Journal of Markets & Morality
Volume 6, Number 2 (Fall 2003): 703–714

PHILOSOPHY, HISTORY, AND METHODOLOGY OF ECONOMICS

The Company: A Short History of a Revolutionary Idea
John Micklethwait and Adrian Wooldridge
New York: The Modern Library, 2003 (191 pages)

In a breathtakingly concise 191 pages, John Micklethwait and Adrian Wooldridge trace the history of the business company from its earliest antecedents in 3000 B.C. in Mesopotamia to today's modern multinational corporation. They plausibly assert that the most important form of organization is not the state but, rather, the corporation. In contrast to anti-globalization activists, who often make the same assertion, however, Micklethwait and Wooldridge contend that the corporation is "the basis of the prosperity of the West and the best hope for the future of the rest of the world" (xv).

No one could do justice to five thousand years of business history in fewer than two hundred pages, of course, even with the shocking shortcuts that Micklethwait and Wooldridge sometimes employ. (One memorable sentence jumps directly from Edward I's 1279 Statute of Mortmain to the U.S. Congress's 2002 Sarbanes-Oxley Act, without landing anywhere in-between.) Although Micklethwait and Wooldridge do expend some effort tracing the historical precedents, they do not repeat the often-made error of treating the medieval bodies corporate (or even earlier candidates) as evolutionary antecedents of the modern corporation. Instead, they argue that a fundamental break took place in Victorian England with the 1862 adoption of the Joint Stock Companies Act. The bulk of the text is then devoted to exploring how that Victorian creation evolved into the modern business corporation and the social implications of that process.

There is little doubt that Micklethwait and Wooldridge are correct in their claim that the corporation is now the key economic institution in Western nations. In the United States, for example, the corporation is the predominant form of business organization by every measure except sheer number of firms. According to recent census data, U.S. business organizations include approximately 17 million unincorporated proprietorships, 1.7 million partnerships, and 4.6 million corporations. Although corporations thus account for only about one-fifth of all business organizations, they bring in almost ninety percent of all business receipts.

Yet, as Micklethwait and Wooldridge usefully remind us, two centuries ago, leading business and economic thinkers—including the great Adam Smith—derided the joint stock company. Few businesses were organized as chartered companies. Each company's charter required a special legislative act. In many places, legislatures granted charters only to quasi-public entities, such as railroads and canals. In most, legislatures rarely resisted the temptation to revise or even repeal existing charters arbitrarily. Even in the United States, where the Supreme Court's famous *Dartmouth College* decision gave corporations substantial constitutional protections at a relatively early date, such legislative meddling remained commonplace. What explains the relatively rapid development, in the mid-nineteenth century, of a recognizably modern corporation and, in turn, that entity's emergence as the dominant form of economic organization?

Micklethwait and Wooldridge offer a fairly conventional answer to that question, based largely on new technologies—especially the railroad—which required vast amounts of capital, the advantages that such large firms derived from economies of scale, the emergence of limited liability that made it practicable to raise large sums from numerous passive investors, and the rise of professional management. Readers familiar with the work of business historian Alfred Chandler will find relatively little new in this part of the story, although Micklethwait and Wooldridge's treatment has the advantage for generalist readers of being considerably more accessible than is most of Chandler's work. Instead of offering any novel historical analysis, Micklethwait and Wooldridge's principal potential contribution—albeit one they failed adequately to realize—is the normative thesis to be derived from the historical account.

Why did social democracy—let alone socialism—never take root in the United States? Micklethwait and Wooldridge quote German sociologist Werner Sombart's observation that "on the reefs of roast beef and apple pie, socialist utopias of every sort are sent to their doom" (77). In turn, they argue, those reefs existed because of the general rise in prosperity, despite frequent panics and slumps, associated with the emergence of large industrial corporations. These "new companies plainly improved the living standards of millions of ordinary people, putting the luxuries of the rich within the reach of the man in the street" (77). In addition, as Michael Novak has also observed, rising prosperity made possible by the tremendous new wealth created by industrial corporations was a major factor in destroying arbitrary class distinctions, enhancing personal and social mobility.

Many of the wealthiest businessmen of the latter half of the nineteenth century began their careers as laborers rather than as scions of coupon-clipping plutocrats. It was difficult for the class struggle to take hold when virtually every laborer hoped also to become a millionaire someday. In explaining why large industrial corporations arose only slowly in Great Britain, by contrast, Micklethwait and Wooldridge emphasize the role that class snobbery played in discouraging talented individuals from pursuing a career in business.

Unfortunately, this insight goes nowhere. Indeed, the powerful, potential, normative thesis set out in the introduction remains almost wholly undeveloped. In that introduction, Micklethwait and Wooldridge lay out a claim that will be familiar to readers of Michael Novak's corpus (surprisingly, however, they seem unaware of his seminal work). Like Novak, Micklethwait and Wooldridge argue not only that the corporation is one of "the West's great competitive advantages" but also that the number of private-sector corporations that a country boasts of is a relatively good guide to the degree of political freedom that it provides its citizens (xx).

The normative claim is entirely plausible. The rise of modern corporations did more than just expand the economic pie. The legal system that facilitated their rise necessarily allowed individuals freedom to pursue the accumulation of wealth. Economic liberty, in turn, proved a necessary concomitant of personal liberty—the two have almost always marched hand in hand. In turn, the modern, public corporation has turned out to be a powerful engine for focusing the efforts of individuals to maintain the requisite sphere of economic liberty. Those whose livelihood depends on corporate enterprise cannot be neutral about political systems.

Only democratic capitalist societies permit voluntary formation of private corporations and allot to them a sphere of economic liberty within which to function, which gives those who value such enterprises a powerful incentive to resist both statism and socialism. As Novak has observed, private property and freedom of contract were indispensable if private business corporations were to come into existence. In turn, the corporation gave liberty economic substance over and against the state. Regrettably, after laying it out, Micklethwait and Wooldridge fail to pursue this thesis. Instead, their book lapses into a rather sterile historical description.

—Stephen M. Bainbridge
University of California, Los Angeles, School of Law