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Entrepreneur.

Fns: org. & control; bear risk; raise funds.

Involves labor, supervising resources & work on them, predicting future, watchg mkt, sweatg out guesses & ventures.

Involves risk. So does all life, but more so, for whole enterpr.
Involves investg large sums.

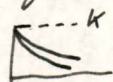
Often those most suited to labor & those w. funds to risk or invest not same. Dim. m.u. of assets. So entrepr. needs funds of others. Works w. other peoples M.

Org. of bus. ent. is means of raisg M, primarily.

& esp. long term funds. Any colored cnt can borrow on crop. But for long funds for fixed assets, another matter

2 e.g. of imptrnce of tms of borrowg

1. Farther future, greater discount diff. due to given m. diff.



$$\frac{\frac{k}{(1+0.06)^n}}{\frac{k}{(1+0.03)^n}}$$

, as n rises, ratio falls much

$$\frac{1.03^n}{1.06^n}$$

Different rates of growth

2. % of collateral allowed varies.

$$L = rC$$

$$C = e + L$$

$$L = re + rL; L - rL = re; L = \frac{re}{1-r} = \frac{e}{\frac{1}{r} - 1}$$

Easier view: if you can borrow $r\%$, means lender puts up $r\%$ & you put up $(1-r)\%$

Now in light of this, view bus. ent. Means of gett'g ~~as~~ ⁱ ~~as~~ ^{as} low as possible, & as hi.

Prop. Family bus. Funds from family, & borrowing.

Adv.

Owner gives owner's care to cap. Even when borrowing, he is owner.

Flexible. Easy to form, & unform.

Use family labor.

Disadv.

Mortal, may die w. one man

Too small?

Ptncp

Adv.

Raise cap. all assets pledged.

Disadv.

No head - ptncps must get on well

Tenuous existence. Dissolves easily

Unlim. liab. Auto wreck analogy, sue rich

Shares non xfbile

Corp.

Adv. Shares xfbile

Ltd Liab.

Immortal

Clear lines of auth.

Disadv.

Too good at raisg M. Becomes fund inst, inv. trust, more assets than can handle.

Coop

Owned by customers

One share one vote

Patronage div.

Income statement vs balance sheet

Terms to know re corp.

Stocks, bonds.

Par value

Watering stock

Capitalizⁿ - (2 par values & issue prices of sec. a myth)

Surplus

Bull, bear, bum steer

SEC

Trust

Trustee, trust cert.s. Means of joining corps. Now obsolete, unfavorable court decisions in '90s.

H.C.

G.M., AT&T, ~~Chicago~~ Christiana. Dixon-Yates?

U.S.S., in part. Gen Foods, Gen. Mills. E.B.&S. Marshall Field.
Grace line.

How to approach $r=1$, in $L = \frac{e}{\frac{1}{r}-1}$.

Pyramid h.c. Begin by watering stock. Bonds. Then buy others. Promoters, fabulous.

Interlocking, complex networks of control. E.g. Castle & Cook etc. help control Matson, Matson holds some C&C. Among them, a handful control Hawaii. (Sears recent invasion)

Elements of act'g

Social act'g vs pvt — how differ?

10 W.

Bus. firms.

Coop

Trust

H.C.

Prop.

P+nsP

Corp.

Trust

H.C.

Coop.

Thru h.c., mainly, control of Am. bus. Very conc. More conc. than ownership — which is conc. enough.

How conc. develops:

a. Advantage of low i.r. Pay more for land, or get less from it.
Whole > 2 parts. $\frac{a}{i}$ $\frac{a}{i-g}$

b. Pyramiding control thru corp & h.c.

(next 2 pp.)

Conc. has evolved so 200 largest have 50% ^{sales, higher % assets.} — & match. in sense also control suppliers, dealers, competitors (USS)

To take over m.s., see one man.

cf. N.Y.	Largest 4%	have 18%
Fm'g	" 2.3	" 43 area
Corp.	" 2.3 0.2	" 43 area 30% sales, 56% assets

L.C.R.

Judo

Sell bonds, nonvoting. Large r.s.s, e.g., sell bonds more than equity.

10% stock
+ 90%
~~+ 100%~~ "
+ 100% bonds

Just beginning. You still control all this as firmly as tho yr. own.

1. Let the corp. be a bank. Attract depositors. If successful, good site & good service, swing vast sums of other's M. You must keep certain cash reserves, but no equity reserves. Expand w/o limit.

Morgan, Chase, Nat. City, Cont. Ill.

How xlate into control of ind-y? In Gy, buy stocks direct.

Here, prohib. - for banks, & for comp.

But inv. bank --- buy & sell.

2. H.C.

Buy control of other corp.

Fantastic pyramiding, Insull, 20% W. Fla.

Death Sentence. Mr Twain

Fri

Why large firms? From demand analysis, wd seem large wd. keep restricting output, lose mkt to small.

Is that tendency. USS, 85% down to 40% — of output.
Stevenson rubber plant. Suicide mopies ... S.F., N.Y. (New Orleans growing)
But is a contrary tendency. } Equilibrating vs cumulative tendencies.

Is a cumulative tendency for biz to get bigger, bus frands
^{cap. attracts cap.}
~~nucleate clusters~~ agglomerate around existing nuclei. (& mergers, whole > sum of parts) Dixon-Yates, e.g.: 52m gets 187m

Put the two together, get a picture of modern industry

Larger firms, greater fuel power, buy up assets, expand in that sense. But don't expand output correspondingly.

Sometimes use that fuel power to buy up assets to keep others from expanding --- preclusive buying

U.S.S. --- 85% ore, 40% output

Accordingly, the larger the firm, the higher the ratio of assets to labor (& output). Scam., p. 126.

E.g. K&L --- 2m acres, vast oil & water hldgs, 1,000 employees.

$\frac{2,000,000}{1,000} = 2,000$ acres per man.

Small bus, other hand, mostly labor.

Same in farming.

There, can determine what is doubtless also true of other bus.: larger, less cap. ~~not~~ + land.

So corp. very conc. LCR ... 200 have 50%



So when anyone talks of ave. bus. size, b.s. Or ave. anything

How does ~~cap.~~ funds agglomerate? Just by lending to richer. But evolved fuel org.s. to raise vast sums.

P+resp — but drawbacks

Unlim. liab. (whom do you sue?)

Lim. life — any ptnr can dissolve.

$$\text{Loan} = 10\%(C+L)$$

$$L - 10\%L = C$$

~~WEXB~~
~~BR~~

So corp.

$$L = rC$$

$$C = L + r$$

$$L = rL + r$$

$$L - rL = r$$

$$L = \frac{re}{1-r} = \frac{e}{\frac{1}{r}-1}$$

~~the~~ Sell shares --- (I give yourself some. - water)
Like Juds ^{or genes & body, sperm cell} ... w. small inv-mt of your own,
control vast gobs of other peoples' M.

Put up 10% yourself, sell 90%. Only
the beginning

(Continuous battle to control corps)

p. 97. Maybe corp. structure lets "an unimaginative, bureaucratic mgmt group that lacks the incentives of ownership ... perpetuate itself in office." Milk the owners. Unprogressive policies, avoid risk, stick w. sure things, avoid rousing stockholders to criticize. Vote selves large salaries, bonuses, load payrolls w friends, buy from own firms at hi price, etc.

p. 98, Misleading table, corps by no., cfed to props & tnsps

p. 99. Lorenz data for corps by size. — by output & assets Good for thesis, too.

(Underrates corp. in fmgs, forestry & fisheries.)

Data show assets much more conc. than output. (but size groups based on assets)

(Spend a day in class develop Lorenz curve, showing tricks, & pointing morals)

Economic powers of fed govt

PART II Economic Org-n & Control

ch. 5. Business firms.

Enterprises' fn:

1. Org-n & control (he esp. emphasizes finding opt. size)
2. Bear risk
3. Raise funds (disembodied spirit concept. Realistically, entrep. guy supplies some funds, collects more around them)

Prop, Ptnp, corp. (Omits early land co.s, says ante-bellum corps mainly in canal, turnpike, rr., banks & textiles. Of course early xpt. co.s were largely land)

H.C. & pyramiding (add banks, ins. co.s.: Metrop. life has \$10.96 assets!)

p. 93, assets, shareholders & employees of several large corps. (Turn to & discuss. Labor extensive. S.O. of Nf, \$4.76 assets, 120,000 employees, or $\frac{4,700,000,000}{120,000} = \$47,000$ per employee.

$$\text{AT\&T, } \frac{\$76}{550,000} = \frac{7,000,000,000}{550,000} = \text{c. } \$14,000$$

Doesn't seem hi enough.

(Skip K8H pp 126-7, advs of corp) (& don't brood over 128 on watered stock)

Entrepreneurship — enterprise

Form of labor. The labor connected with owning ~~the~~ resources, & deciding what to do with them. Watch'g mkt's, predict'g future, risk'g funds in new ventures.

Involves risk. May say all life involves risk, true — & to that extent each of us is an ~~entrepreneur~~ enterpriser. — captain of our own ships. Matter of degree. Man who meets payrolls, takes resp. for pay'g debts, sell'g goods, etc — the one who loses shirt if things go badly — enterpriser. (Sometimes he just loses his yacht, or polo ponies)

Who is enterpriser? Always rich? No, more likely middle class. ^{contractors, slums.} Must have some M. of his own to inv. in bus. But not too much. If great riches, won't usually want to bother work'g any more, just takes ease, enters politics, etc. Still on make. Works on borrowed M — borrows it from those who have more than they know what to do with.

So he's in risky spot. Debts, fixed charges, wage bills, raw materials. To pay, income from sell'g goods.

Residual inc. May be neg. — bankrupt.

Other hand, to compensate for that, he may make great gains, when $P \Delta$ faster than costs — when? ('40-'50)

His ~~greatest~~ ~~problem~~ first problem is raising M to get started on - can't sell goods until has land, ^{builds factory,} can pay labor & raw mat.

Shrt. tm credit fairly easy. Long tm tough, for land & bldgs. To get that credit, ent. joins with others.

2 Forms: ptnsp. corp. Hence 3 fms. all told. 123

Corp now controls most -- 760% output, & probly higher % assets. - tes, hug best credit, buy some assets & under use. E.g. USS, own higher % than produce.

~~RAshper~~

Prop.

Good: owner controls his own cap. Small enough so he can supervise closely, give it an owner's care - efficient use of resources.

Flexible. No institutionalization. Contrast, break up USS, who will pay pensions, widows, orphans, etc.

Corps encroaching on prop-shps, continuously. Ominous trend - tho some good in it.

Too small for giant projects. Perhaps too shortlived.

Ptnsp:

Helps raise cap. Often 1 ptnr only provides cap, other mnges.

Disadvantages of no head, fixed resp. - all ptns free agents.

Unlim. Liab. - 1 man suddenly resp. for

So 3d fm: corp. Limited Liab. (Ltd., after Eng fm, Inc)
Indep. legal existence.

Hence can sell shares to rich. No rich wd. enter a ptmsp -
one ptsp cd. borrow on his credit, squander M, & leave
creditors to sue whom they please. They choose rich - not
the one at fault.

Same as auto wreck.

Shares --- residual. ∴ Thus raise M, buy assets.

Then ~~sell~~ on basis of assets, borrow --- sell bonds.

(why can't indiv. sell bonds --- must be core of assets (st))

Know ~~sta~~ common & pfd, Mortgage, collateral trust, debenture
& income bonds.

Par value - means 0

Advantage:

Raise M - transcends all others. To buy fixed
assets.

Water^{ing} stock -- diluting the equity. Selling stock to insiders for less than mkt.

"Capitalization" - sum of par values & issue prices of securities, - bonds & stocks.
Is a myth. Same as "book value" - again a myth. If hear someone say "Corp worth \$30m", etc, not saying anything. Make him specify: what is worth \$30m: assets? Book value? etc.

Book value a figment of accountants' imag. Don't put value on assets -- e.g. carry bank bldg at \$1, or good will. ~~What's the~~ If you think that is what they really think it is worth, try to buy it.

Don't appreciate l.v. - but mkt does -- e.g. NPac.
W-r, carry timber at 1913 value.

Drawback of corp - separate control from mgmt. Acquiring more assets than can manage efficiently --- spill out all over map. Cease to be free ent. - become entrenched, ineff., often privileged group.

Bring e.g. - Graue Co.

What's bull? bear? (bull buys long - or just buys. Bear sells short - or just sells - by extension)

(bum steers)

What's f_n ? Smooth P fluctuations; shift risk

~~Skip to next p~~

Where else futures mkt? Stocks.

Not quite same. Commodity mkt's deal in circulating cap, raw materials, stuff of which inventories made. -- the goods which flow thru pipe lines. Farm products, & some ores ^{& crude metals} -- those not mined -- used to be ~~main~~ org. mkt for iron ore, no longer amounts to much bcs 1 co. controls most supply.

Stock mkt, deal in securities rep's ownership of fixed assets -- land & equipm't.

Futures mkt there has no such obvious fn. as comm. mkt's, where iron's out seasonal fluctuations, shifts risks, etc.

What is ec. fn of stock spec?

(Resale mkt, keep stocks liquid, so people will buy in primo.

Land spec.?

Fri:

No pick on girl who said A Sm... 10 yrs.... Nice girl, good grade.

Not only one. Another nice girl ... long div.

Woe be unto him who wd strain at a gnat & swallow a camel

Problem of disagree's.

Corp, further.

1. Protecting investors.

Why nec? Why can't protect selves?

Could, but then there wldn't be so many of them. Advantage of corp. is ease of finj. Sell sec. to 1,000s, & those people don't have to bother about corp. --- own 3 shares, won't travel to NY for mtg to check up

Too, lot of suckers, buy Brooklyn Bridge. Lot of sharpers out look'g for them. Monogram ----

Now, SEC, can't happen so easily. --- tho still com. Tucker ---

SEC no foolproof guarantee. --- may make things worse by giv'g false sense of sec.

In '20s, no SEC, but great sense of sec., confidence in stocks. Buy anything.

K & H, $\frac{1}{2}$ new sec. turned out worthless.

Many were h.c. — issued stocks to buy stock of other corps, draw together. Buy's public mad about bigness — everything bigger was better, even if no op's connection. Big mergers, stock had rep. of going up.

Natch., with all those ~~fat~~ sleek sheep trotting around, swindlers stepped in w their shears to snip off a share of the velvet. Formed new corps, h.c., to amalgamate op. co.s.; paid selves fat fees, finally shipped out, left fleeced sheep shivering in cold.

Finally so much corruption came to light, lost conf. in all stocks, crash.

So, New Deal era, SEC to regulate new issues, & sec. mkt.s.

Not imposed by govt on unwilling bus. community. If so, wd. never have happened. '29 blackened name of Wall St in every corner of U.S. Those selling stocks based on

real assets very happy to have ~~with~~ SEC clean out others.
Restore confidence in stocks, so theirs wd. Δ again.

& so we have SEC, '34. To sell sec, corp. must register them,
& file prospectus — which must precede or accompany sec. when delivered.

Doesn't always protect — many investors too lazy to demand to see
& read it. Tucker.

Nonetheless, S.E.C. has teeth — (we will see many regulatory
agencies don't) — has suppressed many frauds

Interesting question, is SEC desirable. On one hand,
seems obviously desirable to suppress fraud, etc.

But let's look at other side for a moment. Have
a problem of excess corp. size -- too big. People in
small towns in Oregon, instead of invest'g in local enterprise,
send M off to NY to buy some giant corp which proceeds
to buy up a good deal of Oregon & controls it from
NY. & by S.E.C., govt encourages people to do it.

Leave to you.

Brings us to question of corp. combinations.

Tons of mysterious mumbo-jumbo written on subject, but you'll understand it all pretty well if you remember a simple principle: & no matter what you do in life, where you go, you will find this principle holds true. & if you bear it in mind, will clarify many things that otherwise wd seem very mysterious.

"The more assets you have, the easier you can ^{raise or} borrow more"

"assets cluster around existing nuclei"

"To him that hath . . ."

Simple. ^{Home towns} Banker, prefers borrower who puts up collateral security

"You can only borrow M if you don't need it" Larger scale, same true of giant corps.

&, again, bigger you are, easier to borrow, & sell new stock.

I saw H.B.R. study, '37, shows i.r. & fuel charges

Belle & Meann, 200 largest corps, 1909-29, Ad much faster than others. Mostly by sales of new stock

Vert. & horiz --- rationalization. "Jump on horse . . ."

Koppers.

"Everybody goes into everybody else's bus."

$\sqrt{\text{Cap-n} \dots V = \frac{a}{c}}$

Now I hope you'll understand what ^{people} I mean when say Wall St. is
nerve center of ec. It is not that Wall St. itself directly owns
so much. But so much of our corp wealth is owned & manip.
than W. St.

Qns from Bach, ch. 12

What is corp. Stock, bonds.

Inc. statement & balance sheet. Which is more accurate?

Comments on Bach, ch. 12

p. 223 Error - little evidence of Δ 's conc-n

233 . Expert mngs mngs yr assets better than you.

Responsible public service attitudes? b.s. Mpy. War feet-
dragg's. Lobby's. Suppress'g comp-n.

Mass prod-n due to giants. No. H. Ford. Research?
Not esp.