Review Essay

After Managerial Capitalism

The Public Company Transformed. *By Brian R. Cheffins*. New York: Oxford University Press, 2019. 448 pp. Figures, table, indexes. Cloth, $90.00. ISBN: 9780190640323.

Transaction Man: The Rise of the Deal and the Decline of the American Dream. *By Nicholas Lemann*. New York: Farrar, Straus and Giroux, 2019. 306 pp. Notes, index. Cloth, $28.00. ISBN: 9780374277888.

Reviewed by Richard R. John

Corporations maximize shareholder returns—or so goes the conventional wisdom. It was not always so. In the middle decades of the last century, lawmakers, business leaders, and journalists agreed that the nation's largest and most powerful corporations had obligations to a raft of stakeholders that included (in addition to shareholders) employees, customers, and the localities in which they had set up shop. Some historians have labeled this consensus "corporate liberalism"; contemporaries called it "social responsibility." Still others, including, most notably, Alfred D. Chandler Jr., regarded these corporate obligations as emblematic of a new stage in economic development—"managerial capitalism"—whose origins could be traced back to the railroad, the country's first "big business." This consensus had durable consequences, as Kenneth J. Lipartito and others demonstrated in *Corporate Responsibility: The American Experience* (2012), a multiauthor survey of shifting assumptions regarding corporate governance in the United States from the colonial era to the present.

The two books under review, Brian R. Cheffins's *The Public Company Transformed* and Nicholas Lemann's *Transaction Man*, explore this once-powerful consensus in different, yet complementary, ways. Cheffins's *Public Company Transformed* is a decade-by-decade survey of the rise and fall of the idea of corporate responsibility in the twentieth-century United States. His thesis, drawing explicitly on Chandler, is that corporate responsibility was a hallmark of managerial capitalism but that since the 1980s managerial capitalism has been superseded by a new variety of capitalism, which he declines to name

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but which he does not believe will resemble the managerial capitalism that it has supplanted.

Cheffins is particularly interested in changing assumptions regarding corporate governance, a term that he dates to the 1970s. Unlike Chandler, Cheffins does not organize his narrative around case studies. Instead, he provides an encyclopedic, decade-by-decade review of what journalists, business leaders, and academics (mostly economists and legal scholars) have written about a multitude of internal and external checks on the "public companies" that dominate the stock exchange. For readers of this journal, one of Cheffins's main contributions is bibliographical; he has read widely in the business press, and his citations provide historians with a useful checklist of influential books and articles. One of the merits of Cheffins's approach is his careful attention to temporality. It is, for example, valuable to learn that it was not until the 1980s that the CEO emerged as a corporate icon and not until 1982 that any document he could find used the term "stakeholder" to refer to a group that was distinct from a corporation's investors (p. 41, fn. 9).

Cheffins is better at tracing the decline of managerial capitalism than at explaining its rise. In the bad old days *before* the managerial corporation, he contends, "financial capitalism" reigned. To make his point, Cheffins offers up capsule summaries of key events in the early histories of Bell and General Electric. Neither is persuasive. Cheffins seeks an audience among U.S. readers of business history, a goal that is at cross purposes with his neglect of what U.S. business historians have written. Consider, for example, Cheffins's account of Bell. The history of the telephone business in this period is by now the subject of a large secondary literature. Regrettably, Cheffins ignores this scholarship altogether. Had he consulted the many books and articles published by Lipartito, Roland Marchand, Robert McDougall, and the author of this review, among others, he would have found that Bell president Theodore N. Vail had originally been brought back to the telephone business not by the banker J. P. Morgan but instead by a rival group of telegraph promoters; that Morgan never took over Bell; that it was not Morgan but a consortium of rival bankers that funded several of Bell's most lucrative operating companies, then the core of its telephone network; that Vail's supposedly statesmanlike conduct during the landmark 1913 Bell antitrust suit owed much to political fiat; that the settlement of this lawsuit was for Vail a major defeat (among other setbacks, it cost him the second T in AT&T); that the most pressing political challenge confronting Bell leaders in the 1910s was not the potential breakup of the Bell System but the threat of a government takeover; and that the most consequential financial crisis in the telephone business during the Progressive Era involved not Bell but its independent rivals.

Cheffins's "up from financial capitalism" narrative is especially problematic given his reliance on Chandler's "detailed research" (p. 2). Chandler neither characterized the late nineteenth-century U.S. economy as "financial capitalism" nor argued that the economy "transitioned" from financial capitalism to managerial capitalism (p. 99). Recent business historians—including, most prominently, Noam Maggor—have faulted Chandler for downplaying the centrality of finance to late nineteenth-century U.S. economic development. Yet neither Maggor nor anyone else has effectively challenged Mary O'Sullivan's meticulous debunking, in *Dividends of Development* (2016), of the once-common view of Morgan as a mustachioed silent-movie villain who singlehandedly dominated the early twentieth-century U.S. economy.

Public Company Transformed reminds us that corporations once did confront major internal and external constraints and that there was an age in which "corporate liberals"—a phrase Cheffins does not use—bestrode the land. Not every business leader was hell-bent on overturning the New Deal, a point Jennifer Delton documents nicely in *The Industrialists* (2020), her important new history of the National Association of Manufacturers. Columbia literature professor Lionel Trilling once famously asserted that in the mid-twentieth-century United States, conservative ideas had fallen out of circulation. Recent historians of American conservatism have risked inverting Trilling by contending that, on the contrary, few business leaders were liberals. Cheffins helps set the record straight: not until after 1980 would the era of "corporate responsibility" definitively come to an end (p. 187).

Like most books in its genre, *Public Company Transformed* is not written in a style that will commend it to a wide audience. In contrast, Nicholas Lemann's *Transaction Man* aspires to reach the kind of reader who in an earlier age might have devoured David Riesman's *Lonely Crowd* or William Whyte's *Organization Man*. Fast paced, beautifully written, and ingeniously plotted, it crackles with illuminating vignettes and evocative phrases, guaranteeing it a long shelf life among history buffs, college undergraduates, and history professors looking for a revealing anecdote or a memorable quotation. I know of no single book on the history of American business in the mid-twentieth century that distills so much insight into so compact a form. Though no substitute for Thomas K. McCraw and William R. Childs's *American Business since 1920: How It Worked* (2018), it should work well in the undergraduate classroom as a primer on major trends in American business during the past one hundred years. (Full disclosure: though I did not consult with Lemann on this book, we are colleagues at the Columbia Journalism School.)

Lemann's theme is the consequences for American people of the "move" from an "institution-oriented" society to a "transaction-oriented" society (p. 21). His book's "premise" is that "these economic arrangements, as they are altered, profoundly reshape the way most people live and work, even if they are not in business strictly speaking" (p. 22). Unlike Cheffins, Lemann does not take as his baseline a late-nineteenth-century "financially-oriented" society that managerial capitalism overthrew. On the contrary, and more plausibly, he characterizes the mid-twentieth-century institution-oriented economic order as a response to the unprecedented late-nineteenth-century rise of the industrial corporation. For a generation of liberal social commentators that included legal academic Adolf Berle, one of Lemann's main protagonists, the managerial corporation was not only a weighty economic actor but also an "almost fetishistic" preoccupation (p. 40). Firm-centrism, in short, became a pathology. In Berle's world, investing was boring. The Morgan Stanley underwriter, while eminently respectable (almost all mid-twentieth-century underwriters were well-bred white Protestant men), had little appeal for the ambitious man-on-the-make. In such a world, it was hardly surprising that Harvard MBA students shunned the school's course on investing, which they dubbed "Darkness at Noon"—because, owing to its low enrollment, it was taught at lunchtime in a sun-deprived basement (p. 95). All this changed beginning in the 1970s, with the dethroning of the corporation-as-institution by the corporation-as-transaction, a legacy of the mathematization of corporate data by a rising generation of financial economists that included Michael Jensen, another of Lemann's central figures. Just as Jensen's world view supplanted Berle, so Jensen's, in turn, would give way to that of Reid Hoffman—a venture capitalist captivated by the supposedly emancipatory potential of the digitally mediated network.

Lemann's sketch of Berle is particularly revealing. Remembered today primarily as the coauthor of *The Modern Corporation and Private Property* (1932), a canonical analysis of the consequences for the giant corporation of the separation of ownership and control, Berle was familiar to his contemporaries as a wunderkind who had graduated from Harvard Law School at twenty-one after having briefly worked for Louis Brandeis, the only person to have earned a degree from Harvard Law School at an even earlier age. Long active in public affairs, Berle drafted for President Franklin Roosevelt several important state papers, including Roosevelt's Pearl Harbor address. Interestingly, Berle featured for many years in his office a portrait of Brandeis, a fact that may surprise present-day neo-Brandeisian critics of big tech, since Berle favored regulating giant corporations while Brandeis is remembered for his commitment to breaking them up.

Jensen could not have been more different. Always the outsider, he found a niche for himself in academia as a maverick who exposed the

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blinkered assumptions of Berle's corporate managers. For Berle and his fellow liberals, the corporation and the state faced off in an epochal "Clash of the Titans" (p. 254). For Jensen, neither the state nor the corporation could rival the market as the "most benign central institution of postwar society" (p. 102). Like Berle, Jensen became a stand-in for the age in which he lived—a post-1970 world in which deregulation had come to supplant countervailing power as the master key of progress: "When a challenge presented itself—how to educate our children, how to fight poverty, how to change politics, how to improve the tone of a polarized society—any proposed solution that can be characterized as relying on bureaucracies, organizations, government agencies, or established interest groups is doomed to lose the argument. Only innovation, disruption, destructuring, and individualizing can possibly work" (p. 254).

Following Jensen's example, a generation of economists, lawmakers, and business people came to place "automatic trust" in markets while regarding governments and big institutions with "automatic suspicion" (p. 181). Corporate leadership would never again be the same. Berle's "Organization Man" had morphed into Jensen's "Transaction Man"—hence Lemann's title (pp. 18, 19). No longer a seemingly immutable pillar of the social order, the corporation—which, of course, had by no means disappeared—had somehow become transmogrified into a mere nexus of contracts. Interestingly, Jensen would eventually reject what he had wrought, decrying, in a 2014 seminar in Bermuda that Lemann attended, the ascendancy of the very market paradigm that he once so enthusiastically hailed. "I spent thirty years in finance," Jensen remorsefully confessed. "It's staggeringly bad! Banks: lying, cheating, stealing. The day is coming when people are going to jail. Close to no senior executive has been put in jail yet. That's a crime! I'm sickened by it" (p. 100). It was a mistake, Jensen contended in 2017, for Congress to have bailed out the financial sector in 2008; Wall Street bankers lacked integrity, and many belonged behind bars.

Hoffman is the only businessperson whom Lemann profiles in detail. Coming of age at a time in which the managerial corporation that Berle took for granted had become a distant memory, Hoffman built a highly successful career as a founder of the digital networking platform LinkedIn and the chief operating officer of the digital money-management tool PayPal. Digital networks, in Hoffman's view, had the potential to channel the power of the transaction to the many from the few. His life goal, as Lemann explains, was to dismantle the "structures" that "impeded the dreams of ordinary, disempowered people—for their benefit, not the benefit of people like him" (p. 251). But can networking save us? Lemann is dubious: "It's hard to imagine that a society with a handful of enormous companies and an ever-larger mass of the casually employed would generate a higher level of political and social contentment" (p. 255).

The market fundamentalism of Jensen and Hoffman was intended to empower ordinary Americans. But this was not what happened. Instead, by devaluing the inescapable role of institutions in society's "tableau" it made powerful, though less socially responsible, institutions all the more powerful and vulnerable institutions all the more vulnerable, culminating in the "greatest concentration of financial power in American history" (p. 268). This was bad news for Nick D'Andrea, the owner of a Chicago Buick dealership that General Motors shuttered in 2000 and whose post-2000 travails Lemann uses as a synecdoche for the millions of Americans who found their world turned upside down by distant corporate overseers that they hardly knew existed and over whom they had no control. Never before had the coveted "American dream" of economic security seemed more elusive.

Can the center hold? To answer this question, Lemann turns to the theory of interest group pluralism put forth in 1908 by political scientist Arthur Bentley in his long-neglected *Process of Government*. Like the philosopher John Dewey, with whom Bentley corresponded, Bentley rejected the assumption—shared in different ways by Berle, Jensen, and Hoffman—that the "good society" was a *goal* to be attained by adopting "one all-encompassing principle" rather than a continuing *process* in which groups ceaselessly engaged (p. 255). Berle, Jensen, and Hoffman each displayed an "intolerance for organizing the country"—and, in particular, the economy—around "a never-ending political struggle among non-gigantic interest groups" (p. 267). For Berle the solution was government; for Jensen, the market; for Hoffman, a "virtual and institution-free" pluralism that Lemann dismisses as impossible: "institutions are an escapable part of human life, and the real question is what form they will take" (pp. 267, 21). To disparage special interests as partial while idealizing a unitary "public interest" as some kind of final solution, Lemann warns, in a veiled critique of the moral aloofness of his journalistic peers, is a fool's errand: "[M]ost people, even people who think of themselves as cosmopolitan, even in the age of globalization and the Internet, live parochial lives" (pp. 260, 268). To assume that we can somehow magically escape the institutions that inexorably shape our everyday lives is a trap: "Understanding institutions as necessary is the only real protection against a few institutions becoming too powerful" (p. 268).

What to do? Americans cannot return to some "fondly remembered arrangement from the past"; even so, the "great project" of "organizing economic life" so as to "give most people a sense of security, belonging, and hope, is still an urgent one" (p. 268). When people confront problems, violence almost always remains an option: "Pluralism means to redirect this tendency into managed, nonviolent conflict. It imagines a system of groups endlessly in vigorous contestation. No one group should be able to establish its dominion over the others" (p. 265). No matter how sincere the "improving instinct" of a Michael Jensen—or an Adolf Berle, or even a Reid Hoffman—the cost of their solutions is simply too high: "Concentrations of power always wind up harming people, no matter how benign the holders of power believe themselves to be" (pp. 20, 266). In a spirit reminiscent of moral philosopher Isaiah Berlin, Lemann champions *process* over *principle* and *pluralism* over *unity*: "Not transactions. Not big ideas" (p. 268). John Dewey could not have put it any better.

For both Cheffins and Lemann the managerial corporation has been swept into the dustbin of history. Lemann decenters the firm; Cheffins charts its transformation. For Cheffins the public company has a bright future, at least for investors, though he is not quite sure how it will all work out. For Lemann, institutions, transactions, and networks have all failed to empower ordinary people in search of the American dream. Neither provides a blueprint for a good society. Yet each remains hopeful that, if only we had a better understanding of how we got where we are, we might somehow be better equipped for the bumpy road ahead.

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