The Corporation as a Dynamic Modern Capitalist Institution that can either Support or Conflict with Representative Democracy

This paper examines the role of the corporation in the time of the American and French Revolutions. The corporation was associated with authoritarian rule and devastating economic outcomes, making it a target of public resentment that buoyed the cause of representative democracy. Corporations were investment instruments in speculative stock markets, recipients of bailouts, and agents for taxation. In these forms, this modern financial institution conflicted with democracy. The public's criticism of the corporation helped fuel both the American and French Revolution. However, the corporation did not only create resentment of the government. Its failures also helped advise the changes the Americans and French desired in their new democratic governments. In America, a new understanding of the role of government informed better corporate governance and shifted the corporation's mission. Thereby, the corporation was able to survive harsh opposition and thrive in post-Revolutionary America. Eventually, that model would spread globally. Depending on the country and circumstances, corporations can act in conflict or in concert with democracy to this day.

Speculation on corporate shares resulted in the stock market crash and contributed to the fiscal crisis of 1787 that was "the immediate precipitating cause of" the French Revolution (Hunt 32). In 1785 and 1786, "values rose precipitously" (Hunt 39) for shares of the newly re-chartered French East India Company, along with various other companies. Stock market participants and companies used financial capital to generate huge speculative fortunes, such as that of Clavière. Ironically, the same speculators who made a fortune on the Paris Bourse were hailed as "righteous denouncers of speculation" (Hunt 42). Calonne, the finance minister, took measures to reduce speculation by stabilizing prices. However, his agents cornered the market. Calonne was denounced as participating in *agiotage*, leading to a loss of credibility for him and the French government. Calonne's interference in the operations of the Paris Bourse both failed to prevent crisis and redoubled resentment towards the government.

In fact, the dangers of speculative frenzy were experienced in France as early as 1720 when Law's System was implemented. He created a Mississippi Company that had grossly exaggerated prospects (Wennerlind 231) and used propaganda to support his System and even defended "despotic authority" (Kaiser 17). He converted government creditors into Mississippi company shareholders, believing that this would make them passive. He thought, "in credit… it is necessary that the supreme power reside in a single person" (MacDonald 205) and applied this viewpoint to the management of the Mississippi Company and the entire French economy. The magnitude of his failure and the resulting deflation (MacDonald 204) served to sow the seeds of distrust in authoritarian France; some historians claim that it "conditioned responses to monarchical authority down to the French Revolution" (Kaiser 2). MacDonald professes that Law's System was flawed because it was based on faulty principles. While the System attempted to recreate the success of mercantilist states, it simultaneously worked to consolidate power in the crown. The Genoese mercantilist state, however, was "entirely controlled and run by its citizen shareholders" (MacDonald 204-205). Law's confidence in authoritarian rule was deeply in conflict with democracy, and so too was the System and company he created. However, some of his other financial principles such as paper money and monetary stimulus, may not have been in conflict with the democracy had they not be associated with Law's despotic rhetoric and ultimate failure.

The French Revolution rejected the joint stock corporation in part because of the destructive nature of stock jobbing and the perception that government used stock speculation for its own gain. The influence of speculative capital on the financial crisis that precipitated the French Revolution supports the notion that companies, as instruments of stock speculation, were in conflict with revolutionary ideals. Taylor affirms, "the join stock enterprises… contributed less to production, trade, or insurance than to stock-jobbing and price manipulation" (Taylor 977). High levels of speculation created sharp business cycle downturns. In France, some capitalist institutions such as companies and stock markets were relatively new. The "temporal rhythm" and "creative destruction" (Sewell 7) of capitalist systems was not understood when the populace blamed the authoritarian government for the country's economic woes. Fiscal crisis acted as an agitator for change towards representative democracy. The crisis required speculative capital, joint stock companies and the massive indebtedness of the French government to make it as harmful as it was.

Growing interconnectedness of the eighteenth century Atlantic economy allowed for states and companies to be increasingly leveraged. Debt was an essential pillar of capitalism that fueled corporate growth and public spending. Hodgson includes "the widespread use of credit... and selling of debt" as part of his definition of capitalism (Hodgson 259). Governments often implicitly underwrote corporate debt obligations, leading to moral hazard that allowed companies to take on risky debt that proved too onerous to manage. In 1773, the British East India Company was in "dire financial straits" (Labaree 9). It made a deal with the British government to have a monopoly on selling tea in America. The deal was made "perhaps partly because much of the Company's debt were owed to the Government" (Labaree 9). To the Company's chagrin, the British Government did not remove the Townshend duties on the tea the company would export to America. The imposition of the tax was an anathema to patriotic Americans; Labaree claims the resulting Boston Tea Crisis was an essential catalyst for the American Revolution. The desire of the British government to prevent the default of the East India Company's suggests that the government had mistakenly allocated its credit too narrowly. In a time where the government was facing financial crisis because of its debts from the 7 Years War (Labaree 7), it could not afford to allow the Company to default. This created an American backlash to taxation that was blamed on both the British government and the Company. The Company monopoly was deemed "unjust and oppressive regulations of trade" (The Massachusetts Gazette, December 1773) and ultimately its property was destroyed when its tea was thrown overboard. The British East India Company worked, to an extent, in concert with the British government. American revolutionaries could not accept corporations in this form. The complicated relationships of creditors and debtors in Britain lead to the Boston Tea Crisis, an event that defined the upcoming conflict between America and Britain.

French revolutionaries also gained momentum from conflict with over-leveraged institutions: the French East India Company and the French crown. The French crown defaulted on its large debts multiple times in the seventeenth and eighteenth centuries (Bossenga 44). France's prosperity in the 1780s drove increased stock market speculation and also increased the levels of government debt (Hunt 43). Government debt was often issued in the form of life annuities, which “ruined the state” (Taylor 963) at interest rates of 8-9%. The crown’s rich history of defaults and the opacity of its accounts lead to these high rates. The increasing interconnectedness of global markets allowed new capital from Geneva and other European capitals to flow to France, at a time when local investors were reluctant to risk the default they had experienced before. Capital flowed to speculative investment on the Paris Bourse. Calonne took action to stabilize shares, but at that point the French government debt issuances were already engaging in Ponzi finance, as defined by Minsky’s financial instability hypothesis. The government was “borrowing to pay interest” (Minksy 7) by creating an “artificial bull market” (Darnton 152). Calonne’s interventions created the “inflationary bias” (Minksy 5) that eventually led to a “collapse in asset values” (Minksy 8), which benefitted the bearish investors such as the immigrant Clavière. The stock market crash served to strengthen the view of government as “a world of decadent courtiers and despotic ministers” (Darnton 153). The speculation was fueled by foreign capital reaching the French market and the crash was created by the desperate attempts to save the French government from another default.

This interconnectedness and over-leverage in the Atlantic economy led to forced economic errors by the French and British governments. Both Revolutions fed off resentment at the effective bailouts received by corporations and the crises that resulted from overconfidence, either in the American tea market or in the French stock market. The excessively close relationships between government and corporation lead to moral hazard and ultimately unacceptable outcomes for the general populace. However, this relationship does not only exist when authoritarian governments are in power. Judge Rakoff suggests that in the Financial Crisis of 2007 “the [American] government was deeply involved, from beginning to end, in helping create the conditions that could lead to such fraud." Government favoritism for corporations creates a conflict with democracy. Government, democratic or not, loses credibility when the influence of corporations unduly overshadows the needs of citizens. Minsky, writing in 1992 before the most recent financial crisis, contends, "government interventions aimed to contain the deterioration seem to have been inept in some of the historical crises" (Minksy 1).

In the eighteenth century, corporations supported authoritarian governments, financed a greedy elite, and failed at international governance. Adam Smith describes exclusive companies as "nuisances in every respect" and "destructive to those which have the misfortune to fall under their government" (Smith IV.7.194). Even when corporate stock was more accessible to the public, the result was stock market crashes and fiscal crisis. The French Revolutionary government outlawed corporations in 1791 (Maier 51). Why then were over 200 acts of incorporation passed in the 1790s in Massachusetts alone (Maier 54)? After the Revolution, corporations became common in America. Entities such as cities, businesses and colleges were incorporated and sought benefit from being able to "make binding rules for its self-government, to function in law as a single person… and to persist after the lifetimes of its founding members" (Maier 54).

One reason for the invigoration of the American corporation may be that without large institutions like a crown, the capital needed to build new infrastructure was difficult to come by. Without the influence of the English crown, Americans desired to improve their own lot and so joined forces in the corporate form to achieve their aims. In New England, individuals were less wealthy than in the south, and so combined "their assets to accomplish what other, such as the early bridge builders of Virginia, could apparently do alone" (Maier 57).

The change in government from authoritarian to representative democracy changed the aim of the corporation and so allowed it to thrive in America. The East India Companies that American and French Revolutionaries despised served the government by providing revenue and asserting the interests of the government abroad. American corporations were "agencies of government… for the furtherance of community purposes" (Primm). It may seem that nothing had changed. However, the key difference was the nature of government. An American corporation was an agency of government, but that did not mean it enriched government officials or an elite aristocracy. Rather, like the democratic government, it served a public need in addition to its private purpose. In this form, the corporation became compatible with representative democratic government.

The strong opposition to corporations in America molded the changing form of the corporation. Inspired by British thinkers like Adam Smith, some Americans such as Pennsylvania's Governor thought that corporations "take away from people their common rights and give them to a few" (Shunk). Municipal corporations were reformed to fit "the more modern and plain republican institutions of the present day" (Maier 64). Business corporations were also reformed to include limited charters (Maier 76) and to enhance shareholder rights while reducing the power of any one shareholder (Maier 77).

In time, the corporation exemplified an important strength of representative democracy. Open debate resulted in better aligning corporate charters with serving a public good as well as private interests. This notion persisted potentially as late as 1900

(Maier 81). By adapting this corporate model, the new American democracy was able to wield the power of financial capital for the improvement of their new nation.

The American corporation was not the first example of a corporation that was in concert with revolutionary values; the French East India Company shareholder's revolt of 1769 introduced patriotic republicanism to the public discourse (Margerison 26). The shareholders deemed themselves effectively a "self-governing commercial republic" (Margerison 25). The dispute was important as it involved direct conflict between owners of the company and the crown. Previously, people who were creditors to the government had little authority or agency to protest a crown default. These shareholders saw themselves differently. They believed they "possessed the ultimate authority to govern the Compagnie des Indes" and "had the duty to expose the corruption of its administrators and the despotism of the royal ministers" (Margerison 26). The discourse of "judicial Jansenism and classical republicanism" (Margerison 49) presaged Revolutionary dialogue. Pamphleteers later used the story of the shareholder revolt to emphasize government despotism (Margerison 50). Ultimately, the crown removed the company's exclusive privilege, which led to its liquidation. Before and after the shareholder's revolt, the French East India Company was used as a government puppet, by financing its military efforts and protecting its trading position. However, the self-governing model that originated in Genoa and would later come to prominence in the American corporation was powerfully introduced in France by this brief period of shareholder governance. In this case, the corporation acted against the authoritarian government. The French Revolution was amenable to the ideas the shareholder revolt created, though not supportive of the corporation itself given its previous and later association with authoritarianism.

The success of the post-Revolutionary American corporation suggests that the private and public benefit provided by incorporation could be compatible with democracy. However, the events of the 2007 Financial Crisis exemplify many of the objectionable features corporations bore before the Revolution. Market speculation led to companies being over-leveraged, which brought them to the brink of bankruptcy. Bear Sterns and AIG, for example, required, and received, government bailout to survive (Stewart). Fraud and moral hazard in companies were common accusations (Rakoff). The government and company interactions may or may not have benefitted the public by reducing the severity of the resulting crisis. However, Congressmen and constituents were often principally opposed to the bailouts (Stewart). This calls into question compatibility of the current state of the American corporation with representative democracy.

In most circumstances in the eighteenth century, the corporation was at odds with democratic ideals. French revolutionaries had the examples of the Mississippi Company, the French East India Company and the various companies speculated on in the Paris Bourse to vilify. Americans resented the presence of the British East India Company. In sum, these corporations made ill-fated use of other modern capitalist institutions such as stock markets, paper money and the increased availability of capital in a global market. Nonetheless, the relationship between post-Revolutionary America and the corporation illustrates that representative democracy can change the nature of these institutions to be increasingly compatible with a representative system where the needs of the populace are prioritized. This leads to the conclusion that these institutions do not inherently conflict with or support democracy, but rather are molded by the governments that create them.

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