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Theories of Big Business in American Society

César J. Ayala

ABSTRACT: This paper examines the Robber Baron, Managerial, and Bank Sphere approaches to the structure of Big Business in the United States. The Robber Baron school argues that Big Business represents a historical regression which feudalized the economy; the Managerial school has several variants, all of which argue that managers rule the economy; the Bank Sphere school argues that banks rule the economy.

This paper attempts to describe, analyze, and classify some of the literature concerned with the problem of Big Business in the United States. The word "Big Business" is used generically here to refer to the modern, large-scale, corporate structure of the U.S. economy. Under this term I include three schools of thought. These I call the Robber Baron school, the Managerial school, and the Bank-Spheres school. The Robber Baron school is committed to the idea that Big Business represents a historical regression which reintroduced "feudal" elements into the economy; the Managerial school is committed to the idea that managers "rule" the economy; and the Bank-Spheres school is committed to the idea that banks "rule" the economy.[1]

The Robber Barons

The process of economic concentration that took place in the United States at the end of the nineteenth century brought forth many attempts to explain the new social structure. Matthew Josephson's *The Robber Barons* was not the first work written on the topic. However, it is significant in that, as the title attests, it tries to explain a new rising phenomenon in terms that evoke a return to the past, a return to conditions which had already been overcome; that is, fundamentally as a historical regression. Josephson's chronicle of the North American

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"captains of industry" of the period 1861-1901 is organized around a concept which typifies a feudal, rather than a capitalist, society: the baron. The idea of the "baron" represents that which American capitalism was *not* supposed to be, precisely that which triumphant capitalism had earlier eliminated in order to move forward. The implication was that capitalism was being "perverted." Progress was being reversed.

This idea was neither new nor uncommon. Thorstein Veblen, analyzing the phenomenon of imperialism after the "Great War," brought forth the image of the "feudality" of the new phenomenon. "Imperialism is dynastic politics under a new name, carried on for the benefit of absentee owners instead of absentee princes; but so far as it regards its bearing on the material fortunes of the underlying community it all comes to the same thing" (Veblen, 1945:35). Joseph Schumpeter takes a similar stand when he refers to imperialism's "atavistic" nature and attempts to explain it in terms of the survival of the power of feudal-landlord classes in Europe.[2] One finds a similar argument in Myers' (1909) account of the development of the greatest capitalist fortunes of the late nineteenth and early twentieth centuries. Lundberg (1937:7) also commented on the concentration of economic resources in the United States:

> The United States has produced, in the Standard Oil Company, the Aluminum Company of America, E.I. Du Pont de Nemours and Company, the Ford Motor Company, and other industrial enterprises, what are essentially feudal, dictatorially ruled, dynastic fiefs that make the old common properties of Romanovs, Hohenzollerns, Hapsburgs, and Hanovers seem, by comparison, like will-o'-the-wisp, insecure, and insubstantial.

This concern with the feudal image is something more than political rhetoric. Since the publication of Gustavus Myers' *History of the Great American Fortunes*, many analysts have touched upon the problem of the "feudality" inherent in economic concentration. The concept of "feudality" is useful in understanding the underlying premises of these analysts because it reveals what, in their views, capitalism *ought not* be. There is in the literature a concern about the rapid pace of expropriation through extra-economic coercion in the last decades of the nineteenth century. This rapid expropriation is seen as an illegitimate process which violates the laws of the market; its extra-economic aspects, in turn, invoke the "feudality" of the process since extra-economic coercion is typical of pre-capitalist formations, but supposedly not typical of capitalist ones. Myers (1909:v), for example, analyzes the "utter despoilment of the many for the benefit of a few" and the "accelerated concentration of immense wealth running side by side with a propertyless, expropriated, and exploited multitude" in relation to the violent, dishonest, and fraudulent methods of "the very rich."

Because the Robber Baron school has documented in such detail the personifications of the social forces it studies, even describing the psychological traits of the great capitalists, these researchers have opened themselves to the charge that they are studying individual and not social phenomena. But from the very beginning, this school has emphasized its social focus.[3] Their emphasis is on processes outside the marketplace, outside the sphere of circulation, which account for the lopsided distribution of property in the United States. This emphasis has generated a great deal of controversy about the significance of violence and fraudulence in the emergence of the concentrated economic structure of the twentieth century.

One point of controversy is on the historical role of these captains of industry. The so-called "revisionist" historians[4] have attempted to rewrite the early critical histories of the rise of Big Business in a "less one-sided" fashion, arguing that there were indeed "progressive" aspects to the rise of Big Business. The arguments, as a consequence, pivot about the terms "Robber Baron" and "Industrial Statesman," where the former concept represents a harsh critique of the captains of industry and the latter an apologetic school of thought. The typical revisionist argument about the Robber Baron school usually runs like this:

> In an emotional, romanticized way, this concept sums up the business activities of Jay Gould and his kind and expresses the predatory side of the careers of many other business leaders of the post-Civil War era. But it grants insufficient recognition to the creative aspects of such careers or to business leaders of habitually high moral standards (Bridges, 1958).[5]

Historians who do not necessarily sympathize with the Robber Baron school have found the analysis of the revisionist historians erring in the exact opposite direction. "In the same way that Ida Tarbell assumes that because competition was both strong and virile its disappearance can be explained only by illegality, so the business historians are forced to deny any substantive role to underhanded or unfair competitive actions" (Chalmers, 1960). Kolko (1959) argued that the Robber Baron school and the revisionist historians share many fundamental premises about the inevitability of the rise of Big Business which are at least open to debate. The historians, Kolko argues, have failed to consider that, whatever the character of the captains of industry (whether Robber Barons or Industrial Statesmen), the direction of the process of concentration and its inevitability need to be explained and that this explanation requires visualizing historical alternatives that neither school has considered. However, while it may be true that visualizing alternatives is a useful tool in any historical endeavor, it is also true that the premise shared by the Robber Baron school and by the Revisionists, i.e., the inevitability of economic concentration, rests on rather solid and incontrovertible

ground: "size and market power are almost surely irreversible developments" (Herman, 1981:3).

The unprecedented use of economic violence and fraudulence in the late nineteenth century require an explanation. The Robber Baron school has provided an explanation of several aspects of the transition from competitive to monopoly capitalism. First and foremost, it has demonstrated that the Robber Barons represent an *intermediate* stage in the transition from the family-owned enterprise of the nineteenth century to the corporation of the twentieth. This transitional stage was characterized by a firm whose size approached the twentieth century corporation but whose ownership and management structure were still anchored in the nineteenth century family structure.

The central idea of the Robber Baron school concerns the role of extra-economic means in capitalist accumulation in the United States in the period of transition to monopoly capitalism. The peculiarities of American capitalism impressed on the period a violence typical of the origins of capitalism, and typical of the process of original accumulation in the sense Marx used the term. The development of capitalism requires an initial, anterior development of certain conditions that permit the development of the wage labor-capital relation. This process of "original accumulation" is on the one hand a process of despoilment of the direct producer, that is, a separation of the producer from the conditions of realization of his labor and therefore a separation from his means of subsistence. On the other hand, it is a process of concentration of the conditions of realization of labor in the hands of the capitalist. This process is logically anterior to the process of capitalist accumulation. But it is also historically concurrent with the latter because it does not happen all at once. Marx pointed out that "original accumulation," which lays out the basic conditions for the development of capitalism, occurs in several ways, which are characterized by *varying* degrees of violence over the direct producers.

The process of "competitive expropriation" that gives rise to the epoch of monopoly capitalism is also characterized by *varying* degrees of violence. It is analogous to the process of primitive accumulation in that, for capitalist accumulation to proceed in the epoch of monopoly capitalism, the conditions for monopolistic accumulation have to be created. Monopolistic accumulation requires a high concentration and centralization of capital in at least several important branches of industry. This concentration presupposes, in turn, the expropriation of the smaller capitals and their permanent removal from the market. These conditions were *partially* created in the marketplace, that is, according to the rules of price competition prevailing in the nineteenth century. However, the conditions necessary for monopolistic accumulation can also be created through extra-economic means. The Robber Baron school has argued that the U.S. transition from competitive to monopoly capitalism was

characterized by an extreme amount of extra-economic means of accumulation.

The process of primitive accumulation is linked at the origins of the capitalist mode of production with a systematic utilization of violence that creates the conditions for capitalist accumulation. At the center of this process lies the concentrated social force of the state.[6] But once the process of capitalist accumulation is under way, it tends to reproduce itself through economic means and to expand itself through the ruin of the small producers: "this expropriation is accomplished through the action of the immanent laws of capitalist production itself" (Marx, 1977:929). These "peaceful" roads of original accumulation are not the only mechanisms of expropriation; they are combined with extra-economic mechanisms that have nothing to do with economic differentiation arising from the operations of the market.

In the United States, the late nineteenth century was characterized by economic differentiation in agriculture (Faulkner, 1953:355-358), by huge state grants of land to the railroads in the process of westward expansion and at the same time by state land grants to independent farmers. The Robber Baron school noticed the *disparity* of the land grants received by the railroads and the land grants received by the farmers, a disparity which still awes analysts of the problem. "By 1900, 183 million acres had been given to the railroads, compared to the smaller figure of 80 million acres sold to the better known 600,000 pioneering farmers" (Feagin, 1983:58).[7] On the one hand, these different processes combined with the rapid increase of population due to immigration and propelled the rise of economic concentration and the absolute number of wage earners. On the other hand they also increased the absolute number of independent petty commodity producers in agriculture.[8] The process of westward expansion—whether for distribution in homesteads or to the railroads—was a "crusade of expropriation" against the native American population (Drinnon, 1980; Novack, 1976:23-59).

Thus, the extension of the frontier up to its "closure" in 1893 (Turner, 1921), the violent character of the entire process, and its association with the development of the large fortunes of the great capitalists, imprinted on the period of transition to monopoly capitalism features which in theory are only associated with the *original* accumulation of capital. The emphasis of the Robber Baron school on the utilization of extra-economic means by the great capitalists of the post-Civil war period is rooted in the concrete historical development of American capitalism. Although in theory "once capital stands on its own legs" it does not necessitate the kind of violence required by the process of original accumulation, in concrete historical contexts extra-economic means may play a large or dominant role in the self-expansion of capital. In fact, Novack (1976:23) characterizes the development of American capitalism as a "*series* of violent struggles against pre-capitalist social forces." While

one reason for the Robber Baron school's emphasis on violence arose from the frontier aspects of U.S. capitalism, another reason arose from the process of expropriation of competing producers. This becomes, as capitalism progresses, a process of expropriation of the expropriators. "What is now to be expropriated is not the self-employed worker, but the capitalist who employs a large number of workers. ... One capitalist always strikes down many others" (Marx, 1977:928). The process of "competitive expropriation" was not limited to the marketplace or to "peaceful" means. It included the extensive use of extra-economic means.

Capitalist concentration and centralization steadily decreased the number of producers and increased the market share of the firms. But, far from representing a smooth uninterrupted transition to oligopolistic or monopolistic competition, the process of competitive expropriation experienced critical moments and can be characterized as growing by "leaps" rather than continuously. Once firms achieved a certain size, the continuation of competition according to the old rules (based on the existence of a multiplicity of capitals, each with a small share of the market) suddenly became extremely irrational. "Industrial concentration and combination produced measurable stabilization, but then arose the problem of stabilization *among* the combinations whose unrestrained competition was more disastrous than among petty enterprises" (Corey, 1930:136).

The emergence of the corporate form of organization and the consequent separation of ownership from management created a class of non-managing investors, who functioned fundamentally as rentiers receiving incomes on their securities. In the transition to the corporate form of organization, managing investors behaved primarily as nineteenth century entrepreneurs, i.e., in pursuit of their personal enrichment even at the expense of the corporation in a situation where few institutional checks existed to protect the interests of non-managing investors. This explains the rise of "buccaneering" and the extensive utilization of insider knowledge for speculation on securities at the expense of non-managing investors. The plundering of corporation treasuries and small investors has been a primary concern of the Robber Baron school. The maladjustment between firm size and the persistence of the old competitive rules on the one hand, and between the new corporate managers' entrepreneurial behavior in administering of corporate enterprises and the supra-individual requirements of corporate administration on the other, produced a situation of "savage economic civil war" (Corey, 1930:138). This is nowhere more evident than in the case of the railroads, where, for example, the struggle for control of the Albany and Susquehanna Railroad (between Jim Fisk and Jay Gould on the one hand and Joseph H. Ramsey and J. Pierpont Morgan on the other) resulted in an extended armed struggle for physical control of the railroad properties (Corey, 1930:99).

The rise of concentration and of the separation of ownership from management, however, produced rationalizing counter-tendencies. The same concentration that initially produced "savage economic civil war" now allowed a measure of stability to emerge through financially coordinated systems of "community of interest," that is, though monopolistic arrangements—formal and informal—coordinated *by banking capital*. The same separation of ownership and control that originally permitted "buccaneers" to plunder corporations and small investors now allowed finance to intervene and usurp control. The rise of the market for industrial securities was linked to the flotation of railroad securities (Navin and Sears, 1955). The period of economic civil war of the Robber Baron epoch was superseded and to a certain degree resolved, under general outcries from businessmen for "stabilization," by the rise of the investment bankers, by the financially dominated reorganizations of industry, and by the merger movement of the turn of the century (Nelson, 1956; Kolko, 1963:17-25).

Josephson acknowledged the transitional aspect of the Robber Baron phenomenon in his periodization (1861-1901). The latter date marked the high point of the merger movement with the formation of the first billion dollar company in the world, the United States Steel Corporation, which was promoted by the House of Morgan. The date marks, for analysts in this tradition, the decline of the Robber Barons and the ascendancy of the financial capitalists.

To summarize, the Robber Baron school of thought offers specific studies of the formations of the large fortunes at the end of the nineteenth century, rather than a general theory of American capitalism in all periods. Its applicability and usefulness are limited to this time period. The central concern of these analysts is the violence and fraudulence of the processes of accumulation under conditions of frontier expansion on the one hand and of adjustment to a new economic reality brought about by the concentration and centralization of capital on the other. Both of these aspects disappeared as the frontier was closed and as capital shed its competitive nineteenth century forms in the process of transition to its modern corporate structure.

The Managerial Thesis: the Breakdown of Entrepreneurial Functions

The managerial thesis springs from the study of the division of two attributes of private property, the latter understood in the classical sense in which Adam Smith referred to it. The concept of private property includes the right to enjoy the returns obtained from its profitable utilization, and the right to steer the use of the property toward profitable ends. Understood in the Smithian sense, "classical" private property is characterized by the *unity* of these two functions. Before the generalization of the modern joint stock company, the typical capitalist enterprise was

usually owned and managed by the same interest. The concept of private property in such a context necessarily implied the unity of the two functions of management and ownership. Classical political economy questioned the social utility of enterprises in which the two functions were separated. Corporations implied the separation of management from ownership, which in turn signified a lopsided relation between rights and responsibilities, between individual effort and monetary remuneration. The separation of the two functions, moreover, was considered as socially inefficient.

> The directors of such companies, being the managers rather of other people's money than of their own, it cannot be well expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master's honor, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company (Smith, 1976, Book 2:264-265).

The appearance of the joint stock company and the consequent separation of the functions of ownership and management, or alternatively, of ownership and control, produced two distinct and contradictory approaches to the problem. One approach basically overlooked the separation of management from ownership and tended to ground economic theory on the "classical" concept of private property, where the ideal enterprise is the single-unit firm in which management and ownership are integrated. According to Chandler (1977:4), this approach has considered the modern business enterprise an "aberration."

> [M]uch basic economic theory is still grounded on the assumption that the processes of production and distribution are managed, or at least should be managed, by small traditional enterprises regulated by the invisible hand of the market. According to such theory, perfect competition can only exist between such single-unit enterprises, and such competition remains the most efficient way to coordinate economic activities and allocate economic resources. The modern, multi-unit enterprise, by its very act of administrative coordination, brings imperfect competition and misallocation of resources.[9]

A second approach, beginning with the work of Adolf A. Berle and Gardiner C. Means, inquired about the extent to which the separation of management from ownership has dissolved the traditional concept of private property. "Whatever the answer, it is clear that in dealing with the modern corporation we are not dealing with the old type of private

property" (Berle and Means, 1932:347). Berle and Means' seminal study points out that capitalist development transformed the previous unity between ownership and management to the point where the coincidence of ownership and management in the large corporation became in the twentieth century the exception rather than the rule. The book traces the tortuous evolution of corporation law in its attempt to reconcile the new forms of ownership and management—now presumably separated from each other—with the older legal structures based on the unity of these two functions. It also attempts to measure the separation of ownership from management through a detailed study of control in the largest 200 non-financial corporations of the United States.

In addition to this impressive attempt to measure exactly what share of the large corporation had passed into management control, *The Modern Corporation and Private Property* features an analysis of the *social implications* of management control. In this respect Berle and Means posit three theoretical possibilities. In the first, management control may merely mean ownership's delegation of power to the managers. Managers thus become the representatives or the "trustees" of the owners, signifying a mere shift of personnel without significant changes of function (Berle and Means, 1932:354). In the second alternative, the rise of the managers allows them to plunder the corporation and the owners. Control thus becomes a means of redistributing material rewards from ownership towards management (Berle and Means, 1932:354). The third alternative posits a new social role for the corporation under management control. Divested from the constraints imposed by ownership, managers now serve society at large (Berle and Means, 1932:355-356). Of the three options, Berle and Means lean toward the third as the most probable outcome of the "managerial revolution."[10]

The theory of the managerial revolution has become one of the most, if not the most, influential interpretation of the nature of twentieth century "capitalism." In at least one respect—the notion that a division of labor has emerged which has separated functions which were all previously carried out by the unitary Smithian capitalist—the theory seems incontrovertible. For even in corporations where a dominating ownership interest manages directly, there is a difference of function between managing owners and non-managing stockholders, the former representing full owners and the latter only "partial" owners in the classical sense in which private property could be "owned." Yet there seems among managerial theorists to be no agreement, apart from the basic statement that the owner-manager is no longer the dominant figure, about the implications of the separation of the functions of *capital*.

In general terms, the different versions of the managerial thesis depart along lines determined by theoretical and methodological differences. Those theoreticians who take as a logical point of departure the capitalist firm, that is, social relations *inside* the enterprise, have tended to

conclude that a bureaucratic caste or a "technocracy" now rules in place of the capitalist class. This school begins its analysis *inside* the firm and extends it, by accretion as it were, to the economy as a whole. The point of departure is the separation of the functions of *capital*. Where one previously found the capitalist, one now finds a collective capitalist in the form of dispersed stockholders. In the place of management previously occupied by the owner, one now finds a social stratum whose functions and ascendancy—at least initially for some sectors of high level management—are not based on ownership.[11] Once it is established that the managerial stratum is not identical with ownership, theorists argue that the new "rulers" of the corporations function according to imperatives *other* than those imposed by private property and the profit motive. One variant of this argues, for example, that managers are "growth-" instead of "profit-oriented."

In this approach, corporate behavior is explained solely as a function of *internal* organizational structure. The environment in which the firm functions, dominated by the social division of labor and commodity production, is relegated to a secondary position. The method utilized to prove that a technocracy instead of a capitalist class now rules the economy is to start from the internal organization of the firm and extend the internal logic of enterprise-management beyond the confines of the firm. This leap from the firm into the market is problematical. Inside the firm, economic activity is planned. Outside the firm, in the marketplace, economic activity retains the anarchic aspects imposed by commodity production.[12] Even in the age of oligopolies, cartels, and price-fixing, the laws of competition impose constraints on the firm, even when these constraints are different from those of the "Golden Age of Competition." Firms can only *partially* shield themselves from the laws of competition; technocratic imperatives do not eliminate the compulsion to search for at least the average rate of profit.

The limitations of the managerial methodology can be grasped when contrasted to its opposite, which takes the social division of labor as its point of departure and descends from the market to the firm instead of ascending from the firm to the market. This descent from commodity production to the firm is as valid in the age of the corporation as it was in the age of the private capitalist. Firm "behavior" can best be understood in terms of the *systemic imperatives* under which the enterprise functions. The question becomes whether the managers today, as the capitalists yesterday, can escape the systemic imperatives of commodity production, in which social labor is social labor only indirectly, that is, under conditions in which social labor is fragmented into the private labor of enterprises competing, however "imperfectly," in the market. "The separation of ownership and control shows that the 'profit motive' is not a *motive* at all . . .; it is not a psychological state but a social condition" (Williams, 1959:184, quoted in Zeitlin 1974:1097).

There are thus two main points of contention in the managerial thesis. The first is whether the owners have been displaced by the managers. The second is whether or not the manager-controlled corporations behave differently from owner-controlled firms. According to these criteria, the managerial school has three main variants. The first argues that managers have wrested control of the corporation from owners, but that the systemic imperatives which operate on the firm force managers to behave substantially as owners. The most complete elaboration of this argument is by Edward Herman.[13] The second variant argues that management has displaced ownership and that managers are actuated by motives different from owners, without necessarily arguing that capitalism has been superseded. Capitalism has been transformed, through dispersion of stock, into a "people's capitalism" or else into a "new industrial state" along the lines suggested by Galbraith. This thesis is proposed by Berle and Means and their followers. The third variant argues that managers dominate the firm worldwide and that capitalism is being superseded by "managerial society," its finished form being the planned economies of the Soviet kind. The main theorist here is James Burnham (1941).

Berle and Means studied the types of "control" extant in American corporations in 1929 and found that 44 percent of the 200 largest non-financial corporations of the United States were under management control. In 1963 Robert J. Larner duplicated their study and found that management control had substantially increased to 85 percent. The managerial revolution, Larner proclaimed, "now seems close to complete, at least within the range of the 200 largest non-financial corporations" (Larner, 1966:787).[14] Several other studies have concluded the same. Indeed, managerialism has at times felt so assured of its theoretical and empirical triumph that it has considered the debate already closed (Berle, 1965:30).

The challenge to the managerial thesis, and particularly the Berle and Means variant, has come from two sources. The first argues that the environment in which the firm operates does not provide managers with the latitude that managerialists suppose. In this scheme, the market and competition impose on firms constraints that are determinant, so that, whether they control the corporation or not, managers must behave according to systemic imperatives and not other, less well defined, "social goals." One critic argues that managers

> . . . seldom have the latitude that economists assign them in their models. Competitors, though few, seem unrelenting; the commercial life of products is uncertain; capital needs, it is thought, must be met from profits; unions and public agencies threaten; so that both the feasible maximum seems lower and the minimum higher than in the outside view. What is feasible, however, cannot be divorced from conditions of efficiency, *and it is hard to proceed*

vigorously toward the goal of not making too much money (Peterson, 1965:16).

Robert Solow (1967) makes a similar argument in his critique of Galbraith's *The New Industrial State*.

The Berle and Means conception ("people's capitalism") rests on the conflation of two distinct lines of economic evolution: the rise of the managers inside the firm, and the decline of competition. The decline of competition allows the managerialists to make the problematical leap from the firm into the market, allowing the planned logic of the firm to leak out, by osmosis as it were, into the wider economy. The arguments revolve around competition and monopoly, with neither side stating the absolute predominance of either, but nevertheless advocating different balances between these contradictory but complementary principles.[15]

This debate centers on whether the manager-controlled corporations behave differently from owner-controlled corporations. To my knowledge, the most thorough analysis of the question (Herman, 1981) shows definitively that large firms behave similarly, regardless of the nature of the "control." In a recent survey of the literature, Useem (1984:33) found four studies that support the notion that management-controlled firms behave differently from owner-controlled firms, and ten studies in the U.S., plus two in the U.K., that found no significant differences. Whatever differences exist are associated with market power and not with the nature of the "control." The argument that the rise of the managers fundamentally alters the nature of capitalism lacks an empirical base.

The second critique of the Berle and Means thesis questions the degree of independence that managers can achieve from owners. Some works critical of the managerialists argue that management becomes integrated to large ownership through stock options and like measures, with ownership retaining large discretionary power over strategic issues (Perlo, 1957; Menshikov 1973; Miliband 1969). Other similar arguments say that control by large family-owners remains an important feature of the U.S. economy (Goldsmith and Pamerlee, 1940; Lundberg, 1937; 1968; Burch, 1972; Sheehan, 1967). These studies render moot the question of whether or not management behaves differently from ownership. They in fact question the supposed ascendancy of the managerial stratum. The combined evidence which they have presented is far from negligible. When combined, the studies of Paul Sweezy (1953b) Raymond W. Goldsmith and Rexford C. Pamerlee (1940), and Victor Perlo (1957), practically invalidate the evidence provided by Berle and Means in *The Modern Corporation and Private Property* by locating centers of ownership control in all but a handful of the corporations that Berle and Means had classified as manager controlled (Zeitlin, 1974:1084). In a review of the literature Philip Burch stresses that despite wide acceptance of the

managerial thesis as "an article of faith," the number of works that have actually pursued a systematic quantitative study of the problem of control is quite limited.[17] Burch (1972:107) has qualified the supposed managerial revolution as "little more than a half truth" and Zeitlin (1974:1074) called it "a pseudofact."

The empirical debate revolves around involved conceptual distinctions about the nature of "control." For example, Berle and Means had originally defined the minimum amount of stock ownership to guarantee control as 20 percent. Others have used a 10 percent stock ownership as the minimum amount to qualify a corporation as "owner controlled." According to still others, control can be exercised with a much smaller block of shares (Villarejo, 1962). This depends not only on the percentage of the shares held by a group, but on the blocks held by other groups and their sizes *relative to each other*, on the dispersion of stock of small shareowners, on the blocks of shares held by institutional investors (trusts, banks, insurance companies, etc.), on the fact that the same group may hold different blocks of shares through different institutions, and on all the possible permutations of these. On these grounds, empirical critics of the managerial thesis have criticized the tendency of the managerialists to classify corporations as under management control "by default." The fact that an ownership center of control cannot be located does not necessarily entail that one does not exist. It may merely indicate that one cannot be located given the paucity of information. The findings of Goldsmith and Pamerlee (1940) indicate that erroneous classification of "management control" by default is a wide open possibility. In the literature, one finds corporations previously classified as "management controlled" for which centers of ownership control are subsequently located, but the converse rarely happens.

The final variation of the managerial thesis comes from Bruno Rizzi (1939) and James Burnham (1941). Unlike the "people's capitalism" or "Marxist managerial" theses (e.g., Sweezy and Baran), this thesis states that the end point of the rise of the managerial stratum is "managerial society." Managerial society and its corresponding ruling class, the managerial class, are in gestation inside capitalist society. Just as the bourgeoisie developed inside the womb of feudal society in Europe and achieved economic predominance first, and political power later through revolution, so the managerial class is developing its economic power at the expense of the bourgeoisie inside capitalist society and will, through revolution, achieve political power at some point. The world-wide transition going on in the twentieth century is not led by the working class, which needs first to achieve political power and then consolidate the economic bases of a new civilization, but by a class of managers whose already existing economic ascendancy inside the old (capitalist) society will require that it ratify its economic power at the political level. To do so, the managerial class will rally the working class to its program, just as

the bourgeoisie dragged along the entire Third Estate in its struggle against the old order. The bourgeoisie fought against the old order in the name of the liberation of mankind; the managers will fight against the capitalist order in the name of the working class. The Bolshevik revolution was such a revolution: it brought a bureaucracy (the managerial class) to power.

This variant of the managerial thesis was developed in the inter-war period, during what Carr (1946) called the "Twenty Years' Crisis." Both Rizzi and Burnham noticed that similarities existed between Fascist Europe and the Soviet Union (and for Burnham also the New Deal United States). They concluded that the bureaucracy was ascending throughout the world and was destined to be the ruling class succeeding the bourgeoisie. There was therefore a certain social convergence between the imperialist countries and the Soviet Union.

The main weakness of the theory of the managerial revolution lies in confusing a process of recomposition of the bourgeoisie with a process of elimination of the bourgeoisie, whether gradual (Berle and Means) or sudden (Burnham). The recomposition of the bourgeoisie brought about by the emergence and diffusion of the large modern corporation is not by any means the first such transformation in history. More than sixty years ago Henri Pirenne pointed out the great *discontinuity* which characterizes the bourgeoisie throughout its different historical periods. To each period of "economic history" corresponds a different class of capitalists. Each economic transformation brings about the demise of the previous layer of capitalists and the emergence of a new, fresh layer of capitalists in tune with the exigencies and demands of the new situation (Pirenne, 1914; Braudel, 1979:478-482). The managerialists, in sum, have confused the emergence of new strata of the bourgeoisie for the emergence of a new class of managers.

The Theory of the Bank Controlled Spheres of Influence

It is difficult to pinpoint the earliest theorization of the role of the large enterprise in the United States. Before there were finished theories about economic concentration, there was struggle against the exactions of the new economic giants that began to populate the economic landscape after the Civil War. The first articulated movements against "monopoly" originated with the farmers who protested against the high transportation rates of the railroads, and from the railroad workers themselves. Initially, and for a long time, the concerns of the enemies of economic concentration centered on the ability of large enterprises with high or absolute market shares to raise prices.

The first attempts to tackle the problems of economic concentration were merely denunciatory. Henry Demarest Lloyd, a millionaire journalist, financial editor, and editorial writer for the Chicago *Tribune* from 1873 to 1885, devoted himself to writing and lecturing against the monopolies and published in 1894 his *Wealth Against Commonwealth*, a critique and denunciation of the Standard Oil Corporation. This successful book has been considered the "pioneer muckraking volume" (Ginger, 1962:179; Filler, 1976:26). The term "muckraker" refers to a kind of exposé literature on the evils of Big Business. It was coined by Theodore Roosevelt in 1906, as a derogatory term against the journalistic exposés that infuriated the so-called "great trustbuster."[18] The muckraker literature remains a good source of empirical material on business conditions at the turn of the century, but it does not have a systematic social analysis of the overall structure of Big Business.

Symptomatically, perhaps, one of the first attempts to tackle problems of economic structure in the United States came from an apologist for Big Business. John Moody's *The Truth About the Trusts* (1904), attempted to account in detail for the development of several large monopolies and also attempted to explain the movement towards economic concentration *as a whole*. Moody concluded that the Rockefeller and Morgan groups were the centers of large industrial clusters toward which much of American industry gravitated. Moody discovered patterns of *differentiation* and of *clustering*. This recognition is all the more significant if one takes into account that Moody was a conservative who defended the Trusts as a *natural* and *necessary* outcome of industrial progress. To the critics of concentration Moody retorted (1904:494) that the Trusts were responsible for the economic progress of the United States, and that monopoly "is one of the necessary assets in modern methods of progress." Moody also noticed the tendency towards socialization and in line with his conservative thinking warned his readers that economic concentration, if allowed to proceed to the point of full socialization, would necessarily entail state ownership. Accordingly, state ownership would signify "the dawn of despotism" (Moody, 1904:xviii).

Moody contributed the idea of the industrial cluster, that is, the notion that discrete, financially centered "empires" or "spheres of influence" exist in the American economy.[19] Youngman (1907:203) came to the same conclusions as Moody and underlined the predominance of the Standard Oil group which, from its industrial origin eventually developed into "an important investment power." The Morgan group, by contrast, was originally engaged in investment banking but spread out into railroads and eventually became an industrial power in its own right. Industrialists were becoming bankers and bankers were becoming industrialists. In addition to this tendency towards the fusion of banking and industry, Youngman noticed the tendency "in which the adherents of different financial groups had come into contact *through widening spheres of interest*" (1907:287, emphasis added). The "trustification" of industry, a movement of capitalist centralization based on the previous concentration of industrial production, was fundamentally a financial undertaking ,

and as such led to a much greater coalescence than could be discerned by looking only at horizontal and vertical *industrial* integration.[20] Youngman (1907:298) believed that the consequence of the "tendencies of modern combination" would be an all embracing Trust: "there is no inherent reason why an all inclusive holding company might not be eventually found, with the Standard Oil group of financiers, perhaps, in control." Youngman's interpretation represented a kind of "ultra-imperialism" of the home market.

An investigation carried out by the legislature of New York, chaired by State Senator William P. Armstrong, on life insurance companies revealed a marked degree of concentration in the insurance business and close connections with the investment bankers. The Armstrong investigation gave credibility to the idea that a set of financiers *organized in groups* exercised an inordinate amount of power over the industrial life of the United States. It paved the way for the more thorough federal investigation of the banking business in 1912-1913 (Carosso, 1970:127).

The Pujo Committee investigation, known as such after the chair of the Banking and Currency Committee of the U.S. House of Representatives, Arsene P. Pujo, uncovered a system of interlocking directorates and a "community of interest" among the highest financiers of the United States. Six large banks were at the center of the concentration of money and credit: J.P. Morgan & Co., the First National Bank of New York, the National City Bank of New York, Lee, Higginson & Co., Kidder Peabody & Co., and Kuhn, Loeb & Co. The Morgan, First National, and First City institutions, together with two other financial institutions controlled by Morgan (Guaranty Trust Co. and Bankers Trust Co.), constituted the inner group. Kidder, Peabody & Co., and Lee, Higginson & Co., together with the three largest Chicago banks, constituted the chief allies of the inner group. Kuhn, Loeb was "qualifiedly allied" with the inner group. Together, these groups financed and underwrote the securities of most of the largest industrial enterprises in the United States. The Pujo Committee was concerned that the relation between these banking institutions and the large industrial Trusts further exacerbated the problem of monopoly, for the concentration of credit which they represented and their alliance with specific industrial concerns increased barriers of entry into certain key industries.

The Pujo Committee uncovered the concentration of banking and provided some basic ideas about the structure of this concentration: "inner groups" or cores dominated the center; looser alliances with other groups characterized the scene as one moved away from the center. Around the bank clusters were allied and captive industries. Coordination among the bank spheres tended to increase coordination between the industries. Based on industrial concentration but nevertheless situated above the industries, financial institutions provided the means for further concentration of economic power.

This notion about the structure of capital can be designated the theory of the bank dominated spheres of influence.[21] The general contours of this notion of bank domination were demarcated by the Pujo investigation and popularized by Louis D. Brandeis (1914). Bank-controlled spheres of influence have been a recurrent theme in the analysis of the structure of capital in the United States. After Brandeis' book in 1914 and a latter analysis by John Moody (1919) the theory re-emerges in the 1930s in the work of Lewis Corey (1930), Anna Rochester (1937), and Paul Sweezy (1953b), and again in our time, especially after a series of articles by Fitch and Oppenheimer (1970).

Corey's work on the House of Morgan traced the role of that financial house from its ascendance in the last decades of the nineteenth century until 1929. Corey argued that industrial concentration in the late nineteenth century was not by itself capable of rationalizing a system characterized by increasingly large firms which nevertheless continued to compete as if they were small firms (fundamentally by price cutting to increase market share). Due to the magnitude of the capitals involved, this competition, which represented a transitional phenomenon, became increasingly savage and irrational. The banks stepped in and established systems of "community of interest" among railroads and industrial firms, systems that the industrial firms could *not create and stabilize by themselves* except in cases, such as Standard Oil, in which the industrial firm became itself a financial center. The price exacted for this rationalizing "service" was the establishment of a "dictatorship" of banking over industrial capital (Corey, 1930:137). Born in the period of transition and consolidated in the merger movement of the turn of the century, financial dictatorship survived, with some modifications, until the 1930's. Thus Corey acknowledged the existence of financial spheres of influence and sought to explain their origin.

Rochester (1937:317-337) partially subscribes to the idea of the spheres of influence as outlined above. She recognized that the bank-sphere form of organization existed, but did not equate the concept of finance capital with the idea of bank-control.[22] The emphasis on bank domination over industry, so strongly argued before, as in the case of Brandeis, was now qualified: "much depends on the relative positions and relative strength of the banking concern and the industrial company." Some large industrial concerns were "units of finance capital, *quite independent of mere banking control in the limited sense*" (Rochester 1937:105-106).

Sweezy's article of 1939 was intended "to throw light on the degree to which the large corporations are linked among themselves through common control, community of interest groups, or more or less loose alliances" (1953b:159). The study is important methodologically because of its useful discussion of interlocking directorates. Interlocking directorate analysis has been used extensively to show the existence of finan-

cial groups. Sweezy distinguished between primary and secondary interlocks and pointed to the *limitations* of interlock analysis.

Sweezy maintained that interlocking evidence is "in no case a complete substitute for knowledge of the relationships on which interlocking directorates are based" (Sweezy, 1953b:162). To identify interest groups, knowledge of the history, business orientation and policies of the concerns must also be used. Anyone beginning with the principle that all interlocks are equally meaningful "would have little difficulty in putting all but a few of the 200 largest nonfinancial corporations into a single interest group" (Sweezy, 1953b:161).[23] Other evidence is needed. Thus, for example, once the history of the House of Morgan is known, "it is easy to understand that the directorship of a Morgan partner is a fact of first importance in determining the orientation of a corporation." The methods for analyzing interest groups and inter-corporate relations are empirical and involve "an exercise of practical judgement" (Sweezy, 1953b:162, 164).

Sweezy concluded that there were eight significant "interest-groups" in the American economy. These groups were labeled "for convenience" by Sweezy as follows: (1) Morgan-First National (2) Rockefeller (3) Kuhn, Loeb (4) Mellon (5) Chicago (6) DuPont (7) Cleveland and (8) Boston. Although only two of the eight groups Sweezy discerned were centered around financial institutions (Morgan and Kuhn-Loeb) all of them contain at least one bank (Mariolis, 1975:426).

Sweezy's article on interest groups was based on data from 1935; in 1941 Sweezy reevaluated his previous analysis and argued that financial control was on the decline (1953a:190). The ascendancy of the investment bankers was a product of their role as promoters of Trusts, a process which was particularly swift around the turn of the century until the Rich Man's panic of 1907, and again in the post-war boom of the 1920s. The Great Depression, however, was marked by an absence of new large-scale promotions and mergers, "the chief source of profit and power to the investment banker" (1953a:190).[24]

In 1958 Victor Perlo restated the idea of the eight major groups in the American economy. He acknowledged that an increasingly complex structure had emerged, but nevertheless emphasized the existence of the spheres that he alternatively called "interest groups" and "financial groups." He traced the rise and decline of eight groups (Mellon, DuPont, Rockefeller, Cleveland, Chicago, Morgan, Boston, Kuhn-Loeb) between 1929 and 1955. Some had declined in importance to where they could no longer be considered major (Boston, Kuhn-Loeb) while others had either expanded significantly (Bank of America) or should have been included as major in the pre-World War II period (First National City Bank). In the mid-1950s Perlo ranked the eight major groups as: Morgan, Rockefeller, First National City Bank, DuPont, Mellon, Cleveland, Chicago, and Bank of America. Perlo also documented the rise of certain regional

groups in the Mid-West and Texas (Cyrus Eaton-Robert Young, the "Texas millionaires"), which were replacing some older eastern groups in importance and which were at odds with "Wall Street domination."

Perlo put forward a modified theory of financial control. He recognized that the investment banking "fraternity" was not as strong as in the pre-World War II period and that there had been a decrease in the importance of investment banking, though not as strong as Sweezy argued. This, however, did not signify the decline of financial control or of financial groups. It merely indicated a re-structuring of financial control. Some types of financial institutions (investment banks) had declined in importance; other types of financial institutions (insurance companies, commercial bank trust departments, trust funds) had increased in importance. In the boom years after World War II, outside financing of corporations once again became important.[25]

S. Menshikov (1973) restated Perlo's analysis and looked at the changes in the forms of organization of finance capital since World War II. Menshikov conceded that the "dictatorship" type of organization (House of Morgan) had completely disappeared (1973:228-234) and that much more complex and multi-centered forms of organization had replaced simple control by investment bankers. However, these changes did not yet amount to an elimination of the financial group as a fundamental form of monopoly capitalist organization in the United States. The financial group is defined as a specific kind of monopoly organization in which a financial institution or a set of them (understood as institutions of investment credit in the *broadest sense*) play a prominent centralizing and coordinating role. Increasing complexity had rendered financial groups less monolithic. First, increasing concentration of production entailed the emergence of financial groups that were primarily alliances or "condominiums." The size of the industrial concerns simply ruled out control exercised by a clearly identifiable interest.[26] Second, the large multimillionaire fortunes were being fragmented among heirs.[27] Third, family fortunes were being diversified into smaller shares in more corporations, a fact which spreads investment risk and further interpenetrates the wealthy families. The leading form of control over corporations, which used to consist of an alliance of a big personal block of stock with a large bank, is now typically composed of an alliance of a *set* of personal blocks of stock with a set of financial institutions (Menshikov, 1973:212; Chevalier, 1970).

A more recent study by David M. Kotz (1978) looks at the evolution of financial control over corporations since the Civil War. He reports that the period between 1865 and 1914 was characterized by: the reorganization of railroads into railroad systems by the investment bankers; the tapping of European capital by the investment bankers in the reorganization of the railroads; the promotion of large industrial trusts by the investment bankers, and the emergence of clearly demarcated "groups"

of financial institutions. Kotz calls this period the rise of banker control (Kotz, 1978:24-41). The second period, 1915 to 1929, was marked by the demise of the prominent individuals who led the investment banking business in the previous period (Morgan, Baker, Stillman, Schiff) and by a certain institutionalization (as opposed to personalization) of investment banking; by the decline in importance of foreign capital and the evolution of the United States from a debtor to a creditor; by the rise of prominent innovating entrepreneurs at odds with the bankers (e.g., Ford); by an increase in competition among bankers; by the emergence of investment trusts. This is a period of "war, prosperity, and banker power." The period from 1930 to 1945 saw a slump in issues of securities and a corresponding decline of investment banker power, and New Deal legislation adverse to investment bankers such the Glass Steagull Act of 1933 and the Public Utility Holding Company Act of 1935. During this period the managerial thesis arose and "began to find acceptance among social scientists" (Kotz, 1978:58). Finally, the period between 1946 and 1974 experienced as resurgence of bank control. The role of investment banking declined and self-financing acquired increasing importance. However, life insurance and investment companies became increasingly important in long-term financing of corporations; holdings by commercial bank trust departments soared. Commercial bank trust departments became the preeminent institutional mechanism of bank control over industry (Kotz, 1978:60-71).

Kotz regards the issue of the financial groups, understood as a cluster of financial and non-financial corporations, either under the domination of the former (Corey) or as a fusion of both characterized by coalescence rather than financial domination (Rochester, Perlo, Menshikov) as an open-ended empirical question. However, he does recognize "groups of financial institutions," which are alliances between financial creditors, *without including industrial enterprises in them*. Kotz (1978:115) recognizes, "primarily based on historical alliances," four groups of financial institutions: the Chase Group; the Morgan Group; the Mellon Group;and the Lehman-Goldman, Sachs group.

In our time the problem of economic concentration has found a new instrument for unravelling what Perlo called the "Spider Web" of corporate connections: the study of interlocking directorates. The study of interlocking directorates is not exactly new. The Pujo Committee relied on the study of interlocks as early as 1912, and Moody himself no doubt had great knowledge in 1904 about important directors and the boards on which they sat. The analysis of broad patterns of interconnections between corporations and financial institutions, between regional industrial groups, the identification of central or "core" groups in the economy, all these constitute the agenda of a group of researchers which, judging by the literature, is rapidly increasing.[28] The pioneering work of G. William Domhoff and the polemical articles of Robert Fitch and Mary

Oppenheimer are important landmarks in the development of current research.[29] A discussion of the methodologies of interlock analysis is beyond the scope of this essay, but see Scott (1985), Hopkins (1964), and Mizruchi (1982).

The issues studied by the analysts of interlocking directorates concern past and present intercorporate connections. David Bunting, for example, utilized interlocking analysis to evaluate the claim of the Pujo Committee that a "Money Trust" existed in the United States at the beginning of the twentieth century, and concluded that while "formally, as a legal entity or illegal conspiracy, it never existed" nevertheless "public concern with the Money Trust was justified as both its size and power were steadily increasing" (Bunting, 1976:9,13). In a more recent article, Bunting noted that interlocking clusters have existed since the beginning of the nineteenth century: "at all times, a relatively small number of directors tied a large fraction of the largest companies into a relatively compact network" (Bunting, 1983:139). Interlocking directorates, thus, precede the period of monopoly capitalism. However, Bunting does not match his discovery of early interlock systems with a discussion of the relative weight of large companies in the early nineteenth century. In a similar vein, William G. Roy (1983a) studied the "corporate network" in the U.S. from 1886 to 1905 and concluded that the network primarily developed outward from a few centers rather than inward from dispersed origins. Other scholars have emphasized regional spheres of influence, geographic concentration of banking, and variations of interlocking between regions (*c.f.*, Bearden and Mintz, 1985).

Interlock analysis points to the persistence not only of the central role of financial institutions in general, but also of many of the same financial institutions of the turn of the century. Thus, for example, Mintz and Schwartz found that although J. P. Morgan and Chase Manhattan (Rockefeller) were respectively the fifth and the second largest commercial banks of the United States, they were nevertheless the two most "central" institutions of the corporate network (1981a:859). Mintz and Schwartz conclude that "the banks continue to have what might be called spheres of influence, though they overlap rather than dominate discrete clusters." This suggests that "the trends toward unity outweigh the forces of competition. Though we can discern the outlines of possible discrete groupings, the structures that impel unified action among finance capitalists, we believe, are currently predominant" (1983:201-202).[31]

Interlocking analysis, nevertheless, has partially moved away from the notion of the "financial group." The typical concept of interlock analysis is *the network* and not the financial sphere. John Scott has characterized the corporate structure of the U.S. as polyarchic as opposed to oligarchic (1985:122). Mizruchi's (1982:138) conclusion is similar: "The importance of banks in recent years is a function of their centrality in the network. Bank influence has become a more general network phenomenon rather

than one based on dyadic control relationships between specific pairs of corporations."

Among analysts of interlocking directorates we find differences of interpretation that can be characterized as variations on a set of common themes. Common to most is a rejection of the tenets of the managerial theory and an acceptance of the centrality of banks. Conclusions vary on the importance of the bank spheres and the general relation of banking to industrial capital. Nevertheless, the question of the relation between the two, and the problem of "clustering" (the spheres) are in the forefront.

Two problems of interlocking analysis merit discussion. The first concerns the empirical raw material of the studies. What interlocking analysis has gained in breadth through utilization of massive data banks, it has lost in depth through oversight of historical information. Second, though interlocking analysis has constantly referred to different concepts of "finance capital" and has noticed new patterns of relations between corporations and banks, it has not yet produced any new conceptual innovations. It has, by contrast, *evaluated* different theories (managerialism, bank-control, the spheres, etc.) in the light of the new evidence and with the new tools of empirical analysis. Hopefully, side by side and as a result of the new empirical evidence, interlocking analysis will be able to yield new concepts to theoretically recompose the structure of the American corporate network.

Conclusion

The rise of the corporation in the United States has been interpreted by diverse theories that have emphasized different aspects of the problems of economic concentration and centralization. The "Robber Baron" school has concentrated on the violence and the extra-economic aspects *of the period of the rise of Big Business*. The stabilization of the large enterprise in the twentieth century is beyond the sphere of interest of this school.

Managerial theory has focused on the separation of the functions of "ownership" and "management," which previously had been united in the person of the entrepreneur. In its variants, managerial theory argues that managers constitute a new class (Rizzi, Burnham), that they dissolve class antagonisms and permit the development of a "people's capitalism" (Berle and Means and their followers), or that managers are simply a stratum of the capitalist class (Sweezy). Their different conclusions are linked to their specific conceptions of the relation between the enterprise and the larger economic environment of the *market*.

The theories of "finance capital" in the United States have focused on the relationship between enterprises functioning in clusters. A strength of the finance capital school is its highlighting of the oligarchic aspects of

economic concentration. A weakness is its tendency to equate the concept "finance capital" with the idea of bank control over industry. The study of the clusters nevertheless raises interesting questions about whether the "enterprise" or some larger unit constitutes the proper unit of economic analysis.

Where the work on Big Business may lead depends on the theoretical approach under consideration. Recently Ratcliff and Zeitlin have published an impressive study on the ruling class of Chile based on interlocking-directorate methodologies (1988). The study marshalls an impressive amount of evidence about the higher circles of Chilean society and offers a devastating critique of the managerial thesis. In addition, it incorporates "non-economic" phenomena, such as kinship, into an analysis of the structure of the highest strata of the Chilean bourgeoisie in such a way that the gap between "economy" (the corporations) and "society" (the dominant class) is bridged, convincingly and elegantly. Some of the works outlined above focus on the economy, on the role of the *enterprise* and on linkages *between* enterprises (e.g., Baran and Sweezy, 1966). Others focus on the roles of individuals, families, social strata, and class, but not on the enterprise (e.g. Mills 1956; Lundberg 1937; Lundberg 1968). Ratcliff and Zeitlin have attempted to connect these two spheres through an analysis of "the ties that bind." Their work points in the direction of unification of theories based *on enterprise* and theories based *on class and family*, and thus provide an excellent example for a future study of American society.

Notes

1. As any other classification, this one does some violence to particular aspects and to particular authors, since in most cases only the most general aspects of an author's thought was outlined. In some cases, as in that of the "managerial" school, the label encompasses authors of very diverse, and on fundamental issues, sometimes opposite, thinking. I have, however, tried to show explicitly, and in the notes, the thinking of the authors.

2. This stand led Schumpeter (1951:72) to predict that the United States, having the least powerful landlord class, would inevitably be the least imperially inclined nation-state of the twentieth century. "Among all capitalist economies, that of the United States is least burdened with pre-capitalist elements, survivals, reminiscences, and power factors. Certainly we cannot expect to find imperialist tendencies altogether lacking even in the United States, for the immigrants came from Europe with their convictions fully formed, and the environment certainly favored the revival of instincts of pugnacity. But one can conjecture that among all countries the United States is likely to exhibit the weakest imperialist trend."

3. "[T]he great fortunes are the natural, logical outcome of a system based upon factors the inevitable result of which is the utter despoilment of the many for the benefit of the few . . . In taking up a series of types of great fortunes, as I have done in this work, my object has not been the current one of portraying them either as remarkable successes or as unspeakable criminals. My purpose is to present a sufficient number of examples as indicative of the whole character of the vested class and of the methods which have been employed" (Myers, 1909:iv, v).

4. For example, Hidy and Hidy (1955); Gibb and Knowlton (1957), which stand opposite to Tarbell's famous early study of the Standard Oil Company.

5. See also Kirkland (1966) and, for a good critique of the revisionist school, Solganich (1965).

6. Marx (1977:915-916) points out that different "moments" of primitive accumulation (colonialism, the rise of the national debt, the modern tax system, and protectionism) "all employ the power of the state, the concentrated and organized force of society, to hasten, as in a hothouse, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition. Force is the midwife of every old society pregnant with a new one. It is itself an economic power."

7. Cf. Herman (1981:374): "It is hard to measure the value of governmental largess to the railroads, but 79 railroads initially were given 200 million acres of land by the federal government, and six transcontinental railroads were loaned $65 million directly by Congress."

8. The absolute number of farmers increased until as late as 1910 or thereabouts. In relative terms, i.e., in relation to the total population, the trend was steadily downward (Kolko, 1976:24). In the territories of the West seized from Mexico, land concentration was the rule. Whole large tracts of land from the Mexican era were transferred without subdivision to American owners. See McWilliams (1939:11-28 and48-66) and Majka and Majka (1982).

9. Cf. Adolf Berle's statement (1965:37) that classical and neo-classical theory reaches "romantic heights. It insists on having owner-risk taking entrepreneurs."

10. "It is conceivable—indeed it seems almost essential if the corporate system is to survive—that the 'control' of the great corporation should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public rather than private cupidity" (Berle and Means, 1932:356). See also (Herman, 1981:257).

11. This particular point is the subject of an empirical controversy, because many large owners also manage, and because the higher strata of managers tend to become large owners through stock options. Frequently these stock options become a substantial and oftentimes the main source of income of corporate managers.

12. See Mandel (1987) and Nove (1983).

13. "The position developed in this book is that the broad objective of both large managerial- and owner-dominated firms tends to be profitable growth. In managerial companies, varying weights are given to profitability and growth in company size, but the two are seen as linked together both functionally and in managerial strategies, with growth viewed as successful only with a profit payoff. Owner-dominated firms have had a similar matrix of objectives—they are not undeviating profit maximizers any more than managerial firms" (Herman, 1981:246).

14. The term "managerial revolution" was coined by James Burnham (1941). See Galbraith (1967:112); and Burch (1972:2).

15. In a response to Peterson's critique of the managerialist position Karl Kaysen (1965:45) states that "Peterson, without quite saying it in so many words, conveys the thought that the existence of significant market power—to the extent that it raises questions worth notice at all—is an aberrational phenomenon, not a characteristic of important sectors of the economy." Peterson, in turn, replies (1965b:498) that "although we qualify the 'free' character of markets, it may be an apt characterization to say that we depend mainly on the decentralized application of a value structure, with markets still registering preferences and scarcities and guiding the producers and users of goods."

16. In terms of Zeitlin's emphasis on class as a fundamental category of analysis, it is worth pointing out that Baran and Sweezy argue that managers are a stratum of the capitalist class. "Far from being a separate class, they constitute in reality the leading echelon of the property owning class" (Baran and Sweezy, 1966:35). Speaking of "the kind of 'managerialism' which Baran and O'Connor and I are supposed to represent," Sweezy states (1971b:6): "what we are saying is simply that in monopoly capitalism the giant corporation is the basic unit of capital and that it operates according to the classical Marxian principles of profit maximization and capital accumulation."

17. Berle and Means (1932); Larner (1966; 1970).

18. "On April 14, 1906, Roosevelt made the headlines by attacking 'the man with the muck-rake, the man who could look no way but downward . . . who was offered a celestial crown for his muck-rake, but would neither look up nor regard the crown . . . but continued to rake to himself the filth of the floor' " (Kolko, 1963:112).

19. Other writers have used the terms "interest group," "financial groups," "hubs," "peaks," "bridges," "kinecons," etc.

20. "Since extensive banking connections are the sine qua non of such financial operations as are undertaken by the large groups of investors, an alliance of the banks that furnish support to one group with those that are identified with another becomes in consequence exceedingly significant. In short, it implies, or at any rate looks toward, a union of a more general sort than has thus far been dealt with—that is, a union of individual groups of financiers designed to cover in its scope miscellaneous investment interests" (Youngman, 1907:297).

21. The Pujo Committee investigation, although authoritative, was not the first to point out the existence of bank "spheres of influence." Bullock (1903:187-188) postulated the existence of "two major spheres and two minor spheres of influence." The two major spheres were the Standard Oil-National City-Kuhn, Loeb & Co. group, and the J.P. Morgan group, which included two life insurance companies, plus the First National, Chase, Liberty and Astor Banks, and the Manhattan Trust Company.

22. "The economic power of financial rulers is supported by the structural mechanism through which they control other men's capital. This mechanism functions in two distinct fields: banking and industry. But it is so construed that banking operations set up lines of control over industry while, at the same time, the large industrial corporations set up lines of control over banking. The leading financial groups function in both fields and represent through their activities the fusion of interest which constitutes finance capital" (Rochester, 1937:104).

23. In my opinion, this is the flaw of the otherwise excellent book by John Scott (1985) which, based on interlocking evidence, concludes that there is a unified, "low-density" corporate network in the United States. Michael Useem's *The Inner Circle* (1984) leans somewhat in this direction. Useem, however, is concerned with the mechanisms through which the higher, leading echelons of the bourgeoisie set out class-wide policies and on the relation between the bourgeoisie and the state.

24. In addition, the Banking Act of 1933 established a separation of investment from commercial banking; direct and private placements of securities with institutional investors were replacing the investment bankers as intermediaries; and the state (especially the New Deal Reconstruction Finance Corporation) was carrying out functions which were previously the private preserve of the investment bankers. Sweezy, however, did not conclude tout court that the "interest groups" or the "empires" had disappeared. Rather, he argued consolidation had taken new institutional forms.

25. "The theory of the financially self-contained corporation grew during the stagnant 1930s, when there was little expansion of capacity, and internal funds largely sufficed for the replacement of equipment that took place. However, in the boom after World War II, corporations turned increasingly to outside financing to keep ahead in the race for automation and production expansion of capacity" (Perlo, 1957:26). Other writers such as S. Menshikov (1973), argue that fluctuations in "external financing" have been relatively minor throughout the century. Menshikov relies heavily on the statistics of Kuznets (1961). When holdings of commercial bank trust departments are taken into account, however, "external financing" cannot be said to have diminished.

26. This is true of control by families as well as by banks, and is related to the growing concentration of industrial production. "In the early 1920's the Du Ponts bought 22 percent of General Motors stock. Anyone wanting to repeat that operation would have to hand over the counter more that $4,500 million in cash. This is beyond the strength of the wealthiest American families." The same holds for banks. "At the end of 1962, the credit line of General Motors reached $950 million while the maximum loan the Chase Manhattan could give was only $75 million and the Morgan Guaranty Trust, $52-53 million" (Menshikov, 1973:208,217).

27. There is, however, evidence that inheritances are managed jointly and thus remain solid blocks of money capital under a unified direction. This seems to be the case of the Rockefellers. See, for example, Domhoff (1975) and Schwartz (1975).

28. Scott (1985), serves as an excellent introduction and survey of the literature.

29. The starting point of this literature is in a sense Mills (1956), to which the works of Domhoff (1967; 1978; 1983) are indebted. Fitch and Oppenheimer (1970), a defense of the thesis of bank control, elicited a number of responses: (O'Connor, 1971; Sweezy, 1971b; Herman, 1973) and two rejoinders (Fitch, 1971a and 1971b). Kotz's (1978) is an offshoot of

the debate written by a disciple of Fitch. Herman (1981) is also related to this debate. See also (O'Connor, 1984:29).

30. An early work that deals with interlocking in this sense is Unwalla and Warner (1967).

31. Mintz and Schwartz (1983:201-202). Palmer (1983) has analyzed what happens when an interlock is severed "accidentally," i.e., through the death or retirement of a board director. If the director is replaced by another with the same corporate affiliations, the event is considered significant in terms of expressing a formal relation between institutions. Palmer found that interlocks involving "finance capitalists" tend to be replaced more often than other kinds of interlocks.

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