Review: [Untitled]

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Socializing Capital: The Rise of the Large Industrial Corporation in America by William G. Roy

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Work, Organizations, and Markets

Socializing Capital: The Rise of the Large Industrial Corporation in America, by **William G. Roy.** Princeton, NJ: Princeton University Press, 1997. 338 pp. $35.00 cloth. ISBN: 0-691-04108-5.

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William Roy's *Socializing Capital* addresses the question Adolph Berle and Gardiner Means tackled in 1932: Why corporations? Why, in particular, has modern industry been organized under large-scale publicly owned corporations rather than small private enterprises? Berle and Means's answer was simple and functional: Corporations are more efficient. Alfred Chandler and most other analysts since Berle and Means have produced variations on this theme. Roy's answer is complex and historical: Corporations arose through historical happenstance and as a consequence of the exercise of power.

Roy's historical story challenges the taken-for-granted status of the modern corporation—the idea that its provenance is natural. The modern corporation originated in politics, Roy argues, and it evolved in three distinct phases. First, in the early 1800s state governments gave public-purpose corporate charters to transport and banking enterprises. In return for providing public facilities, these corporations were granted such legal incentives as eminent domain and exemption from legal liability. Second, in the middle decades of the nineteenth century the public-purpose corporation evolved into the private-purpose corporation, as railroads cut their connections to state governments but retained the corporate form. By the 1870s, the private shareholder corporation was common in those sectors first organized through public-purpose corporations. General laws of incorporation were passed by states, facilitating incorporation for private purposes, and an elaborate system arose (colloquially known as Wall Street) to finance corporations. Third, at the turn of the century manufacturing enterprises were merged together to form purely private corporations in industries with no history of public purpose.

Why did this occur? Roy begins by attacking the foundations of efficiency theory. In the book's sole quantitative chapter, Roy shows that manufacturing corporations did *not* appear first in those industries where efficiency theory suggests they should have.

To explain the rise of the corporation, Roy develops a path-dependent model of change in which early institutional choices determine which paths are available in the future. What is most novel and exciting about Roy's approach is his use of a structural theory of power to describe how paths are chosen. Roy defines power as the capacity to shape the alternatives that others choose from. He shows that at key points in time, powerful actors left entrepreneurs with little choice but to take a particular path. Thus, in explaining why small manufacturers chose to merge in great numbers in the early years of the twentieth century, Roy shows that government officials, financiers, and large industrialists left manufacturers with only two options: Merge, or compete with firms that were selling below cost. Manufacturers merged not because they anticipated efficiency gains, but because antitrust law, the availability of finance capital, and the predatory pricing practices of large firms conspired to leave them little choice.

Roy's subtle and sophisticated view of power as the capacity to structure the decisions of others fills an important lacuna in neoinstitutional theory. With the notable exception of Neil Fligstein's *The Transformation of Corporate Control* (Harvard 1990), neoinstitutionalists have neglected the role of power in shaping institutional development. Roy successfully brings power back in, not simply by asserting that actors use power over others but by showing that structural power shapes apparently "rational" decision-making processes. In the case of the small manufacturers who merged at the beginning of the twentieth century, it was "rational" to merge, but only because powerful actors had made it so. Roy finds the power of two groups particularly important: the state and those who control capital. The state, for instance, used its power to promote rail development by issuing bonds that drew entrepreneurs to railroading. Financiers, for instance, used their power to create huge manufacturing

enterprises by deciding to finance manufacturing mergers at the turn of the century. By determining the alternatives individuals choose from, powerful actors shape history.

Socializing Capital is a shining example of the "new economic sociology." Roy's question is bold, because it challenges the economic orthodoxy that the modern corporation arose because of its efficiency. His answer is creative, because it weaves together insights from power and institutional perspectives to revise the history of the modern corporation. William Roy's new book provides an alternative explanation of the modern corporation that will force scholars in political economy, economics, and economic sociology to rethink much of what they have long taken for granted.

Power Plays: Critical Events in the Institutionalization of the Tennessee Valley Authority, by **Richard A. Colignon.** Albany: State University of New York Press, 1997. 367 pp. NPL cloth. ISBN: 0-7914-3011-1. NPL paper. ISBN: 0-7914-3012-X.

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Although the Tennessee Valley Authority (TVA) was an integral part of the New Deal, positioned at the interface of state and economy, there has been relatively little sociological research on its creation and subsequent history. Colignon offers a new analysis of the origin and institutionalization of an organization that has been part of American political economy for over six decades. He argues that Philip Selznick's classic statement of organizational theory, *TVA and the Grass Roots* (1949), as well as the work of neoinstitutional scholars, presents an evolutionary view of how organizations arise and become institutionalized. Their work takes the organization as given, placing human agency and societal context outside the model.

Colignon uses the narrative method of historical analysis to argue that the TVA's origin and institutionalization were the contingent outcome of political and ideological conflict. He places the TVA's origin within the political and economic context of the New Deal, showing that debates about the TVA Act were set within two conflicting public interest ideologies. The first was that of social planners, who advocated centralized economic planning and a strong state. The other was promoted by antimonopolists, for whom business was the enemy; they argued for decentralization, competition, and a weak state. One of the book's strengths is to connect these ideologies to specific institutions and individuals: The social planners' base was Columbia University, and many antimonopolists had attended the Harvard Law School and studied under Felix Frankfurter. Even after bitter debate in Congress, the 1933 TVA Act was not ultimately set within either of these ideological camps. It was ambiguous, its future direction and structure the outcome of contingent conflict.

The book's principal focus is on the TVA's institutionalization. Rather than the "smooth seamless adaptations of seemingly peopleless organizations" (p. 125), as in Selznick's analysis, Colignon shows how interests, agency, and conflict are an inherent route to institutionalization. The initial members of TVA's board of directors fought bitterly over the agency's goals. In particular, Arthur Morgan and David Lilienthal vied for control of TVA's direction. Morgan, a social planner, wanted to use the TVA's authority to develop the natural resources of the Tennessee River basin for the social and economic welfare of the nation. Lilienthal, an antimonopolist, actively pursued development of electric power for the region and engaged in bitter fight with Wendell Willkie, president of the Commonwealth and Southern (C&S) electrical company, over who would deliver this power and at what rates.

Colignon shows how the ambiguity of the TVA legislation regarding the goals and structure of the organization opened alternative paths to institutionalization. Lilienthal was ultimately victorious over Morgan, who was removed from the Board by President Roosevelt, and also over Willkie, when TVA purchased the C&S. The outcome was not preordained, but the contingent result of conflict. Lilienthal was an astute political player and part of a strong institutional network with powerful Congressional allies. He also benefited from changing economic conditions and favorable Supreme Court