

THE LIFE INSURANCE ENTERPRISE, 1885-1910: A STUDY IN THE LIMITS OF CORPORATE POWER. By Morton Keller.\* (Publication of the Center for the Study of History of Liberty in America, Harvard University.) Cambridge: Belknap Press of Harvard University Press, 1963. Pp. 338. Illustrations. \$7.25.

IN October, 1905, Louis Brandeis in his famous Boston Commonwealth Club address indicted the American life insurance companies as "the greatest economic menace of today."<sup>1</sup> The corporations owned assets of one billion dollars. Three New York based organizations dominated the field — New York Life, Mutual, and Equitable — and their rise had been meteoric. The jurist's fears did not appear groundless, for these giant institutions with their vast resources might conceivably have come to control every aspect of American economic life. Yet this threat was never realized, and the companies, for all their efforts, never achieved their grandest goals. The story behind this circumscription of power is told by Morton Keller in a remarkably intricate and detailed study of the life insurance industry between 1885 and 1910.

The power of the corporation in America has been a persistent concern. Most commentators tend to be pessimistic; for all the strength of countervailing economic organizations, public opinion, and government regulatory agencies, the corporations still seem to hold the upper hand. The external controls never appear adequate. Keller, more optimistic in tone, emphasizes the self-limiting quality of corporate action. The turn of the century "was not notable for the balance of social forces;"<sup>2</sup> a group of companies might have fulfilled dangerous ambitions. They failed mainly because of the "significant factor of internal restraints: the problems and consequences inherent in the processes of institutional growth and maturity."<sup>3</sup>

With meticulous documentation drawn from insurance company records Keller describes how internal checks limited the expansion of the leading firms. Costs rose unavoidably as volume increased; growth did not bring savings. Larger organization created an entangling bureaucracy, hampering executive leadership. Moreover, growth did not stimulate a harmony of interests. The stakes may have been too great, the personalities too diverse — but mergers never became popular. A series of other factors prevented the corporations from expanding internationally. Expenses were high, and every success encouraged nationalistic antagonism and regulation. At home and abroad, size ran well below ambition.

Perhaps most intriguing was the failure of insurance firms to dominate the financial world, despite a tremendous and stable surplus of funds. Other corporations, to be sure, contested their ventures, but internal rather than external causes seem to have been most vital. Disabled by law to invest directly in many

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1. BRANDEIS, *BUSINESS — A PROFESSION* 118 (1914).
2. P. 291.
3. P. 292.

sorts of activities, including common stocks, the companies often set up subsidiary trusts to circumvent restrictive legislation. But the relationship between parent and offspring, confusing at best and corrupting at worst, kept down profits. Then too, leading executives with astonishing frequency were caught in conflicts of personal interest; typical was George Perkins, torn between his allegiance to Morgan on the one hand and New York Life on the other. The firms often failed to profit from panics, hesitating to injure a favored banker. And all too regularly ties of family and friendship brought company funds into highly speculative and unprofitable schemes. A combination of greed, poor administration and nepotism effectively limited the investing power of the insurance business.

Equally disappointing and frustrating to the corporations were the practices of judges and politicians. By the start of the twentieth century the courts leaned decidedly to the cause of the insured. In an era when most regulatory statutes were declared unconstitutional, state supervision of insurance firms was upheld. Applications were often considered representations, not warranties; forfeitures for non-payment were allowed only when specifically included in the contract. Politics was even more bothersome. Lobbyists were expensive and efforts had to be duplicated in state after state. The legislation enacted was more often bark than bite, but insurance men, preferring to deal with Congress rather than with forty-odd legislatures, urged pre-emptive federal regulation. Yet, never having learned the art of cooperation, the industry could not muster sufficient strength to enact favorable measures in Washington. Finally, it was the New York investigation of insurance practices in 1905, led by Charles Evans Hughes, that stimulated basic reforms. Uncovering pervasive sham and subterfuge, the hearings made a return to the pre-1905 conditions impossible. By the time Brandeis made his pronouncement, the menace from the insurance enterprise was over.

The implications of Keller's study are optimistic. Although he warns at the outset that mediocrity and sterility demand our full attention,<sup>4</sup> it would seem that the dangerous misuse of vast resources of power by the corporations — the traditional concern — is not, in Keller's view, so serious a problem. Internal checks, he suggests, in adjunct with external forces, can keep the threat well in hand. Flaccid exercise of power, not systematic exploitation, has really been the paramount issue all along.

These notions, however, are open to some question, and the details so ably catalogued by Keller may prompt new apprehension. First, any generalizations derived from a study of life insurance companies must be balanced by the reminder that these firms are not typical American corporations. Everyone, citizen and manager alike, recognized the unique, quasi-public character of life insurance. Hedged in from the start with peculiar restrictions, and subjected to political oversight as early as the 1870's, the institutions still managed to warrant the balanced judgment of investigator Hughes that, if unrestrained,

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4. P. x.

these companies "will soon become a serious menace to the community."<sup>5</sup> We may wonder what would turn up in an equally intricate study of a corporation bound by nothing more than a desire for profit.

Keller argues that the insurance firms could not fulfill their "drive to power."<sup>6</sup> But here we must note his vantage point. The companies, in point of fact, did not dominate the nation, much less control American, Latin American, and European economic and political life. But they could do more or less as they pleased with a billion dollars worth of funds. Grandiose ambitions went unachieved but more modest control did extend to considerable sums of money. If the insurance enterprise did not succeed in threatening the community, it may well be testimony to the wealth of America rather than the limitations upon the power of the corporations.

Finally, what went into the internal restraints that Keller emphasizes? What were "the problems and consequences in the processes . . . of institutional growth and maturity"?<sup>7</sup> Some purely economic checks, to be sure, existed — in the insurance business, rising costs accompanied growth. But these sorts of considerations do not occupy the bulk of Keller's volume. Much more significant seems to have been the greed, venality, and ineptitude of leading executives. Keller, prone to the current jargon, describes these evils as "the consequences . . . of institutional growth," and pinpoints "fractionalized, diffused decisionmaking."<sup>8</sup> Or, in other words, incompetence and corruption held sway. More vigilance, not less, may well thus be the moral of the story. For internal restraints of this kind are as condemnable as the most patent abuse of power.

Nevertheless, Keller's findings do make clear the need to reassess our traditional view of the corporation. The image of a monolithic and efficient organization is certainly inappropriate where conflict of interest, ineptitude, and irrationality may be more basic qualities. In such cases the systematic exploitation of power is not the ultimate threat of the corporation: rather, its inability to make use of the resources at hand, its tendencies to squander and corrupt valuable opportunities may be the cause for greater concern. The lofty facades of the insurance company buildings in 1900 masked a good deal of internal confusion. It may be worth pondering today how much the hum of the computer drowns out unproductive noise.

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5. P. 254.

6. P. 292.

7. *Ibid.*

8. *Ibid.*

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