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CHAPTER 1

The Nature of the Study

This study of business incorporations was undertaken with several aims. An examination of incorporations, it was believed, would reveal new information about the plans of entrepreneurs, whose activities center largely in the organization of business units, substantial expansions of established units, and strenuous efforts to adapt them to a changing environment. Some of these terms obviously lack precision, but they are designed to confine entrepreneurial activity to the dynamic operations of business men. The private individual entrepreneurs are conceived to be the business executives who stimulate and introduce new ideas and alter the rate at which the wheels of enterprise turn.¹ Of course, not all of the plans of these entrepreneurs are reflected in incorporations, but some appear in applications for charters. In the data on corporations the dynamic individuals behind large ventures are represented more completely than small business men; and the entrepreneurs of recent years are more completely covered than those of an earlier date, since formerly the corporation was less common. Despite the limitations imposed by these considerations, it was felt that data on newly chartered companies would afford a vantage ground from which to review the development of the economy.

To the degree that entrepreneurs' ideas about business opportunities are reflected in the number and character of incorporations, a study of charters should add to our knowledge about business cycles and to our understanding of the larger movements of economic growth. Since new information would be available concerning state competition in granting charters, the corporation itself could be comprehended better. State rivalry for the chartering business has been a powerful factor in molding the corporation to the changing needs of the economy. Such adaptation might—or might not—have been brought about as efficiently by some other device; but that is a problem in itself. This study sup-

plies some basic data for exploring the desirability of continuing state chartering or of adopting an alternative such as federal chartering. Finally, in examining the changing kinds of enterprise for which charters were taken out, the opportunities to invest that were open to capital from time to time should become apparent.

Most of the data for the tables and charts were compiled from published state documents. The other figures were built up from official records of certain state incorporating agencies. The published documents list by name the companies chartered—often with the authorized capital stock and less frequently with a statement of the industrial purposes for which each company was chartered. To get even a sketchy picture of the incorporation of business units throughout the United States would be impossible for an individual research worker—or even a small group—without such published data. Though far from complete, they are adequate for an examination of the questions explored here.

The size and perhaps some of the utility of the task may be gathered from a few brief comments upon the Ohio data, one of the most extensive series compiled, covering 129,796 incorporations. Factual material was published on the business corporations chartered by Ohio from 1803, the year of statehood, until 1937, with the exception of approximately four years, January 1852 through November 1855. Thus, for a century and a third the name of each corporation and the date on which it was chartered are listed. For most of the period, the authorized capital stock of each company and the primary industrial purposes for which it was organized are also given. Information on charters granted by other states is not available for as long a period, but there are other incorporation series of great interest. For example, New Jersey reports cover incorporations from 1800 through 1918. Table 1 lists the business incorporation series given in this volume. With the few exceptions indicated, the series were compiled for this study.

An arbitrary, but simple and perhaps acceptable, definition of a *business* corporation has been used whenever the sources indicated the presence and absence of capital stock: a corporation with authorized capital stock was classified as a business enterprise, while companies without capital stock were considered nonbusiness enterprises. Of course, some corporations that do not operate with a view to profits are chartered with capital stock, but that is not usual. They were few, and their classification as business concerns certainly does not appreciably distort the general picture. The above

¹ The adjective 'private' is used because entrepreneurs in the government might be referred to as 'public entrepreneurs'. The adjective 'individual' is used because in certain circumstances it would be appropriate to refer to a firm as an entrepreneur. For discussions of the concept 'entrepreneur' see G. H. Evans, Jr., A Theory of Entrepreneurship, *Journal of Economic History*, Supplemental Issue (The Tasks of Economic History), Dec. 1942, pp. 142-6; A. H. Cole, An Approach to the Study of Entrepreneurship, *ibid.*, Supplement VI, 1946, pp. 1-15; J. H. Stauss, The Entrepreneur: The Firm, *Journal of Political Economy*, June 1944, pp. 112-27; and J. A. Schumpeter, *Business Cycles* (McGraw-Hill, 1939), I, 102 ff., and *The Theory of Economic Development* (Harvard University Press, 1934), Ch. II and IV.

definition of a business corporation also led to the exclusion of some enterprises that ought properly to be regarded as business units—mutual insurance companies, for example. Despite their business aspect, there was definite advantage in excluding them: whenever a series on the number of corporations chartered in a state is paralleled by a series on the capital stock authorized for newly created companies, the two series can be examined with the assurance that they were constructed from identical corporations. Again, it is felt that the descrip-

TABLE 1
Business Incorporation Series
Compiled for this Study Unless Otherwise Specified

STATE	BASED ON CHARTERS GRANTED BY SPECIAL ACTS (ANNUAL DATA)	BASED ON CHARTERS ISSUED UNDER GENERAL LAWS (MONTHLY DATA UNLESS OTHERWISE SPECIFIED)	
	No. of Incorporations	No. of Incorporations	Authorized Capital Stock
Arizona		1912-1924	
Colorado		1890-1908	1890-1908
Connecticut		1837-1870	
"		1880-1932	
Delaware		1899-1915 ^{d, h}	
"		1916-1943	1916-1943
Florida		1901-1922	1901-1922
Illinois		1896-1918	1896-1918
"		1925-1943 ^e	
Louisiana		1937-1943 ^f	
Maine	1820-1891	1870-1943	
Maryland	1800-1852 ^a	1870-1939	1870-1939
Massachusetts		1851-1921	1851-1921
New Jersey	1800-1875	1846-1918	1846-1918
New York	1800-1845 ^b	1800-1845 ^{b, h}	
"		1901-1923 ^{e, h}	
"		1924-1943 ^e	
Ohio	1803-1851	1855-1936	1871-1919
Pennsylvania	1800-1860 ^e	1875-1887 ^h	
"		1887-1921	1887-1921
Texas		1872-1920	1872-1920
Virginia		1903-1941	1903-1918

For data and full description of each state series, see Appendix 3.

^a J. G. Blandi's figures.

^b Figures of J. S. Davis and H. B. Vanderblue.

^c William Miller's figures.

^d R. C. Larcom's figures.

^e Corporation Trust Company's figures.

^f *Louisiana Business Review* figures.

^g Figures from a New York State document.

^h Data are merely annual.

tion and analysis of the course of business incorporations have not been distorted by adhering to the above definition of a business corporation, which excludes the relatively few nonstock business enterprises chartered. This definition did not have to be used for some states, for example, Maine, because the companies chartered were called 'business corporations' in the state documents. In other words, whenever the documents called an enterprise a business corporation, the state's designation was accepted regardless of the presence or absence of capital stock figures.

To identify nonbusiness concerns was more difficult

when states either did not segregate their business from their nonbusiness incorporations or did not give authorized capital stock figures. Business and nonbusiness incorporations, however, had to be separated since there were *a priori* no grounds for believing that the direction and extent of variations in their chartering would be similar. When the state documents listed corporations with similar objectives together, it was easier to separate the business from the nonbusiness units. For example, corporations listed as churches or Masonic organizations could be put into the nonbusiness group after very brief study. As a last resort business or nonbusiness objectives were determined by the name of the corporation. Groupings and names as bases of classification are obviously crude devices, but fortunately they did not have to be used as often as might be imagined.² The incorporation series of this study certainly consist more exclusively of business enterprises than if various concerns considered to be nonbusiness had not been eliminated; but they doubtless still contain some nonbusiness enterprises.³

Neither the renewal of a charter nor the rechartering of a company was counted as an incorporation. On the other hand, reorganizations were counted. The charter renewal was considered a mere extension of legal life without economic significance, whereas when a company

² The name alone was used to separate the nonbusiness from the business units in only two state series for two periods: Arizona, 1912-24; and New Jersey, 1871-75. In New Jersey, 1800-70, and in Ohio, 1803-51 and Nov. 16, 1855-Nov. 15, 1871, the industrial groupings of incorporations, appearing in the documents, were used with the names as the means for identifying business and nonbusiness units.

³ Types of corporation excluded as nonbusiness:

- a) Boards of trade, including chambers of commerce
- b) Charitable organizations, including benevolent societies, community chests, foundations, welfare leagues
- c) Clubs, including Masonic organizations. (Of course, some clubs are organized with a view to profits, but to draw the line between profit-seeking and nonprofit-seeking clubs was impossible. Exclusion of all seemed the best procedure.)
- d) Ecclesiastical institutions, including churches, mission societies, Y.M.C.A.'s
- e) Educational institutions, including alumni associations, foundations, libraries, universities. (Because of the large number of business colleges and private schools, all colleges and schools were treated as business corporations.)
- f) Farm bureaus
- g) Fire companies and fire departments, including hook and ladder companies
- h) Hospitals and health associations except sanatoriums and sanitariums
- i) Local government units
- j) Mutual insurance companies
- k) Professional associations, including bar associations
- l) Taxpayers' leagues
- m) Trade associations
- n) Travelers' aid associations. (Tourist bureaus were treated as business corporations.)

was reorganized so many adjustments probably had to be made that a new business unit could be said to have come into existence. In these decisions and elsewhere, the question arose: What is the significance of an incorporation? This question is dealt with in Chapter 2, and through an examination of some Maryland material an answer is attempted.

The data for the early years studied pertain to corporations created under both special and general laws, particularly under the former. The special charter was, of course, the original method of incorporation, and it held primacy until nearly 1875. Discussion of the number and kinds of incorporations in eight states during the period when the special charter dominated serves as a background for the material of subsequent chapters. Specially chartered companies were excluded from the tabulations for the later years because of their dwindling numbers and because charters under general law, granted by administrative agencies operating continuously on a routine basis, can reflect more promptly entrepreneurial activities and desires than a series containing special incorporations, which are subject to the meeting times and whims of legislatures.

At the outset of the study it became necessary to decide whether the data on the number of incorporations or their authorized capital stock, or both, should be used in examining the course of incorporations. The large companies are dwarfed when incorporations are merely counted; on the other hand, series on capital stock become very erratic when the largest companies are included. Chapter 5 shows why most of the study relates merely to the number of charters granted.

Capital stock figures, however, were useful in classifying incorporations by size. Separation of incorporations into three size groups—large, medium, and small—adds to an understanding of the nature of an incorporation series. For example, whenever small incorporations form a large percentage of the total incorporations of a state, one can confidently predict that a series on the number of incorporations will have cyclical

movements that are less pronounced than similar series for states that create primarily the medium-sized or large corporation.

Since some of the sources from which information was gathered on the number of charters contained also data on the corporations' industrial objectives, it seemed desirable to see what such material could reveal about incorporation movements. Through these purpose data, for example, long waves of incorporation in some broad industrial fields are shown to be mere combinations of more or less unrelated chartering episodes. Other long waves, such as those of incorporations in the construction field, parallel recognized industrial movements. Moreover, incorporations in some fields, such as public utilities, are more closely related to business cycles than incorporations in other industries.

In exploring the relation between incorporations and business cycles two indexes of incorporations were constructed. These extend from 1860 until the early 1940's and were built upon the incorporations of sixteen states (Tables 12 and 39). As is shown in Chapter 9, an upturn in business incorporations has generally preceded an upturn in business; peaks in incorporations likewise have led peaks in business, but by a smaller time interval and somewhat less regularly.

The indexes of incorporations as well as the separate state series have a rising trend in the number of business incorporations in the United States until the closing months of 1919 or the early part of 1920. The rate of growth is by no means uniform, nor do all states follow precisely the same pattern. All state series, however, have a rising trend from about 1875 until the early 1890's. Growth was arrested during the middle 'nineties but was resumed in the last years of the nineteenth century. From that point until about 1920 most state incorporation series showed growth but at a less rapid rate than in the pre-1890 period. After 1920 the trend is downward in many states. New York and Delaware are among the few states that chartered more companies in 1929 than in 1920.