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CHAPTER 4

Trends in Business Incorporations, 1875-1943

The year 1875 is a fitting date at which to drop from consideration corporations created by special acts and to concentrate attention on charters issued under general laws. As pointed out in the preceding chapter, by that time constitutional provisions requiring incorporation under general laws had become widespread. Only annual figures on special charters can be presented because legislatures are not continuously in session. To confine study to charters taken out under general laws has great advantages: monthly data can be compiled and the turning points of the cyclical movements of each incorporation series determined more precisely. The latter is important in studies of business cycles, which are related to incorporations in Chapter 9. For the present, however, annual figures on incorporations under general laws suffice because here trend movements are emphasized. The data compiled for this chapter are for the number of incorporations; capital stock figures are discussed later.

As was seen in Chapter 3, long cycles seem to dominate the early development of incorporations. Some readers, when examining the data for the Civil War years and the following decade, may have hesitated to concede this thesis. Had it not been desirable to treat the period of the special charter as a unit, the preceding chapter might have ended with 1860. Though a reasonable case can be made for a long wave lasting from 1861 to 1878, perhaps a better interpretation is that soon after the outbreak of hostilities the number of incorporations rose rapidly—in some states to a new level—and that the postwar readjustments produced substantially different effects in different states. In studying the curves of Chart 9 for this early period the Maine and New Jersey series should probably be omitted since the special charter in both was frequently used until 1875 and the series plotted on Chart 9 contain only data on the number of charters granted under general laws. If 1861-78 is not treated as a long cycle, it can be described as one of rapid growth during the Civil War followed by a little more than a decade of readjustment when the number of incorporations ceased to increase in some states and declined in others.

After 1878 trend movements seem clearly to dominate. Throughout the closing years of the 'seventies, the entire 'eighties, and the first few years of the 'nineties, the trend of each incorporation series is upward. Entrepreneurs, frequently using small corporations, were venturing into many new fields, at least new fields as far as the corporation was concerned (see Ch. 7 and 8).

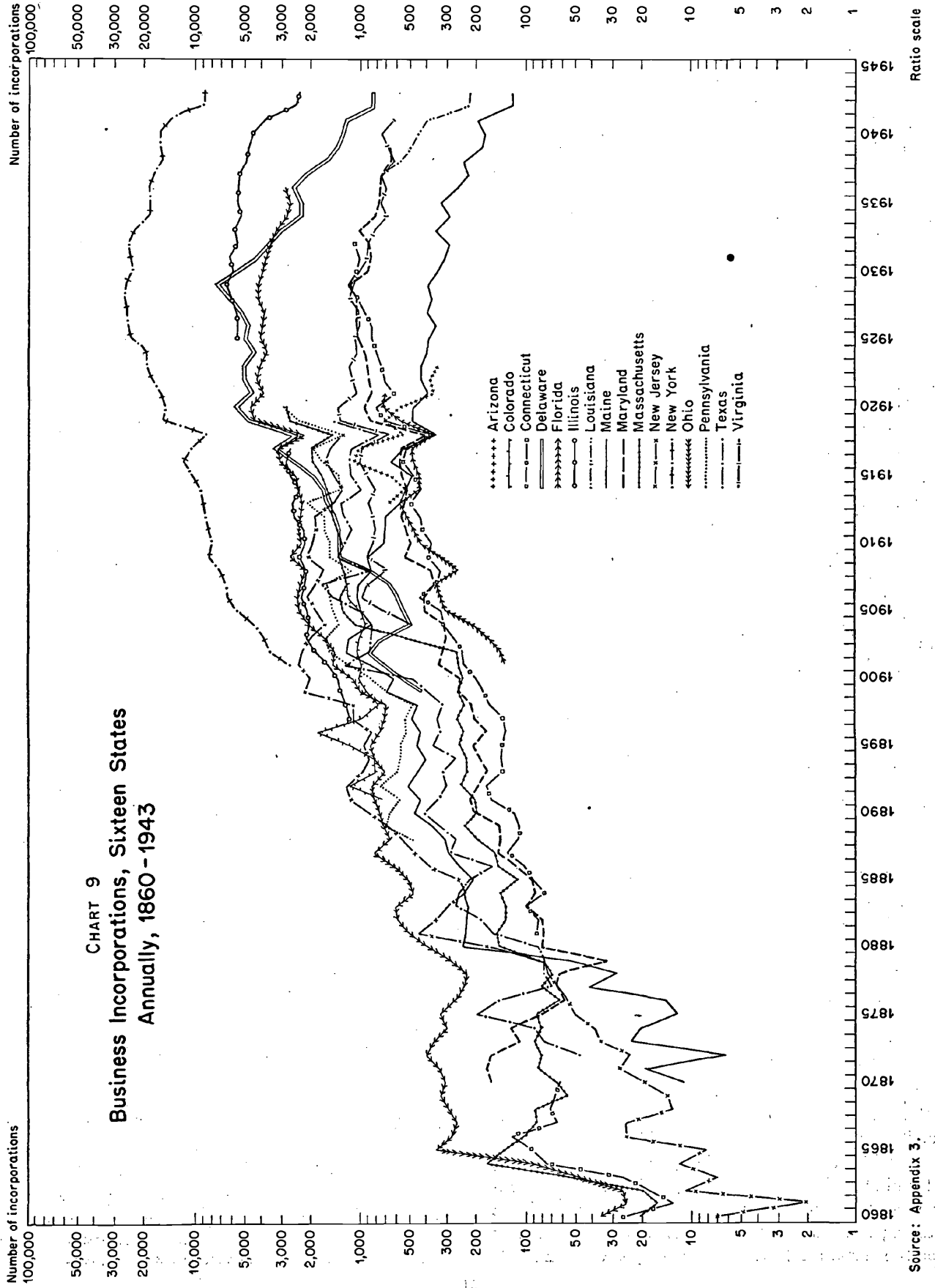
It was the phenomenal expansion in the use of the corporate form, together with the impressive size of individual units, that led Edward Bellamy in 1888 to give the corporation a very vital role in his preview of the 20th century economy.¹ During the middle 'nineties the trend of each business incorporation series is practically horizontal—the growth of the preceding fourteen or fifteen years had been arrested. Big business was a feature of the years just prior to this period of quiescence and even more of the years around the turn of the century (Ch. 6).

From 1904 until 1917 the trends of the different series diverge somewhat. New York and Delaware incorporations, for example, grew rapidly; the number of Texas charters remained at about the same level throughout the period; in Maine the number fell off rapidly. To some extent this divergence in trends reflects the readiness of the different states to 'liberalize' their incorporation laws. The rate of growth in business incorporations seems to have been retarded somewhat after about 1904. Rapid expansion of the American market characterized our economy from the Civil War to the early years of the 20th century; and with this expansion one could expect a high rate of growth in incorporations. As the business-getting sections of each large corporation began to conquer the expanded market for its product, supplementary and complementary products were added to the corporation's line on a large scale; it may perhaps not be extravagant to give this change in the nature of business expansion a major role in the retardation of chartering.

Sharp curtailment of incorporations attended the priority regulations and the restrictions upon capital issues made during our participation in the first World War;² but a sharper rebound followed the cessation of hostilities, and was followed in turn by a decline during the depression that began in early 1920. All series traced the same pattern during 1917-21 except that the Maine and Arizona figures did not rebound in 1919 to heights exceeding those of 1917 and that the 1919 figures of Arizona, Maine, and New York exceeded their 1920 totals. From 1921 to 1929 the trends of several series seem to be continuations of the 1904-17 trends. Notice,

¹ *Looking Backward, 2000-1887* (Tickner & Co., 1888), pp. 71-5, 77-81.

² For a study of the control of capital issues during the war, see Woodbury Willoughby, *The Capital Issues Committee and War Finance Corporation* (Johns Hopkins University Studies in Historical and Political Science, Series LII, 2, 1934).



for example, those for New York, Connecticut, and Maine. The Delaware series shows a somewhat slower growth than during the prewar era, though the 1926-29 rise is especially steep and therefore worthy of note. From 1929 to 1943 incorporations in each state declined almost continuously. The great depression in business, the various peacetime policies of the federal government that directly or indirectly affected the use of the corporate form, and the second World War with its various controls are possible explanations.

Chart 9 should be examined not only for some clues to the major periods in the growth of incorporations but also for information on the relative importance of each state as an incorporating agency and for the various movements in the different state series. Since 1900 New York has granted more charters than any other state treated. In Ohio, incorporations continued at a high level, and in Delaware many charters were issued in the 'twenties. In Connecticut and Maryland, incorporations rose almost steadily until the 1930's; in Maine they rose sharply until 1903, then declined steadily. The changes in the trends of the individual state series are difficult to explain. The whole problem of competition among states for the incorporating business of the country—a large subject beyond the scope of this study—is involved as well as shifts in industries.

Another difference in the state series is the amplitude of the waves of incorporation. In some states it is wide, in others, narrow. Contrast, for example, the Illinois and Pennsylvania series. Diversity of industry perhaps tends to reduce the amplitude, but another factor is also potent—the proportion of small corporations in the total. In Illinois from 1897 to 1917, about 92 percent of all companies chartered were small; each had an authorized capital stock of less than \$100,000. In Pennsylvania, on the other hand, the percentage was 85. Because of differences in tax laws, there is risk in comparing the percentages of small corporations. Nevertheless, Illinois chartered a great many small corporations. In Chapter 6, where size is discussed, it is shown that in general the cyclical movement in the number of small companies chartered is much less than in the number of either medium or large corporations. Consequently, in states where small corporations constitute an exceptionally large portion of the total it may be expected that—other factors being equal—the number of incorporations will have a narrower amplitude than in states that chartered a great many large corporations.

While each curve of Chart 9 is a succession of waves, the peaks and troughs of the individual series do not coincide, partly because local conditions have had their effects. For example, the 1901 peak in the Texas series is due to oil discoveries. This and other important local

episodes are treated in Chapter 8 in the section on random movements. Much of the cyclical variation from state to state, however, is more apparent than real. When monthly instead of annual figures are used—as they are subsequently—the cyclical movements in the different states are more similar.

Changes in the private corporation law of a state can affect drastically and abruptly the number of charters granted. A case in point is the sharp rise in Massachusetts incorporations in 1903 to a much higher level. That there are not similar pronounced breaks in other state incorporation series is rather astonishing. Except in the early years of corporate chartering and except in states that ordinarily do not charter many companies, the immediate effects of even radical changes in the law are generally fairly well obscured in total incorporations. Trends, it is true, may be altered greatly by a revision of the law, but the year-to-year and the month-to-month movements show the effects of legal innovations less than might be expected. In Pennsylvania, for example, corporations chartered to engage in wholesale trade were first created under general law in 1895, and retail trade companies could not be incorporated under general law until 1901 (Ch. 7, note 12). Surprisingly enough, these two extensions of the general incorporation law of Pennsylvania did not cause marked movements in total charters granted.

Annual Indexes

Such are the broad movements in the growth of incorporations and a few of the outstanding individual variations in the state series. To bring the broad movements out more clearly, two annual indexes of incorporations are set forth below. One was computed from medians of relatives, the other from simple aggregates.

In calculating the index from medians, the annual incorporations of each state, given in Appendix 3, were put into relatives with the first year of each section in Table 12 serving in turn as base. The simple median of the relatives for each year was then calculated. The indexes of the twenty-four sections were chained together on 1860 as the base; the base was then shifted to 1925 in order to facilitate comparison with the monthly indexes computed for use in Chapter 9 (Table 13).³

The other annual index is a byproduct of the monthly aggregate index of incorporations, which was constructed primarily to be used in studying the relation between business cycles and the number of corporate charters issued. It affords a series to check, or to dis-

³ This annual index differs slightly from annual figures that could be computed from the monthly index of incorporations, calculated by the same method and described in Chapter 9, largely because for some states the annual index includes a longer run of figures than the monthly.

place, the annual index derived by the median of relatives method. As the monthly aggregate index is described in Chapter 9, there is no need to do more here than state that the annual aggregate index was computed from the seasonally unadjusted data compiled in the process of constructing the monthly index. Both aggregate indexes consist of two unspliced parts—the one ending in 1925, the other beginning in 1924—because the data on New York incorporations enter the computations in 1924 and seem to affect their cyclical behavior slightly (Table 13). Although the aggregate method gives more weight to the states issuing many charters, the two indexes are remarkably close except for the early period, 1867–80.

TABLE 12
States in the Annual Median Index of Incorporations with
the Periods of Their Inclusion

SEC.	PERIOD OF INCLUSION	ARIZ.	COLO.	CONN.	DEL.	FLA.	ILL.	L.A.	ME.	MD.	MASS.	N. J.	N. Y.	OHIO	PA.	TEXAS	VA.
1	1860-1870			X							X	X		X			
2	1870-1872								X	X	X	X		X			
3	1872-1881								X	X	X	X		X			
4	1881-1888			X					X	X	X	X		X			
5	1888-1891			X					X	X	X	X		X			
6	1891-1897	X		X					X	X	X	X		X			
7	1897-1899	X		X			X		X	X	X	X		X			
8	1899-1901	X		X	X		X		X	X	X	X		X			
9	1901-1904	X	X	X	X	X	X		X	X	X	X	X	X	X	X	X
10	1904-1907	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
11	1907-1913		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
12	1913-1917	X		X	X	X	X		X	X	X	X	X	X	X	X	X
13	1917-1918	X		X	X	X	X		X	X	X	X	X	X	X	X	X
14	1918-1919	X		X	X	X	X		X	X	X	X	X	X	X	X	X
15	1919-1920	X		X	X	X	X		X	X	X	X	X	X	X	X	X
16	1920-1921	X		X	X	X	X		X	X	X	X	X	X	X	X	X
17	1921-1923	X		X	X	X	X		X	X	X	X	X	X	X	X	X
18	1923-1925			X	X				X	X	X	X	X	X	X	X	X
19	1925-1932			X					X	X	X	X	X	X	X	X	X
20	1932-1936			X	X		X		X	X	X	X	X	X	X	X	X
21	1936-1937			X	X		X		X	X	X	X	X	X	X	X	X
22	1937-1939			X	X		X	X	X	X	X	X	X	X	X	X	X
23	1939-1941			X	X		X	X	X	X	X	X	X	X	X	X	X
24	1941-1943			X	X		X	X	X	X	X	X	X	X	X	X	X

Several indexes of incorporations have been published for shorter periods than that covered here and should be compared with the data of Table 13.⁴ Authorized capital stock figures for the companies chartered in eastern states with \$1,000,000 or more of stock were published by the *New York Journal of Commerce and Commercial Bulletin* and are conveniently presented for 1901-19 in the *Review of Economic Statistics*.⁵ This daily published

⁴ In 1890 R. P. Falkner published some statistics on incorporations in several states. He did not compute an index; some of his figures are for calendar years while others are for fiscal years which vary from state to state. Falkner's data can, however, be compared with the series in Chart 9, but the fact that his figures are not always for calendar years must be borne in mind. See *Publications of the American Statistical Association*, II, N.S., No. 10 (June 1890), pp. 50-67.

⁵ Preliminary Volume I (1919), pp. 148-9, 172-3, 198. The ambiguity concerning which states are covered by that capital stock series detracts from its usefulness. For a discussion of this point see *ibid.*, pp. 148-9.

a more comprehensive capital stock series covering companies chartered with \$100,000 or more of capital stock. The more comprehensive series is readily accessible for 1907 through 1927 in the *Statistical Abstract of the United States, 1928*.⁶ Comparison of those two series with the indexes of incorporations presented here brings out certain differences and similarities that are not surprising in the light of the data that either are in the next two chapters or can be developed from them. The cyclical movements of the capital stock series have wider

TABLE 13
Annual Aggregate and Median Indexes of
Incorporations, 1860-1943
(1925: 100.0)

	AG- GREGATE	ME- DIAN		AG- GREGATE	ME- DIAN		AGGREGATE	ME- DIAN
1860	1.06	1.74	1890	25.9	29.6	1920	112.8	112.4
1861	.67	1.07	1891	27.1	28.0	1921	91.2	91.2
1862	.88	1.46	1892	29.5	29.7	1922	100.1	100.1
1863	1.66	2.13	1893	24.9	26.7	1923	99.3	100.0
1864	4.15	4.74	1894	24.4	26.0	1924	89.9	92.3
1865	7.00	8.74	1895	26.5	29.3	1925	100.0	100.0
1866	6.26	8.38	1896	23.8	26.0	1926	100.3	97.5
1867	5.22	6.71	1897	26.3	27.1	1927	102.8	101.2
1868	5.52	6.09	1898	25.8	25.8	1928	110.0	107.9
1869	5.54	4.59	1899	36.9	33.9	1929	111.5	107.4
1870	5.30	5.05	1900	37.8	37.2	1930	99.6	96.1
1871	6.03	6.53	1901	50.2	44.7	1931	98.5	87.9
1872	6.37	6.11	1902	53.1	47.6	1932	95.1	85.9
1873	6.13	7.97	1903	56.0	52.3	1933	88.5	79.0
1874	5.75	8.07	1904	55.5	51.4	1934	73.7	68.0
1875	6.73	9.36	1905	63.6	59.3	1935	74.5	71.8
1876	5.31	9.51	1906	70.6	65.1	1936	75.4	70.9
1877	4.91	7.51	1907	68.6	61.7	1937	70.7	67.9
1878	4.76	7.68	1908	57.9	57.4	1938	62.6	58.4
1879	5.36	7.91	1909	71.5	68.3	1939	63.0	59.6
1880	9.81	11.0	1910	65.7	64.0	1940	61.8	57.0
1881	13.9	15.9	1911	67.2	63.5	1941	53.3	51.6
1882	13.9	15.7	1912	70.7	71.6	1942		32.5
1883	14.4	18.3	1913	70.9	76.3	1943		32.2
1884	12.6	15.3	1914	62.6	68.7			
1885	12.5	16.1	1915	67.7	76.1			
1886	15.0	17.3	1916	77.5	85.9			
1887	19.4	23.9	1917	77.1	80.3			
1888	18.8	20.8	1918	53.1	57.1			
1889	22.9	24.9	1919	100.5	105.4			

* For explanation of the overlap in 1924 and 1925, see the text.

amplitudes than those of indexes based upon the number of charters granted. This is the typical relation between capital stock and number series. The capital stock series based solely upon companies with \$1,000,000 or more of stock has a wider amplitude than the series that includes companies with smaller authorized capital, again a typical relation. The trend of the capital stock series based on large corporations and covering 1901-19 is slightly downward. This is in accord with the trend of the data on large companies presented in the next two

⁶ U. S. Department of Commerce, Washington, D. C., p. 309. It is doubtful that these capital stock figures are more useful than the less comprehensive series, again because of the ambiguity concerning which states are covered.

chapters but is in sharp contrast to the trend of the indexes of this chapter for the same period.⁷ The timing of the cyclical movements of the capital stock series and the indexes are very similar, as is to be expected after reading Chapter 5.

A current index of incorporations is compiled by the Corporation Trust Company and published monthly in the *Survey of Current Business*. Extending back through 1925, it is an aggregate of the number of charters granted by four states—Delaware, Illinois, Maine, and New York.⁸ When expressed on an annual basis, it moves in almost the same way as the aggregate index presented in this chapter. This similarity of movement might be expected, since the incorporations of the four states covered by the Corporation Trust Company figures are part of the data for the indexes given here. For the years since 1924 the indexes of this study cover at least five, and at times eight states.⁹ Though more nonbusiness corporations are included in the figures of the Corporation Trust Company, this source of difference is not serious.¹⁰ The Corporation Trust Company figures exceed the annual figures given in this volume for the business incorporations of Delaware, Illinois, Maine, and New York, though by less than 1 percent.

The total number of new business incorporations in the United States is now recorded monthly in *Dun's Statistical Review*. Total incorporations by each of 47 states are available for the last half of 1945; thereafter the tabulations include the figures for every state. Thus as long as this series continues, there will be no need for constructing indexes of total incorporations from sample data.¹¹

⁷ The substantial decline in the capital stock figures for large New Jersey companies, 1901-14, can be deduced from a comparison of the two capital stock series in Appendix 3 and from Table 17. New Jersey figures were included in the *Journal's* total, and during the early years of the 20th century would have constituted a large proportion of it.

⁸ For the data, see the U. S. Department of Commerce, *Survey of Current Business*, Oct. 1947, p. S-3; March 1947, p. S-3; March 1946, p. S-3; March 1945, p. S-3; April 1944, p. S-18; and March 1943, p. S-16; and *1942 Supplement*, p. 73.

⁹ Table 36 shows the coverage of both my annual and monthly aggregate indexes, Table 12 that of my annual median index, and Table 39 that of my monthly median index.

¹⁰ Compare the definition of nonbusiness used in this study (Ch. 1) with the statement in the *1942 Supplement* to the *Survey of Current Business*, p. 205, note 4 for p. 73, concerning the compilation of the Corporation Trust Company: "Incorporations for fraternal and charitable purposes are excluded."

¹¹ New business incorporations were first published in the *Review* of Sept. 1946; the first issue to contain the data of all 48 states was that of February 1947.

The United States and the United Kingdom

To compare the growth in the use of the corporate form in this country and elsewhere is not a purpose of this study. Nevertheless, data for the United Kingdom are presented, since they may be interesting to some readers (Table 14). The course has in general been the same in

TABLE 14
Incorporations, United Kingdom, 1863-1937

	NUM- BER*	INDEX (1925: 100.0)		NUM- BER*	INDEX (1925: 100.0)		NUMBER*	INDEX (1925: 100.0)
1863	733	8.69	1890	3,005	35.6	1917	3,895	46.2
1864	944	11.19	1891	2,597	30.8	1918	3,385	40.1
1865	973	11.53	1892	2,505	29.7	1919	10,592	125.5
1866	726	8.61	1893	2,515	29.8			
1867	440	5.22	1894	2,885	34.2	1920	10,861	128.7
1868	425	5.04	1895	3,805	45.1	1921	6,692	79.3
1869	441	5.23	1896	4,658	55.2	1922	8,368	99.2
			1897	5,148	61.0	1923	8,400	99.6
1870	545	6.46	1898	5,065	60.0	1924	8,420	99.8
1871	741	8.78	1899	4,879	57.8	1925	8,437	100.0
1872	1,020	12.09				1926	8,178	96.9
1873	1,165	13.81	1900	4,859	57.6	1927	8,777	104.0
1874	1,157	13.71	1901	3,358	39.8	1928	9,442	111.9
1875	1,104	13.09	1902	3,850	45.6	1929	9,013	106.8
1876	924	10.95	1903	3,992	47.3			
1877	938	11.12	1904	3,765	44.6	1930	8,769	103.9
1878	815	9.66	1905	4,253	50.4	1931	8,696	103.1
1879	968	11.47	1906	4,766	56.5	1932	10,550	125.0
			1907	5,152	61.1	1933	11,844	140.4
1880	1,170	13.9	1908	4,932	58.5	1934	12,939	153.4
1881	1,495	17.7	1909	6,268	74.3	1935	13,519	160.2
1882	1,526	18.1				1936	14,180	168.1
1883	1,630	19.3	1910	7,091	84.0	1937	13,197	156.4
1884	1,443	17.1	1911	6,371	75.5			
1885	1,382	16.4	1912	7,268	86.1			
1886	1,785	21.2	1913	7,321	86.8			
1887	1,945	23.1	1914	6,097	72.3			
1888	2,465	29.2	1915	4,002	47.4			
1889	2,658	31.5	1916	3,317	39.3			

* Convenient sources for data on the number of incorporations chartered in the United Kingdom are: for 1863-1920, *Palgrave's Dictionary of Political Economy* (Higgs' Edition; London, 1926), I, 369 and 852; for 1921-30, *Statistical Abstract for the United Kingdom*, Seventy-fifth Number (London, 1932), p. 230; for 1931-37, *ibid.*, Eighty-second Number (London, 1939), p. 277.

There is some shifting in the geographical area covered, but it is not serious. The figures from *Palgrave's Dictionary* cover Great Britain and all Ireland. The figure for 1921 is for Great Britain alone, while the subsequent data are for Great Britain and Northern Ireland. Moreover, the figures from the two volumes of the *Statistical Abstract* cover only 'New Limited Companies with Nominal Capital', the series reproduced in *Palgrave's Dictionary*.

the two countries. The differences lie in certain episodes. The Civil War gave a great stimulus to the corporate form in this country. A smaller but similar movement occurred in Great Britain. From about 1869 to 1878, and again from 1892 to 1901, there was a pronounced surge in British incorporations. During the 1914-18 war, curtailment in incorporations was more drastic and protracted in Great Britain than in this country. Finally, the post-1929 years contrast sharply.