

This article was published on-line on March 10, 2015.

Essays in
**ECONOMIC &
BUSINESS
HISTORY**

The Journal of the Economic & Business History Society



Editor

Jason E. Taylor
Central Michigan University

Copyright © 2015, The Economic and Business History Society. This is an open access journal. Users are allowed to read, download, copy, distribute, print, search, or link to the full texts of the articles in this journal without asking prior permission from the publisher or the author.



<http://creativecommons.org/licenses/by/4.0/>

ISSN 0896-226X
LCC 79-91616
HC12.E2

Hannah

THE ORIGINS, CHARACTERISTICS AND RESILIENCE OF THE “ANGLO-AMERICAN” CORPORATE MODEL

*Keynote address given at the 39th Annual Economic and Business
History Conference, Manchester, England, 2014.*

Leslie Hannah

London School of Economics and Political Science

lesliehannah@hotmail.com

I am honored by your invitation to deliver the keynote address to such a cosmopolitan group of economic and business historians, particularly here, in this city of my birth. A hundred years ago it was rather more evident than in today’s more developed world that Manchester led the Industrial Revolution, though the city still plays a robust role in our richer, rapidly evolving world. My parents (my father a cotton spinner, my mother a weaver) were descendants of Scottish farmers who moved south to share the new prosperity of Cottonopolis. When I was growing up in the 1950s and 1960s that older generation could not easily understand that jobs in textiles—which, with minor challenges, had been secure for a century—were disappearing overseas. Fewer textiles were being produced in Lancashire, though only four decades earlier Britain accounted for 90 percent of the world’s manufactured cotton exports. As two great historians of the industry—Douglas Farnie of the University of Manchester and Shin-Ichi Yonekawa of Hitotsubashi University, Tokyo—also made clear, Lancashire manufacturers also dominated the main machine technology that late industrializers were rushing to adopt. Yet Manchester had no robust large 19th century industrial firm still prospering in the 21st, like GKN in Birmingham, which successfully developed its heritage as the world’s leading maker of metal fastenings to become a major global supplier of parts to the automobile and aircraft industries today.¹

Platt Brothers was one firm that might have made it, but did not. My great-grandmother was born in St. Petersburg, where her father was

The “Anglo-American” Corporate Model

teaching Russians how to operate Platt’s textile machinery, so my family should perhaps not have been too surprised by the rapid pace of overseas industrialization. Platt Brothers employed over 12,000 workers before 1914: their Oldham factory was one of the world’s largest producers of industrial machinery. They and their globetrotting fitters and trainers installed ring spindles² and looms in a high proportion of new cotton mills not only in Europe but in India, China, Japan and Latin America, the protectionist (and unusually innovative) US being the only market that was effectively closed to them.³ Nonetheless, from the 1920s they lost momentum and—eventually under American ownership—went bankrupt.

Anglo-American Interactions

The magnificent Victorian municipal buildings and cultural edifices that you see in this city today were financed by a confident (arguably *over*-confident) and globally-minded bourgeoisie, whose free trading, open market ideology—formalized by the classical economists—was known as “the Manchester School”. Such (mainly) wholesome ideas were, of course, not universally accepted. On the contrary they were reviled in Berlin as “Manchesterismus” and—difficult as it is for some modern members to believe—the American Economic Association was explicitly founded to combat Manchester’s pernicious free market doctrines.⁴ Decades of contentious intellectual—and industrial—evolution passed before this city’s eponymous ideology became more familiarly acceptable to Americans under its modern label, which is, of course, “the Washington consensus”.

Such reversals and interchanges are not unique in the complex history of Anglo-American cultural interaction, despite what Niall Ferguson (2003) calls a civil war, though in some parts, particularly on the fourth of July, I understand it is called a war of independence.⁵ British culture was more difficult to escape than British rule. President Lincoln was assassinated watching a British play (*Our American Cousin*, lampooning American naivety) and a later Londoner’s theatrical number (*The Melting Pot*, a rewrite of *Romeo and Juliet* set in New York) baptised a dominant trope of American self-identification. Whistler, Henry James and T.S. Eliot spent more time in the land of which they

became naturalized subjects than in the land of which they were born citizens. Wider cultural homogenization of the “Anglosphere” progressed faster in the era of Chaplin and Hollywood, and later of television and the internet. Of course the direction of influence is now overwhelmingly from west to east (try buying a British English version of Microsoft Windows outside the UK, even in countries where governments mandate the Queen’s English in schools).⁶ But it is still easy for modern Britons to adjust to their diminished place in the world by piggybacking on a cultural and economic hegemon with whom they share much antecedent cultural and historical baggage, not least a (more or less) common language.

In 1914, Britain was only the world’s third largest economy in terms of real GDP and seventh largest by the size of its workforce, but—remarkably—remained comfortably ahead of the US and other rivals as the world’s largest exporter, importer, multinational investor and imperial power. Americans had long had somewhat higher living standards than Britons, based originally on resource abundance—at least if you believe Peter Lindert and Jeffrey Williamson (2012), rather than Angus Maddison (2006)—and, of course, America’s more rapidly expanding population had already created the world’s largest economy in absolute terms, overtaking both Britain and Germany around the 1870s. However, unlike the European powers, the US remained inward-looking and was reluctant to take on the role of military and naval hegemon. When its own grizzly war against secession ended in 1865, it demobilized most soldiers, buying rather than expropriating Alaska from Russia (which feared the British would seize it) in 1867, but not expropriating British North America (Canada was not for sale), as the republic could have done.⁷ Between 1893 and 1897 US subversion of Hawaiian independence matched the rapacity and one-sidedness of contemporary European imperial expansion in Africa and a few years’ later the US enthusiastically trounced weak Spanish forces, but only in its own backyard and with at least some moral support from secession-minded locals. This was not the stuff of which global hegemons are made, but the US was steadily becoming more populous and richer on the back of low military spending and largely untrammelled pursuit of domestic wealth.

The “Anglo-American” Corporate Model

In economic matters, a clear American technical/brand lead was already emerging in some areas: for example, Singer’s sewing machine outlets were ubiquitous on both sides of the Atlantic. Yet this US-owned corporation manufactured as many sewing machines in Scotland as in New Jersey and coordinated global sales from London, rather than from the tallest building in the world three thousand miles away on Broadway, over which its Scottish boss, Sir Douglas Alexander, presided from 1908. The first large-scale industry in which the US developed a massive and apparently unassailable lead over all Europeans—horseless carriages—then lay largely in the future.⁸ Nonetheless in 1908 Henry Ford had already opened a European factory for assembling his new-fangled machines—in Trafford Park, Manchester—joining other US offshoots such as British Westinghouse. Ford’s assembly line back home in Highland Park—which was to transform the industry—then still remained a revolutionary twinkle in his eye. Casual observers of ships unloading in the crowded docks of Liverpool and Manchester might then easily conclude that the US mainly exported primary commodities—horses, beef, raw cotton, wheat and copper—not the high value-added manufactures and differentiated business services that more obviously dominated the UK’s own large exports.

Characteristics of the “Anglo-American” Model

Britons and Americans schooled in that era un-self-consciously shared history texts (at least on the pre-1776 period) and occasionally spoke of each other as “cousins”, but some might still have expressed puzzlement if presented with the concept of my title: the “Anglo-American” corporate model. I have some sympathy with them. I am not a fan of the hegemonic “varieties of capitalism” literature, which can be hopelessly tone-deaf about historical change and evolving contingent choices.⁹ The “varieties” school of political economy posits that some institutions are favored in the “liberal market economies” of the Anglosphere, principally the US and UK, but also usually including other offshoots such as Canada and Australia, and sometimes an even wider group, like India or Singapore. A short list of the Anglosphere’s distinctive institutional features (as against the “coordinated market

economy” model supposedly favoured in continental Europe or Asian tigers) might include:

1. The prolific use of the corporation with limited liability (more commonly called in British, Australian, Indian and Singaporean English the joint-stock company) to organize business, largely replacing older forms such as the sole proprietorship or partnership, but—like them—governed by principles derived from flexible common law. This usually facilitated relatively free entry, and was more subject to creatively flexible judicial interpretation than the more rigid templates of continental European commercial codes, copied in most of Asia and Latin America.
2. The quotation of a large portion of corporate capital on a metropolitan stock exchange, with ownership largely divorced from control, and non-owning professional managerial hierarchies sometimes seeing shareholders as only one among several constituencies to be managed. More recently, however, the Anglosphere’s boards have been increasingly forced to prioritize shareholder value, by the disciplines of tighter corporate governance and the pervasive threat of unfriendly takeover bids.
3. A more limited role of banks and state enterprise than in coordinated market economies such as Japan and Germany. In liberal market economies like the US and UK, a distrust of the state was combined with more wholehearted embrace of open market approaches to trade and competition, if in the US case belated.
4. An apparent propensity to succeed in risky, new industries such as aerospace, pharmaceuticals or computer software, but sometimes to falter in sectors like automobiles, consumer electronics and others that they once confidently pioneered. Liberal market economies also appear to lead the transition from manufacturing to (often human-capital-intensive) services. Such biases may be related to their greater ability to foster leading edge innovation through elite universities/business

The “Anglo-American” Corporate Model

schools/venture capital firms. On the other hand coordinated market economies now appear to do better fostering education for the urban underclass or white-collar organization men: teaching everyman the basic literacy and numeracy and practical applications necessary for effective participation in more traditional core areas of industry and commerce. Other schools (notably the core “Law and Finance” literature) are much more positive about the superior impact of the Anglosphere’s common law, though their generalizations have attracted skepticism from historians.¹⁰

5. A greater tolerance in the Anglosphere of poverty, unemployment, imprisonment, the death penalty, inequality and low intergenerational mobility at a level abhorred by more egalitarian societies supported by stronger welfare states and more effective collective support for the health, education and training of the poor.

Many historians and economists—in countries on both sides of the supposed divide—naturally bridle at some of these ambitiously broad characterizations. Mary O’Sullivan (2010) has stressed that the American belief in the primacy of shareholder value prospered before 1914, but for more than half a century thereafter was largely submerged by a new “managerialist” ideology of the corporation as trustee for a variety of stakeholders, until free market ideologists and institutional investors successfully resurrected the view of shareholder primacy in the late 20th century. Claudia Goldin and Lawrence Katz (2008) have taught us that the early US high school movement clearly led the world in spreading numeracy and literacy democratically: the collapse in the quality of inner city US schools to below the OECD performance norm is a relatively recent phenomenon. Also national experts insist that supposed shared characteristics of the Anglosphere are not equally espoused in the UK and US (and sometimes are hardly found at all in some other countries classified in the Anglosphere).¹¹ On the other hand, some of these features are observed in societies conventionally classed by the “varieties of capitalism” school as coordinated market economies. German universities (not to speak of other European ones) initially did better than

US ones in winning Nobel science prizes (as clearly as US ones now do better than Germany's) and that early primacy showed in electrical and chemical innovations. In 1900, several continental European countries relied at least as much on stock market finance (and much less on tariff protection) than the US. Today, mass unemployment is often higher in coordinated market economies that have privileged established insiders against young unemployed outsiders than in the more flexible labour markets of the Anglosphere, though there are signs of their electorates rebelling against this.

On some dimensions, even today the US sometimes refuses to fit its free market stereotype. World Bank economists championing the Anglosphere's common law liberalism may decry the barriers to incorporating a new small enterprise in many developing and civil law economies, but it actually takes 65 days of form-filling and negotiation to set up a lemonade stand in New York City, a business activity that remains mercifully unregulated in much of the third world.¹² It might be understandable that a medical doctor must be licensed to operate, but would all Americans suffer unbearably if (as in the UK and many other countries) barbers could offer their services without first acquiring a state licence? Are American consumers really unable to undertake the dreadful risk of assessing a competent haircut without bureaucratic assistance? And convergence on some more liberal,¹³ free market aspects of the American model can be observed in many societies outside the Anglosphere. Japanese share ownership is now almost as dispersed as in the US, and contested takeover bids have recently become more common in France and Germany (though they are still more firmly resisted in Japan). Corporate governance codes and OECD guidelines, international accounting standards, gatekeepers such as credit rating agencies, the Big Four auditors and major stock exchanges, have all reflected some convergence with, and between, the Anglosphere's models in the last two decades, though on some issues—such as the preference for Sarbanes-Oxley-style compulsion—the US has become the outlier.¹⁴ But enough of such qualifications: I think we can all admit that there is *some* truth in at least *some* periods in at least *some* of the institutional stereotypes that I have outlined.

The “Anglo-American” Corporate Model

The problem with tracing such characteristics back to a recognizable Anglo-American source—according to taste, possessive individualism, Baconian rationalism, a pseudo-Athenian spark, the common law, the “Glorious” Revolution, the Boston “Tea Party”, the Founding Fathers, or, more generally, democratically inclusive political orders—is that among the liberal market economies some of these things—or their supposed effects—appear to have developed only slowly, recently and with some reversals. In many cases, they were, at least initially, developed faster in countries conventionally classified by the varieties of capitalism school as having coordinated market economies. Of course, the “varieties” school does not deny the possibility of such historical change, but it sometimes comes close to it, emphasizing the deep cultural roots, path-dependency, mutual feedback mechanisms and thus inherent stability of the characteristics of its ideal types.

The Chandlerian Corporation and its Skeptics

Historians have not been mere observers of this debate, but have made major (if rarely consensual) contributions to it. Take the development of stock markets and the separation of ownership from control. A wide variety of views on the history of such matters is observable in the literature. The leading business historian of an earlier generation, Alfred D. Chandler Jr., was one skeptic, providing his own very different characterization of varieties of capitalism. He had little time for what he privately felt was much rubbish taught in American business schools and no time at all for the exponents of “shareholder value”. He bluntly told one interviewer: “If you really believe—and this is where I get upset—that the function of the firm is to give dividends to shareholders, we’re going to end up worse than Britain” (“A Chat with the Dean”, 1991, p. 42). For him, it was rather Germany that conformed most closely to the US corporate ideal of professional management hierarchies effectively taking over control from family owners. Most famously, Chandler (1990) based his interpretation in *Scale and Scope* on the view that it was unenlightened British family businesses that simply could not come to terms with the modern stock market reality of separating ownership from control, a development that he considered, not merely unproblematic, but overwhelmingly beneficial. Chandler had

to go through considerable contortions to make this fanciful tale stick. This included treating the Du Ponts (though they were born with a very silver spoon in their mouths as fourth generation family inheritors) or the founding German families that controlled the board of BASF as “professional” managers, while the British head of the Distillers Company (who was no blood relation of the founding families’ shareholders, having been promoted through a meritocratic corporate managerial hierarchy) was—at least in Chandler’s imaginative classification—clearly “family”: a “personal” not a “professional” manager.¹⁵

Chandler-bashing is an over-rated modern sport: he was, after all, basically right on so many things. It really was true—as he was prominent in arguing—that economic success in the “American century” was increasingly bolstered by manufacturing prowess; that the “Visible Hand’s” administrative coordination by large managerial hierarchies, decreasingly constrained by shareholder-owners, proved capable of greatly increasing economic and technical efficiencies; and that multidivisional organization facilitated a strategy of diversification by large firms; and these phenomena were (albeit in varying degrees) experienced in all advanced industrial countries.¹⁶ Yet the Chandlerian corporation had only a conditional and bounded success. As your keynote speaker last year convincingly insisted, with his customary directness, the partial but impressive success of Chandlerian orthodoxy made it a gulag, not an inspiration, for too many scholars.¹⁷ It took a long time for business strategy professors and management consultants, rightly admiring Chandler’s decisive contributions to sharpening their own (somewhat threadbare) credentials in the 1960s (or for the American businesses they were advising), to realize that the world had changed by the 1970s. Chandlerian managerial hierarchies—though still very far from going the way of the dodo—were then ill-suited to some of the new challenges of an emerging world of distributed information, flexible and modularized production, venture capital funding, inter-firm cooperative networks, de-verticalization, outsourcing and managerial downsizing.¹⁸

Some historical economists and economic historians were no less blindly wedded to the Chandlerian model. Bradford De Long (1991), swallowing whole the international comparisons of *Scale and Scope*, set

The “Anglo-American” Corporate Model

about explaining that J.P. Morgan’s “information signaling” led the New York Stock Exchange (NYSE) to develop faster than London’s stock market, thus helpfully explaining the greater survival of family ownership in Britain that Chandler had “exposed”. Perhaps not surprisingly—since he was explaining something that did not happen (the London Stock Exchange (LSE) was then actually bigger than the NYSE)—he too had to resort to “double counterfactual” history: explaining something that did not happen by appeal to other things that did not happen. Thus—as an example of the kind of innovative information signaling that poor London lacked—he cited Amalgamated Copper as an investor scam that Morgan partners would not touch. Alas, he was wrong on this (as was much else in his biased statistical tests).¹⁹ In fact, a Morgan partner served on Amalgamated Copper’s board and any investor taking that presence as an *ex ante* quality signal would have been well and truly scammed! In the light of modern regulators banning investment advisers from using similar evidence with *ex post* selection bias to over-promote their claims, it is surprising that even one of our most brilliant new economic historians fell into such an elementary trap.

Despite the failure of similar aspects of Chandler’s own model in the court of post-publication critical testing, his picture of a UK mired in backward family enterprise and a US and Germany bravely pioneering a world of modernity—with ownership divorced from control by professional managers—is still seriously taught in many universities. The explanation could be that the critics are wrong in their exposure of factual inaccuracies or internal logical contradictions in Chandler,²⁰ but perhaps the fundamental reason is that none of them really produced a compelling counter-narrative. My Oxford undergraduate tutor in his magisterial study of 17th-century witchcraft made the point (which Arthur Miller also expounded theatrically in *The Crucible*) that “It is a feature of many systems of thought, and not only primitive ones, that they possess a self-confirming character. Once their central premises are accepted, no subsequent discovery will shake the believer’s faith, for he can explain it away in terms of the existing system”.²¹ When Chandler’s doctoral students produced clear evidence that the UK adopted the multidivisional corporation earlier than the Germans, their findings were simply omitted from *Scale and Scope*.²² While he was writing that book,

I was a colleague at Harvard and remember many conversations with Al in which I tentatively suggested qualifications or counter-examples to his cases, all of which—to his own satisfaction—he quickly explained away. His faith in his model was simply unshakeable by new evidence: the purpose of empirical research was by then (though not in his brilliant youthful work) simply to reinforce (or at best mildly modify) the model, not potentially to falsify it.

In the history of science, Thomas Kuhn (1962) made the associated point that paradigm shifts in science were not (as most scientists believed and still believe) just made by the patient accumulation of confirming or disconfirming experiments following a logically defined canonical procedure, but sometimes by more maverick, enthusiastic renegades, with imaginative new paradigms. By contrast, the main thrust of post-Chandlerian heart-searching by the profession has stressed the complexity and diversity of business life, and the inadequacy of his deceptively simple explanations. Such critics may be right, but this is not the stuff of which intellectual revolutions or superstar academic reputations are made.²³ In making a virtue of NOT offering a compelling, alternative model, the critics have created few waves in the popular and business marketplace (where accuracy is only one quality indicator and big ideas about important things command a high premium), a marketplace for ideas in which Chandler so triumphantly succeeded.

However right Chandler was on some things, subsequent research has confirmed that he hopelessly distorted his comparative international interpretation.²⁴ Indeed the truth on such matters was closer to the *opposite* of the picture he painted. Raghuram Rajan and Luigi Zingales (2003), for example, have shown that the ratio of the capital of UK companies listed on the LSE to GDP was not only more than twice that of German companies listed on Berlin, but also more than twice the ratio for *five* US stock exchanges (New York, Baltimore, Boston, Chicago and Philadelphia combined).²⁵ Others have shown the obvious consequences of this deeper penetration of the quoted corporate economy on British ownership patterns: the nearly 3,000 directors of 337 of the largest UK quoted companies in 1911 held only £65 million (3.4 percent) of the shares (James Foreman-Peck and Leslie Hannah, 2012). That was not only lower proportionally than the board share of capital on all major

The “Anglo-American” Corporate Model

modern exchanges (including the NYSE) *today*, but, at about \$316 million, is in the same ballpark as the value of the shares controlled *by the Rockefeller family alone* in the US at the same time (and Harriman was not far behind)! As traditional historians of the US knew perfectly well, family business ownership by the world’s most plutocratic elite was palpable in the early 20th century and it was perhaps not until the 1930s that American levels of dispersed ownership in quoted companies became as “democratic” as those in the UK.²⁶

Chandler’s mistakes in this case arose, as Naomi Lamoreaux, Daniel Raff and Peter Temin (2004) have emphasized more generally, because of his progressive love affair with the Whig interpretation of history.²⁷ Essentially he wrote history backwards from his present and far too often diagnosed facts which he believed could be observed at earlier dates than was in fact the case.²⁸ Chandler was a child of his time, and, at that time, *West* Germany was clearly doing better than Britain; we were then less inclined than we are today to see Germany (or Japan) as failing to capitalise on post-war catch-up and now sharing Britain’s inability to overtake US living standards, being, for example, surprisingly slower to take advantage of IT innovations in service industries.²⁹ The teleological implications of the different vantage point from which he wrote were clear for Chandler. Having taken his definition of “modernity” from America’s successful managerial development, he quickly (but, alas, wrongly) “discovered” that Germany’s businesses had been more “modern” (in the sense of having less family enterprise) than Britain’s for decades. Serious problems certainly afflicted British business by the 1950s: it is difficult to exaggerate how deficient the British situation then was (even, in some respects, compared with Germany). Chandler actually said little about that period: he was basically uninterested in political, trade, antitrust, macroeconomic and labor issues, so underplayed that period’s sources of British malaise.³⁰ Yet these British business problems emerged from four terrible decades of war, erosion of hegemony, and consequent British failure to recreate pre-1914 global macroeconomic stability: such challenges of de-globalization were, of course, most seriously undermining for what had been the world’s foremost globalized economy. The consequent UK business weaknesses were only mildly (if at all) discernible before 1914, yet Chandler found

abundant “evidence” of them then, because he was so sure Britain must have lagged on the dimensions of managerial modernity that he felt must be the critical drivers.

The Corporation and American “Exceptionalism”?

Unfortunately for Chandler’s core internationally comparative thesis, the truth was the opposite of what he convinced himself must be the case, though Britain’s lead over the US in the divorce of ownership from control does not necessarily mean that being more “modern” on that dimension was an unequivocal benefit.³¹ Paradoxically, where US superiority really could be diagnosed in the early 20th century (and even before) was where Chandler least expected to find it: in the use of the corporate form *without* public trading of corporate stock, that is, in the (mainly personally-owned) companies that are known as “close corporations” in American parlance and in much of the rest of the Anglosphere as “private limited companies”.³² Robert Wright and Richard Sylla have recently emphasized American exceptionalism even in the 19th century use of the corporate form (Sylla and Wright, 2013; Wright, 2014). They may have exaggerated slightly about the mid-century situation. There were probably then already more US corporations than than French, Prussian or British, but limited partnerships were more frequently used in continental Europe by medium-sized firms and the fewer European corporations proper were distinctly larger than American ones (Hannah, 2014). The US thus did not lead on the conventional measure of the ratio of corporate capital to GDP and indeed may still have been behind the UK (though not France and Germany) on this measure before 1914. This was substantially because UK-registered corporations had more multinational direct investments, in absolute as well as relative terms.³³ As stock exchanges appear to account for around 70 percent of UK corporate share capital but nearer 40 percent in the US, it is evident that American “exceptionalism” in corporations consisted in its overwhelming preponderance of closed corporations. Indeed in 1910 the US had well over half of all of the world’s extant close corporations, while Europe and the British Empire together had about five times as many quoted corporations as the US.³⁴

The “Anglo-American” Corporate Model

This makes all the more puzzling the claim that Europeans offered a more eclectic and flexible range of organizational forms, especially for small and medium-sized enterprises (SMEs), while American legislators and judges seriously restricted SME choices available in the US.³⁵ Of course, it is close corporations which overwhelmingly congregate in the SME sector. In per capita terms, the US before 1914 had three times the numbers of corporations as the UK and seven times as many as Germany. Only in the 1930s did Britain (and Switzerland) catch up with the US in numbers of corporations per capita, while under the Nazis Germany fell further behind and in the east even further behind under post-war Soviet sway. Even today, though many European countries use the corporate form as much as the US and UK, Germany still has only half their numbers of corporations per capita. Only recently has it been catching up rapidly, as European Union developments have forced it to liberalize, just as interstate corporate mobility earlier enabled Delaware to force corporate liberalization on other US states.³⁶ Any country in which incorporation is the entrepreneurial norm naturally has corporations of small average size: the mean US corporation in 1910 had only \$214,234 paid-up capital, a little less than the average British corporation at the time and far below the average size in many civil law economies with few—and often “crony capitalist”—corporations, such as Argentina, China or Egypt. Of course corporate proliferation carries dangers as well as opportunities: If you want a cosmopolitan guide to some of the issues in that minefield I can strongly recommend Colin Mayer’s recent book: *Firm Commitment* (Mayer, 2013).

The Resilience of the “Anglo-American” Corporate Model

I will conclude with some comments on the resilience of the Anglo-American corporate model, which some argue has been challenged by the Global Financial Crisis. You will doubtless have noted that my earlier discussion leaves little space for a time-invariant version of this model. A simple forecast is that a model that has evolved so flexibly in the past (and differently in different countries of the Anglosphere) is quite likely to continue to do so in the face of new challenges and opportunities.

Some features of US and UK corporate policies once considered advantageous do now appear to cause problems. The bank bonus culture encouraging overselling of dud financial products and the executive options which have misaligned boardroom incentives are widely blamed for some of the financial misfortunes the world has recently suffered. Yet can this really be considered an inherent part of the business culture of the Anglosphere, rooted in its freewheeling corporate past? Not at all! Apart from the fact that many banks in coordinated market economies outside Asia enthusiastically copied such mistakes, the clearest historical parallels to such a culture appear in coordinated market economies rather than in the Anglosphere. Earlier in the 20th century, it was the corporate directors of France, Germany and Japan—all supposedly in the “coordinated market economy” camp—who had the strongest personal bonuses, known as *tantièmes* in French and *Tantiemen* in German.³⁷ Corporate law in these countries explicitly provided for such rewards, which could amount to 10 percent of all corporate profits to be distributed to board members.³⁸ This was at a time when directors in America or Britain were expected to be rewarded by their own shareholdings in firms, or by fixed fees, or (perhaps) by individual bonus contracts about which surviving evidence is sparse.³⁹

We do not know much about how *Tantiemen* or other bonuses worked (it is possible they aligned management interests with those of shareholders), but we do know that they fell out of favour by the 1950s. Europe’s “*trente glorieuses*” (the 1945-1975 period of—incomplete—catch-up with US living standards) actually coincided with the abandonment of such incentives. Such historical precedents might, then, usefully be examined to aid understanding of our present discontents. Perhaps our present batch of democratic politicians—often more concerned with populist plaudits for bullying bankers than with rational institution-building for rational risk-taking—might benefit from exposure to whatever lessons such episodes might hold.

One thing we can say is that, whatever other characteristics may typify the Anglo-American corporate model, conservatism and stasis are not prominent among them. In turbulent times, the corporation has proved extraordinarily resilient in the Anglosphere, which a hundred years ago accounted for more than three-quarters of all the corporations

The “Anglo-American” Corporate Model

in the world. It has since spread much more widely in civil law countries, and, latterly in countries like India (which is turning its back on the post-1947 “license Raj” and returning to its pre-independence reliance on multiple corporations on the Anglosphere model) or China (which, like Russia but more successfully, is attempting a reinvention of the corporation on less liberal terms). The corporation of the future may be as different from that of the present as Sloan’s General Motors Corporation was from Clive’s East India Company. Like the elephant described by the blind man, the corporation (Anglo-American or otherwise) is a complex and holistically unknowable creature. It would be unwise to predict the demise of an institution which has already shown remarkable capacity to reinvent itself to meet (and itself to shape) the complex and changing needs of an unpredictable world.

ACKNOWLEDGEMENTS

I have benefited greatly from discussions on these issues with Mark Billings, Patrick Fridenson and Janette Rutterford, but they are innocent of any remaining faults.

NOTES

¹ Chris Carr and Andrew Lorenz (2014).

² More suited to unskilled workers than the mules favored for finer work at home.

³ Farnie (1981); *Whitaker’s Red Book of Commerce 1913*, p. 746; Yonekawa (1982).

⁴ Richard Ely (1936).

⁵ For a critical but warm insider’s perspective, see Kathleen Burk (2007).

⁶ It has become a lot easier now we download (rejecting the US English default) rather than buying boxed sets!

⁷ With, judging from 1812, naval bombardment of US East Coast cities and some local resistance.

⁸ Market dominance is never unassailable, but this lasted for more than half a century.

- ⁹ One of the best guides to this literature is by a London School of Economics colleague, Bob Hancké (2009). See also the interesting special issue of the *Business History Review* on “Business History and Varieties of Capitalism” (84, no. 4, Winter 2010). Although the modern literature has been developed by political economists such as Peter Hall and David Soskice (2001), it has clear precursors in the work of economic historians such as Alexander Gerschenkron (1962).
- ¹⁰ For a good summary see Aldo Musacchio and John Turner (2013).
- ¹¹ State ownership of industries between 1945 and the 1980s was more common in Britain than in the US, just as common in Germany, and more common in Austria, France, Italy and Sweden. In Japan it was more common than in any other major country before 1914, but later fell to low US levels.
- ¹² John Stossel (2012). Permits for florists, interior designers, tourist guides etc. are also required by some states, though Morris Kleiner at the University of Minnesota argues they offer few consumer benefits and significantly raise costs (“Undercover on a Segway”, 2014).
- ¹³ I use this term in the European, rather than (opposite) modern American English sense.¹⁴ Randall Morck (2005) is a magisterial survey of 20th century developments.
- ¹⁵ See Leslie Hannah (2009) for these and multiple egregious examples; or, for a kindlier querying of Chandler’s paradigm applied to the UK, see Geoffrey Jones (1999).
- ¹⁶ Richard Whittington and Michael Mayer (2000).
- ¹⁷ Louis Galambos (2003, p. 18; 2014).
- ¹⁸ Michael Piore and Charles Sabel (1984). Of course some historians also detected Chandlerian neglect of earlier developments: Sabel and Jonathan Zeitlin (1985); Philip Scranton (1990); Gary Herrigel (1996).
- ¹⁹ Hannah (2011); O’Sullivan (forthcoming). This is not to say there was no positive influence from investment bankers. Hannah (2011) praises Morgan for requiring his companies to publish accounts (for industrial companies this was more of an innovation in the US than Europe); and Eric Hilt and Carola Frydman (2014) show that investment bankers

added value when underwriting railway bonds, avoiding the sampling and other errors of De Long’s treatment.

²⁰ Even scholars who have documented the high level of divorce of ownership and control in Victorian companies accept that many partnerships being converted to quoted corporate status in the 1890s had what Chandler called “personal management” (Graeme G. Acheson, Gareth Campbell, John Turner and Nadia Vanteeva, forthcoming). Chandler’s problem was not observing some cases in which that happened, but describing Germany and the US as different (Foreman-Peck and Hannah, 2014).

²¹ Keith Thomas, 1971, p. 641.

²² His Ph.D. students’ findings are summarized and extended in Whittington and Mayer, 2000, pp. 168-178.

²³ As people like Barry Supple (1992) and Lance Davis (see Davis and Robert Gallman, 2001)—contemporaries who had shared Chandler’s intellectual formation in the Harvard of the 1950s—demonstrated in books that were less single-minded, and more subtle, but less popular, though they have stood the test of time better than Chandler’s *Scale and Scope*.

²⁴ As is now frankly recognized even by some of the sturdiest—critical and uncompromised—exponents of the Chandlerian model, for example Whittington and Mayer, 2000, pp. 220-221.

²⁵ Richard Sylla (2006) has rightly pointed out that they misleadingly compared stocks and bonds on London with stocks only in the US. However they also missed out many quoted British and American companies, and the large British lead survives both corrections, whether for stocks and bonds as a ratio to GDP, or for stocks only.

²⁶ David Jeremy (1998, p. 186). We are now learning a lot more about this process, see, especially, Julia Ott (2011) and Janice Traflet (2013). Some studies, notably Hilt (forthcoming) report “high” levels of divorce of ownership from control in the US earlier in the 19th century. He shows that the 31 Massachusetts manufacturing corporations (mainly textile companies) of 1875 that were listed on the Boston Stock Exchange (then America’s largest for industrials) had an average

of only 10 percent director ownership and as many as 267 shareholders, but notes how exceptional they were among manufacturing corporations. In a slightly smaller UK economy, Acheson et al. (forthcoming) report more listed manufacturers with dispersed shareholdings, *without* counting the many provincially traded Lancashire textile companies—beating the Lowell mills (which dominated Boston listings) in global competition—with 85 percent working class shareholdings, documented in Peter Hampson (2014).

²⁷ See also Richard John (2008).

²⁸ For a striking example, see Hannah (2006).

²⁹ Nick Bloom, Raffaella Sadun and John Van Reenen (2007). Of course, Germany is now substantially bigger than the UK (as, given its larger population, it would have been earlier without its foolish mistakes of 1914 and 1939), but today unified Germany's living standards are about the same as Britain's.

³⁰ Nicholas Crafts (2012); Crafts and Terence Mills (2005).

³¹ See Paul Johnson (2010), and Foreman-Peck and Hannah (forthcoming) for some of the possible problems of excessive corporatization.

³² Private companies from 1907 were legally distinguished from public companies in the UK (and soon after in many colonies which continued the usage when independent), as having no more than 50 shareholders, not issuing securities to the public and not required to publish balance sheets. The Securities and Exchange Commission from 1934 distinguished US companies with less than 500 stockholders for regulatory purposes, but there was no legal definition of the term “close corporation” and early in the 20th century it was sometimes applied to quoted companies with dominant family holdings, such as Singer or Standard Oil, which could not have been termed private companies elsewhere.

³³ Hannah (forthcoming in *Economic History Review*).

³⁴ Even if we count the many thousands of tiny US banks with restricted local markets for their stocks, which had no counterpart in most other countries whose more developed national branch banks were few but

large and quoted on their national exchange (at a time when hardly any US banks appeared on the NYSE).

- ³⁵ Timothy Guinnane, Ron Harris, Naomi Lamoreaux and Jean-Laurent Rosenthal (2007; 2008). For similar concerns, see Hilt (forthcoming).
- ³⁶ Colin Mayer, Marco Becht, and Hannes Wagner (2005).
- ³⁷ A.B. Levy, 1950, p. 145; Tetsuji Okazaki, 1999, p. 107. For examples, of rarer US equivalents, see William Devoe, 1928, pp. 341-342; deferred or founder’s shares were occasionally also used in the UK to reward promoters/managers/directors.
- ³⁸ In Japan, though in Germany the proportion fell after an 1884 reform from four to two percent (Christian Bayer and Carsten Burhop, 2009).
- ³⁹ Proper analysis of this issue would require much more diligent research in corporate archives, especially in the Anglosphere.

WORKS CITED

- Acheson, Graeme G., Gareth Campbell, John D. Turner, and Nadia Vanteeva. “Corporate Ownership and Control in Victorian Britain.” *Economic History Review* (forthcoming).
- “A Chat with the Dean of American Business History.” *Financial World*. June 25, 1991, 40-42.
- “Undercover on a Segway: Tourists Beware.” *The Economist*. May 10, 2014, 44.
- Bayer, Christian, and Carsten Burhop. “Corporate Governance and Incentive Contracts: Historical Evidence from a Legal Reform.” *Explorations in Economic History* 46 (2009): 464-481.
- Bloom, Nick, Raffaella Sadun, and John Van Reenen. “Americans do I.T. Better: US Multinationals and the Productivity Miracle,” CEP Discussion Paper 788 (2007) at www.cep.lse.ac.uk/pubs/download/dp0788.pdf.
- Burk, Kathleen. *Old World, New World: The Story of Britain and America*. London: Little, Brown, 2007.
- Carr, Chris, and Andrew Lorenz. “Robust Strategies: Lessons from GKN, 1759-2013.” *Business History* 56 (2014): 1169-1195.
- Chandler, Alfred D. Jr. *Scale and Scope: The Dynamics of Industrial Capitalism*. Cambridge, MA: Harvard University Press, 1990.

- Crafts, Nicholas F.R. "British Relative Economic Decline Reconsidered: The Role of Competition." *Explorations in Economic History* 49 (2012): 17-29.
- Crafts, Nicholas F.R., and Terence C. Mills. "TFP Growth in British and German Manufacturing, 1950-1996." *Economic Journal* 115 (2005): 649-670.
- Davis, Lance and Robert E Gallman. *Evolving Financial Markets and International Capital Flows*. Cambridge: Cambridge University Press, 2001.
- De Long, J. Bradford. "Did J.P. Morgan's Men Add Value? An Economist's Perspective on Financial Capitalism." In *Inside the Business Enterprise: Historical Perspectives on the Use of Information*, edited by Peter Temin, 205-236. Chicago: University of Chicago Press, 1991.
- Devoe, William B. *Where and How: A Corporate Handbook*. New York: Broun-Green, 1928.
- Ely, Richard T. "The Foundation and Early History of the American Economic Association," *American Economic Review* 6 (1936): 141-50.
- Farnie, Douglas A. "Platt Bros. & Co. Ltd. of Oldham, Machine-Makers to Lancashire and to the World: An Index of Production of Cotton Spinning Spindles, 1880-1914." *Business History* 23 (1981): 84-86.
- Ferguson, Niall. *Empire*. New York: Basic Books, 2003.
- Foreman-Peck, James, and Leslie Hannah. "Extreme Divorce: The Managerial Revolution in UK Companies before 1914." *Economic History Review* 65 (2012): 1207-1238.
- Foreman-Peck, James, and Leslie Hannah. "Ownership Dispersion and Listing Rules in Companies Large and Small: A Reply." *Business History* (2014): 509-516.
- Foreman-Peck, James, and Leslie Hannah. "The Diffusion and Impact of the Corporation in 1910." *Economic History Review* (forthcoming).
- Galambos, Louis. "Identity and the Boundaries of Business History: An Essay on Consensus and Creativity." In *Business History around the World*, edited by Geoffrey Jones and Franco Amatori, 11-30. Cambridge: Cambridge University Press, 2003.
- Galambos, Louis. "Is this a Decisive Moment for the History of Business, Economic History and the History of Capitalism?" *Essays in Economic and Business History* 32 (2014): 1-18.

The “Anglo-American” Corporate Model

- Goldin, Claudia, and Lawrence Katz. *The Race between Education and Technology*. Cambridge, MA: Belknap Harvard University Press, 2008.
- Gerschenkron, Alexander. *Economic Backwardness in Historical Perspective*. Cambridge, MA: Belknap Press of Harvard University Press, 1962.
- Guinnane, Timothy W., Ron Harris, Naomi Lamoreaux, and Jean-Laurent Rosenthal. “Putting the Corporation in its Place.” *Enterprise and Society* 8 (2007): 687-729.
- Guinnane, Timothy W., Ron Harris, Naomi Lamoreaux, and Jean-Laurent Rosenthal. “Pouvoir et propriété dans l’entreprise: pour une histoire internationale des sociétés à responsabilité limitée.” *Annales* 63 (2008): 73-110.
- Hall, Peter A and David Soskice. *Varieties of Capitalism*. Oxford: Oxford University Press, 2001.
- Hampson, Peter. “Working-Class Share Dealing in 1850s Lancashire. A New Source of Industrial Finance?” Paper at 39th Annual Economic and Business History Society Conference, 2014.
- Hancké, Bob. *Debating Varieties of Capitalism: A Reader*. Oxford: Oxford University Press, 2009.
- Hannah, Leslie. “The Whig Fable of American Tobacco 1895-1913.” *Journal of Economic History* 66 (2006): 42-73.
- Hannah, Leslie. “Strategic Games, Scale and Efficiency, or Chandler goes to Hollywood.” In *Business in Britain in the Twentieth Century*, edited by Richard Coopey and Peter Lyth, 15-47. Oxford: Oxford University Press, 2009.
- Hannah, Leslie. “J.P. Morgan in London and New York before 1914.” *Business History Review* 85 (2011): 113-150.
- Hannah, Leslie. “Corporations in the US and Europe 1790-1860.” *Business History* 56 (2014): 865-899.
- Hannah, Leslie. “A Global Corporate Census: Publicly Traded and Close Companies in 1910.” *Economic History Review* (forthcoming).
- Herrigel, Gary. *Industrial Constructions: the Sources of German Industrial Power*. Cambridge: Cambridge University Press, 1996.
- Hilt, Eric. “Corporate Governance and the Development of Manufacturing Enterprises in Nineteenth-Century Massachusetts.” In *Enterprising America: Businesses, Banks and Credit Markets in Historical Perspective*, edited by William J. Collins, and Robert A. Margo. Chicago: University of Chicago, forthcoming.

- Hilt, Eric, and Carola Frydman. "Investment Banks as Corporate Monitors in the Early 20th Century United States", NBER Working Paper 20544 (2014).
- Jeremy, David J. *A Business History of Britain, 1900-1990s*. Oxford: Oxford University Press, 1998.
- John, Richard. "Turner, Beard and Chandler: Progressive Historians." *Business History Review* 82 (2008): 227-240.
- Johnson, Paul. *Making the Market: Victorian Origins of Corporate Capitalism*. Cambridge: Cambridge University Press, 2010.
- Jones, Geoffrey. "Great Britain." In *Big Business and the Wealth of Nations*, edited by Alfred D. Chandler Jr., Franco Amatori and Takashi Hikino, 102-138. Cambridge: Cambridge University Press, 1999.
- Kuhn, Thomas S. *The Structure of Scientific Revolutions*. Chicago: University of Chicago Press, 1962.
- Lamoreaux, Naomi, Daniel M.G. Raff, and Peter Temin. "Against Whig History." *Enterprise and Society* 5 (2004): 376-387.
- Levy, A.B. *Private Companies and their Control*. Volume 1. London: Routledge, 1950.
- Lindert, Peter H., and Jeffrey G. Williamson. "American Incomes 1774-1860." NBER Working Paper 18396, 2012.
- Maddison, Angus. *The World Economy*. Paris: OECD, 2006.
- Mayer, Colin. *Firm Commitment: Why the Corporation is Failing Us and How to Restore Trust in It*. Oxford: Oxford University Press, 2013.
- Mayer, Colin, Marco Becht, and Hannes F. Wagner. "Corporate Mobility Comes to Europe: The Evidence." CEPR Discussion Paper, 2005.
- Morck, Randall K. (ed.). *A History of Corporate Governance around the World: Family Business Groups to Professional Managers*. Chicago: University of Chicago Press, 2005.
- Musacchio, Aldo, and John D. Turner. "Does the Law and Finance Hypothesis Pass the Test of History?" *Business History* 55 (2013): 524-542.
- Okazaki, Tetsuji. "Corporate Governance." In *The Japanese Economic System and its Historical Origins*, edited by Tetsuji Okazaki and Masahiro Okuno-Fujiwara, 97-144. Oxford: Oxford University Press, 1999.
- O'Sullivan, Mary. "What Opportunity is Knocking? Regulating Corporate Governance in the United States." In *Governments and*

- Markets: Toward a New Theory of Regulation*, edited by Edward J. Balleisen and David A. Moss, 335-362. Cambridge: Cambridge University Press, 2010.
- O’Sullivan, Mary. “Yankee Doodle went to London: Anglo-American Breweries and the London Securities Market, 1888-1892.” *Economic History Review* (forthcoming).
- Ott, Julia C. *When Wall Street Met Main Street: The Quest for an Investors’ Democracy*. Cambridge, MA: Harvard University Press, 2011.
- Piore, Michael, and Charles F. Sabel. *The Second Industrial Divide: Possibilities for Prosperity*. New York: Basic Books, 1984.
- Rajan, Raghuram G., and Luigi Zingales. “The Great Reversals: The Politics of Financial Development in the Twentieth Century.” *Journal of Financial Economics* 69 (2003): 5-50.
- Sabel, Charles F., and Jonathan Zeitlin. “Historical Alternatives to Mass Production: Politics, Markets and Technology in Nineteenth Century Industrialization.” *Past and Present* 108 (1985): 133-176.
- Scranton, Philip. *Endless Novelty: Specialty Production and American Industrialization 1865-1925*. Princeton, NJ: Princeton University Press, 1990.
- Stossel, John. “I Tried to Open a Lemonade Stand.” *Townhall*, February 24, 2012.
- Supple, Barry, ed. *The Rise of Big Business*. Aldershot: Elgar, 1992.
- Sylla, Richard. “Schumpeter Redux: A Review of Raghuram G. Rajan and Luigi Zingales’s *Saving Capitalism from the Capitalists*.” *Journal of Economic Literature* 44 (2006): 391-404.
- Sylla, Richard, and Robert E. Wright. “Corporate Formation in the Antebellum United States in Comparative Context.” *Business History* 55 (2013): 653-669.
- Thomas, Keith V. *Religion and the Decline of Magic*. London: Weidenfeld & Nicolson, 1971.
- Trafflet, Janice M. *A Nation of Small Shareholders: Marketing Wall Street after World War II*. Baltimore: Johns Hopkins Press, 2013.
- “Undercover on a Segway: Tourists Beware.” *The Economist*. May 10, 2014, 44.
- Whitaker’s Red Book of Commerce 1913*.
- Whittington, Richard, and Michael Mayer. *The European Corporation: Strategy, Structure and Social Science*. Oxford: Oxford University Press, 2000.

Wright, Robert E. *Corporation Nation*. Philadelphia: University of Pennsylvania Press, 2014.

Yonekawa, Shin-ichi. "The Growth of Cotton Spinning Firms: a Comparative Study." In *The Textile Industry and its Business Climate*, edited by Shin-ichi Yonekawa and Akio Okochi, 1-44. Tokyo: University of Tokyo Press, 1982.