation of a railroad system that swept through the open land and centralized the economy. The 1812 war and embargo created incentives for New England merchants to invest in textile production instead of export fleets. The Federal financial panic of 1837 dealt gigantic blow to national and state finance, prompting states to retreat from regulations and holdings of railroads (p. 226) . But most critically, one man literally changed history: Francis Cabot Lowell brought back England textile technologies and Scotland corporate firms, whose appetite for workers were soon fed up by Irish immigrants suffering from the famine (p. 68). Perrow's abhorrence of the process is ad hoc and sentimental, but did reveal the subtlety not covered in the linear approach of other economic historians (like Douglass North) , while also adapting their interest-based logic to show the emergence of corporate forms were primarily motivated by interests rather than culture or American ideology, as the multiplication of private corporations that required no representation of the public interests was artificially created, accompanied by wage dependency, externalities and concentration of wealth and power, the conditions existed that made them a necessity (p. 40). Perrow vows to selectively combine a mirage of theories (pp. 229-235) and evaluate organizations as independent variables (p.10), not as expressive conductors of power and wealth, as organizations shape working conditions and community access and produce internal interest groups (but in the analysis he frequently uses "interests of masters of organizations" and "organizational interests" interchangably). The functions of organizations include: increase wage dependency; centralization of surpluses (and concentration of wealth and power); socializing working people in the ways organizations see fit; division, affecting culture, shaping stratification system (in both positive and negative manner); create structural interests of their own; generate externalities (substantial and more profound); absorption of function sof smaller organizations (replaced the smaller organizations, a society of organizations). The focus is how wealth and power (W and P) are structured in different modes. Perrow lays down community, market and hierarchy as three ideotypical format of socioeconomic models, in which different kinds of society funtions differently, in a triangle (p. 24), and situated the various subjects of the book in the picture (p. 30). This should be a clear framework for plotting the course of organizations' movement later on , but Perrow strangely gave it up in the subsequent chapters, leaving a disjuncture between his otherwise integrated description of textile industry and railroad business. Textile industry in Philadelphia and Boston, according to Perrow, represented two different mode of community/network/market and hierarchy production. Philadelphia was populated by smaller organizations with a market orientation but never fully marketized. With little capital (as banks were heavily regulated in the state of Pennsylvania) but over supply of skilled workers, production would be on a small scale, specializing in more expensive goods (p. 52). They were deeply rooted in the local community and engaged in the network of cooperative-competitive relations, where trust lubricated long term, mutually adjustive and cooperative relationship, alleviating the classic problem of transaction costs. Exchange did not take place entirely in monetary terms, and some elements of self-sustaining production were retained. Wealth and Power was highly decentralized. Workers there were not wage dependant and resisted to work in hierarchy environment. Small scale operations meant that survival was insured only by diversified and flexible production without modern scale of economy, and large and powerful structural interests were absent within the organization. More trial and error were allowed. With more skilled workers, more flexible in organizational and technical changes, they allowed outworkers who specialized production in their homes (p. 86). There were fewer wage cuts and fewer strikes, fewer externalities to the community because of smaller size and dispersed production, although lives still looked grim for workers. But the sense of community and independence retained loyalty to firms. Local firms were even willing to responsive to Civil War by paying wages to those who went into the army, instead of laying them off and shutting down the mills like the North mills did (p. 87). The paternalistic style of community brought better facilities and better education (though school schedule was heavily influenced by the mill owners). On the other hand, Northeastern coastal mills hierarchy represented a hierarchy form of production. The 1812 embargo, wars and blockade dammed up the money from free trade and agricultural exports, thus rich colonial merchants looked for new investments. The blockades also dammed up supply of England textile. Bostonian merchants began to use idle capital to build textile mills for a protected market (p. 28). Machines and factory production mode was introduced not only as profit and efficiency maximizer, but also methods of concentration and control of workers by increasing their wage dependency (p. 69). With Lowell style of corporate firm productions made possible by Irish famished immigrants, Manayunk was a typical factory town, with low wage workers and explotative mills, the town was unsafe, polluting, and poor. Labor-intensive production soared and the Boston Associates emerged as the first modern business (p. 71). With fully integrated production and distribution system, profits went to a corporate office, and the socialization effects of mills changed social culture with spirit of industry, transformed religion into a tool for injecting "working ethics " and even commercialized the yeomen-dominated Republican Party (p. 81). Boston Associates mills lacked the kind of technological and organizational innovations in Philadelphia. Profit went to finance facilities and gaining market control, and were invested in the primary distribution system.

Gradually organizational interest took precedence over masters'will in creating industry town, using unskilled labor and mass production. Organizational generated highly negative externalities for local communities, reinforced division between male and female workers, and systematized discrimination against Irish labors by degradation instead of promotion; some factories introduced technologies that induced child labor and let Irish family sent their children in (p. 78). Internal structural interests increasingly rested in maintaining large, sweatshop style of production; even local industrial town governments were recalcitrant towards central authority, and technological innovation must first fit into existing structures (pp. 82-83). But these big firms did become more flexible later on, as buying power urged mass production and cheap products. Perrow argued that these two models coexisted and competed for almost a century, with Philadephia model frequently triumphing, until a general decline of US textile industry caused by mismanagement and more foreign competition. Around 1810-1820 there used to be waves anti-corporation movements in New York and many other Northeastern town. But the US Supreme Court played a vital role in dismantling local and state control of corporations. The 1819 Dartmouth Decision lmited public representation and ruled that corporation could have private rights. Two later Supreme Court rulings abolished personal prison sentence for debt of organization officers and owners (which worked at the advantage of shipping and textile magnets) and impeded local control of federal projects and private businesses, transferring to a Federal government that was barely powerful in early 19th century and not as responsible to electorates in the states to control expansion of private organizations (pp. 41-43). Such rulings dissolved the forces against corporatization of industry. Elites who sought legal revolution were not yet powerful organizational power, but they knew where their organizational interests lie. Once legal checks on concentration removed, and efficient transportations and capital was available, tendency was for firms with stable products to move to hierarchy corner. Once their primacy was established in law, and capital market allowed for oligarchy or monopoly, the practice became widespread, and laid the pathway for railroad expansion, an analysis that Perrow turned to somewhat abruptly. Perrow contrasted railroad industry in US with European states. Compared with France, where strong and centralized state made massive investments in a common good, making railroad firms very dependent, and Britain, where divided, power dispersed, legislative regulators of private (gentry and new manufacturing class) interests allowed moderate power for large organizations, the US Federal state was weak, but constructed along the lines of bureaucratic organizational principles and partisan politics rather than birth and privilege, so it easily gave in to big private organizations (pp. 110-111). Costs and revenues had little to do with the scale of organization; rather, national context determined the system. Railroad organizations in the middle 19th century already approximated modern business organizations: they had full control over personal appointment; they could continue to operate until dissolved by owners; they held property in its own name and disposal; they set and enforced restrictions on behavior of members; they allow shareholders to avoid liability for oragnizational debts (limited liability); and they operated for private good (owners' interests). It was such organizations that became major customer of iron and major market for coal, wood, machinery, glass, rubber and brass in the middle of . Used a small number of suppliers and played off small firms against each other, making the masters of industry more assertive on their interest for large organizations and national market. Federal judiciary and much of the Congress supported the argument that big meant efficiency. Big factory meant market control, and railroad made it possible. But the wasteful cooperation, overbuilding of tracks, rejection of safety, and ignorance of community interests. Efficiency safety of US railroads were actually far behind European counterparts; on the other hand, big organizations did made operations more reliable, precise, and cheaper, through strong headquarters and divisional structure, and railroads were critical to US economic industrialization. (p. 115) But railroad giants convinced and corrupted the state, transformed the weak national state and stronger federal states, using corruption as their primary means. Perrow advanced an "organizational interest account" for the expansion of railroads: industries and merchants needed railroads; masters of railroad companies got funding from government but wanted to waive public and governmental control over planning, rates and safety. Out of this organizational interest, they partnered with shippers to corrupt the governments. Without efficient legislative and independent executive branches of state and federal government , public officials and legislators were vulnerable to corruption. Corruption was extremely prevalent, almost regarded as a "factor of production" and the amount was simply astonishing, as shown by public records and personal diaries (pp. 146-150). After the 1837 Financial Panic, legislators backed down from public investments. Private fundings of railroads occured through stocks and bonds without control. The institutional ethos still in favor of federal support that should promote incerasing competition for interregional lines. But free-market competition (as J.P. Morgan entered the reorganization business of railroads) led to further over building, turbulence and oligopolies. New logics must be inplace to legitimize the new reality, against farmers, labor and reformists. Thus masters of railroad organizations introduced government regulations only to stabilizie oligopolistic system, provide adjudications, and ensure "economic liberties of railroads and customers" while categorizing externalities such as pollution and lack of safety as "necessary prices" (pp. 127-129). In the post-Civil War expansion of interregional railroads, companies dared fighting in court against government regulations, with the help of lawyers and corrupted judges. Corruption made railroads more powerful and easier to "imprint" their organizational forms upon others. With a strong state more resistant to corruption, the centralization would have been reduced, since the returns for corruption had been more profits and dividends and centrailization of wealth (p. 142). But with weak state, no regulation and corrupted officials, railroad routes could easily make or break communities and economic activities and centralize profits. Contrary to institutional economics' arguments, the system was not shaped as much by efficiency considerations as it could have been, as by opportunities of illegal and unethical gain . After the Civil War, railroads served to open up new territories and exploit new resources, thus not only linking but also building America as a nation. One important innovations: break up into divisions, with separate heads, rather than smaller organizations run by superordinate organizations.They set organizational forms, labor policies, and even models of labor-capital that would dominate the American economy. Andrew Carnegie, for instance, copied railroads to operate steel mills (p. 215). Railroads helped the surge of giant organizations, made mass market possible, and encouraged economies of scale. National system favored centralized production of massive numbers of products in a centralized economy. Long-term trade was thus profitable under controlled competitions. Such an economy would require very large producing organizations and favor mass production techniques. With the help of railroads and spillover of organizational forms, by 1905 the US economy had been shaped. Elites developed crresponding modern bureaucracy in the government, to maintain inequality of wealth. Organizations had autonomy and excluded public control and representation. Owners and stockholders could not be easily sued for debts or failure, and they received waiver from responsibility of working injuries and deaths. Organizations could socialize employers behavior. Centralization and wage dependency had been taken for granted: wage dependent population increased from 20% in 1820, to 50% in 1900 and to over 90% now (p. 227). Wealth inequality fell off after WW I, peaked in 1929, fell sharply in Great Depression, and surged in 1970 till now. When railroads no longer needed massive capital, railroad profits and capital, together with banks, foreign capital turned to merger movement, reducing competition. In a few years modest-sized firms merged into some 200 giants. Lowell model with centralized bureaucratic firms and large social costs was finally at its ascendancy. The US expansion and global hegemony then re-imprinted this organization form back upon Europe. Perrow ended the book with a strong advocacy to European socioeconomic system, where strong state with sufficient legislative independence and strong executive branches provide social needs, where power concentrates in government, but more responsive to democratic elections; and where W&P of organizations are equalized among the small and medium-sized organizations (p. 218). Perrow's book combined detailed and clear narratives and incorporation of numerous other theoretical works from Alfred Chandler, Dan Clawson and Philip Scranton (sometimes at the cost of overshadowing his own analysis and arguments). His "organizational interest" notion, though presented in a vague manner, added a critical question to the dominant efficiency argument of economic history: whose efficiency are organizations seeking, and with what consequences ? Moreover, as Perrow has shown, the emergence and evolution of organizations must be situated within a context of society and state capacity, the finding of the most "suitable" institutions, rather than the singular "optimal" institutions, is the key to socioeconomic advancement. Perrow probably made a mistake, however, by giving up the triangle model he advanced at the beginning of the book, which could better address the dynamic process of seeking the suitable institutions, and indulging himself excessively in historical materials. Another major point of contention is Perrow's comparison between US and Europe system. Perrow's sentiment that US "could have done better" with "less human carnage, less pollution and waste, less inequality, smaller and more flexible and competitive organizations, and strong social welfare provisions by strong federal government" (p.226) is certainly appealing. Yet it is unclear why Perrow granted immunity from private intrusion to European government organizations simply because they are more "responsive" to constituencies and subject to checks and balances, which he seemed to take for granted. A heavy literature of public choice and economic theory has demonstrated that the same logic of expansion, rigidity and concentration of wealth and power, organizational interests, negative externalities applied also to government bureaucracies. Democratic elections were not as effective as Perrow had suggested in the book . Meanwhile, it is disputable to categorize the US Federal Government as a "weak"state, as it not only acquiesced the growth of private organizations but later actually assisted their growth by giving in to their primacy and demands on legislation. Ironically, if the Federal Government is a "weak" one, why did masters of railroad organizations, shippers and bankers actively sought legislatures that protected their interests? Hierarchies do characterize modern economic lives: with low transaction costs, they replaced market with oligopoly, overwhelmed smaller organizations with scale of efficiency. But whether a society of centralized state bureaucracy is better than a society of oligopolic organizational bureaucracy is subject to debate. Finally, Perrow, while claming to evaluate organizations as independent variables, reluctantly admitted that the openness of organization opportunities and the nature of the people behind the organizations in US must first legitimize new forms in the initial stage. The new industrial elite by late 19th century was a mirage of various cultural backgrounds, ethnicities, religions. They did not inherit wealth, but were industrious;

they enjoyed no established tradition, but more chances of cross-cutting fertilization of ideas and practices (p. 220). This is probably the dynamic process that Perrow did not address clearly: in the short run, actors make relations, and societies make organizations, as various models of textile production emerged; but in the long run, relations make actors, and organizations make societies, as railroad industries not only linked but also built a United States of Society of Organizations.

You may never have given a second thought to the very existence of the Fortune 500, but author and academic Charles Perrow has. In this eye-opening sociological account, he argues that the huge organizations that dominate today’s business world in the United States would have been unthinkable to the nation’s Founding Fathers, who viewed centralized money and power with great suspicion. Perrow’s fascinating study points out the importance of big organizations in shaping American society. Yet for all his sweeping - and well-reasoned - arguments, Perrow focuses only on a couple of diminished industries. Still, this intriguing work is an important read for responsible corporate citizens. We recommend this social history to those leaders who want American corporations to be more than profit-making machines.

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