$$Corporation = f(History, Law, Economics)$$

¶ 1.1



Engineering the Corporate Machine

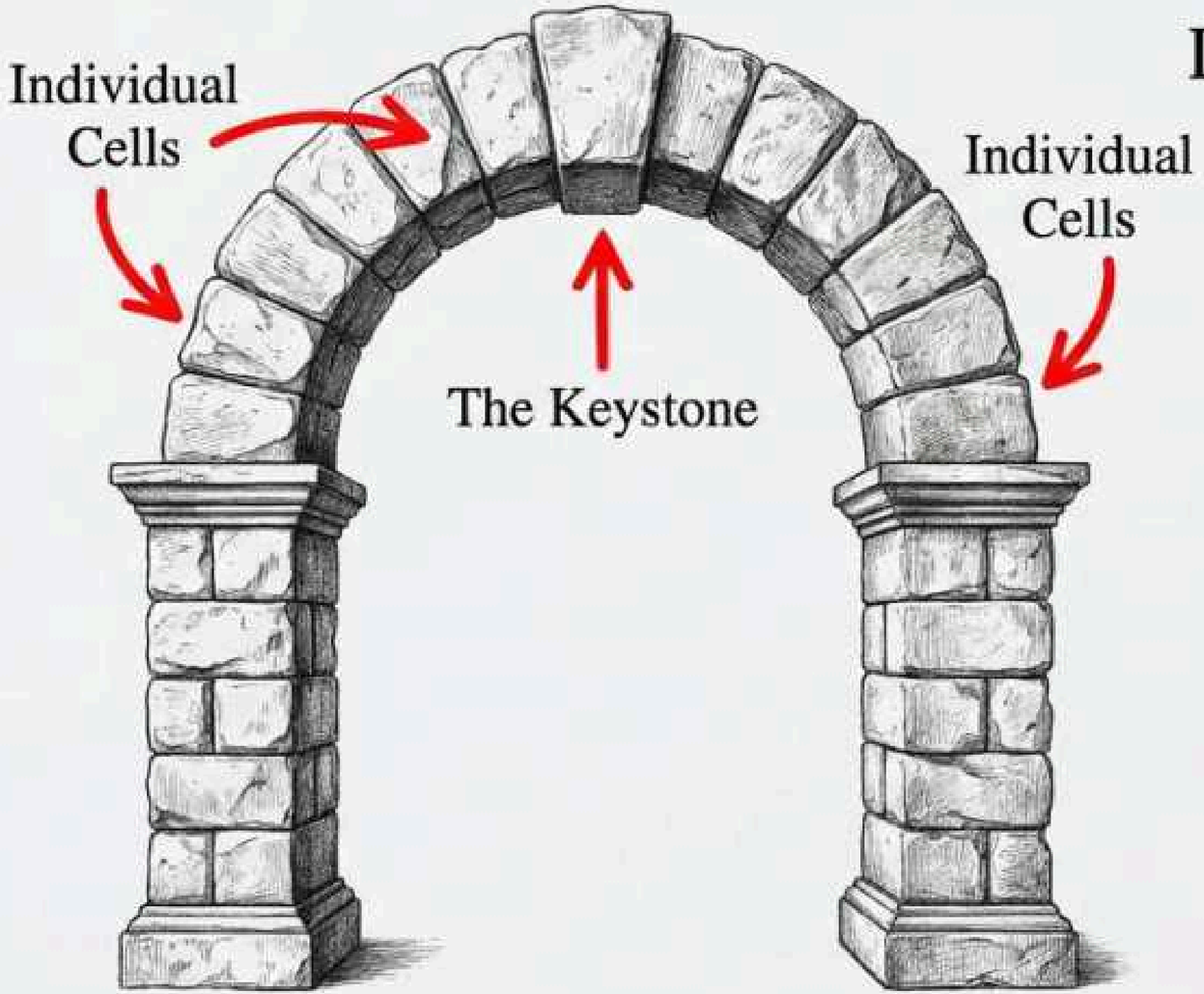
Origins: Where did the legal concept of a unified corporate body originate?

Democratization: How did it evolve from a rare royal privilege into an accessible tool for the public?

The Friction: Why did the introduction of limited liability provoke such fierce and lingering debate?

The Roman Foundation: Collegia

¶ 1.2



Latin: *Corpus* (Body) → Corporation

Many Parts ≡ One Entity

The Precedent:

Roman law recognized associations called *collegia* (craftsmen guilds, burial societies) capable of holding common property.

The Mechanic:

A body acts as one. The critical legal innovation is that the entity survives the replacement of any of its individual cells.

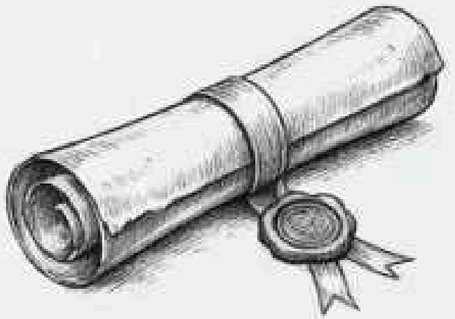
Medieval Corporate Bodies: Institutional, Not Commercial

¶ 1.3



Towns & Boroughs

Granted by the king; empowered to hold land, make bylaws, govern markets.



Universities

Oxford and Paris formed as "corporations of scholars".



Guilds



Monasteries & Church

These bodies were not businesses. Their engineering purpose was to establish the principle that an association possesses independent rights and duties separate from its members.

The Invention of the Persona Ficta

¶ 1.4



Persona Ficta = Legal Rights – Mortal Soul

Premise

The corporation is a "fictional person."

Deduction

Because it lacks a human soul, a corporation cannot be excommunicated by the Church.

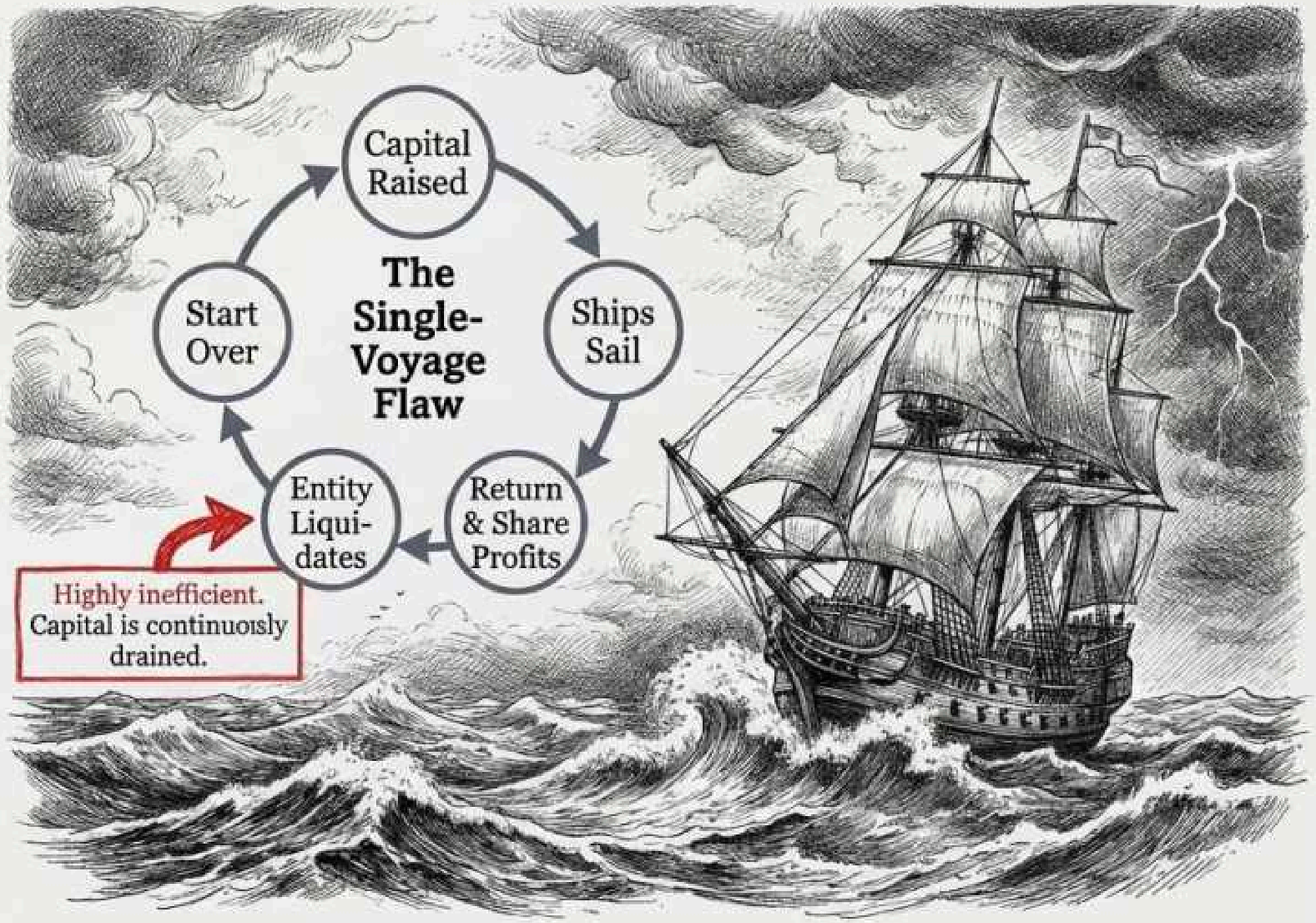
The Unsettled Debate		
1. A pure Legal Fiction?	2. A Real Group of individuals?	3. A mere Bundle of Contracts?
Medieval lawyers wrestled with the entity's true nature—a debate that remains unsettled today.		

Overseas Trade & The First Monopolies

Asian voyages were dangerously expensive and long. No single merchant could finance a fleet.

Milestone

1600: Queen Elizabeth I charters the English East India Company (monopoly over trade east of the Cape of Good Hope).



The Dutch Innovation: The VOC (1602)

¶ 1.6

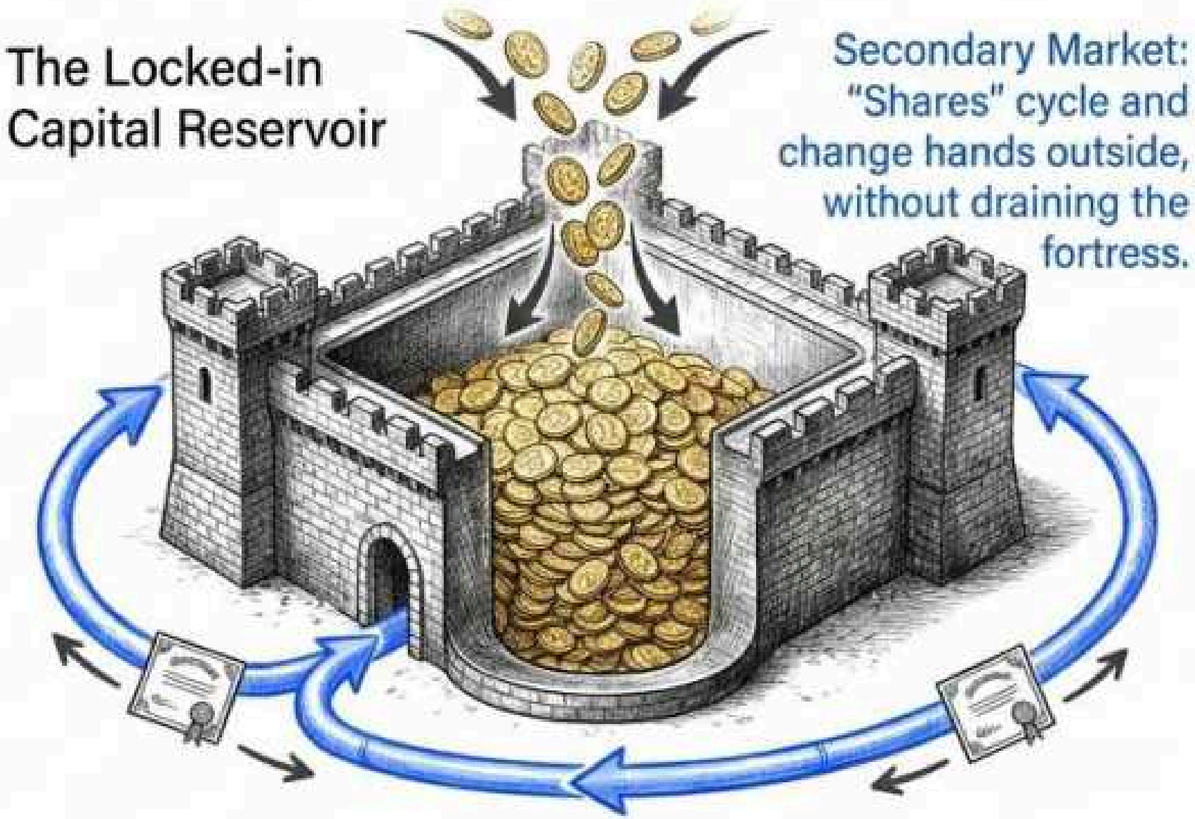
English EIC (1600)

Capital returns after each voyage.



Dutch VOC (1602)

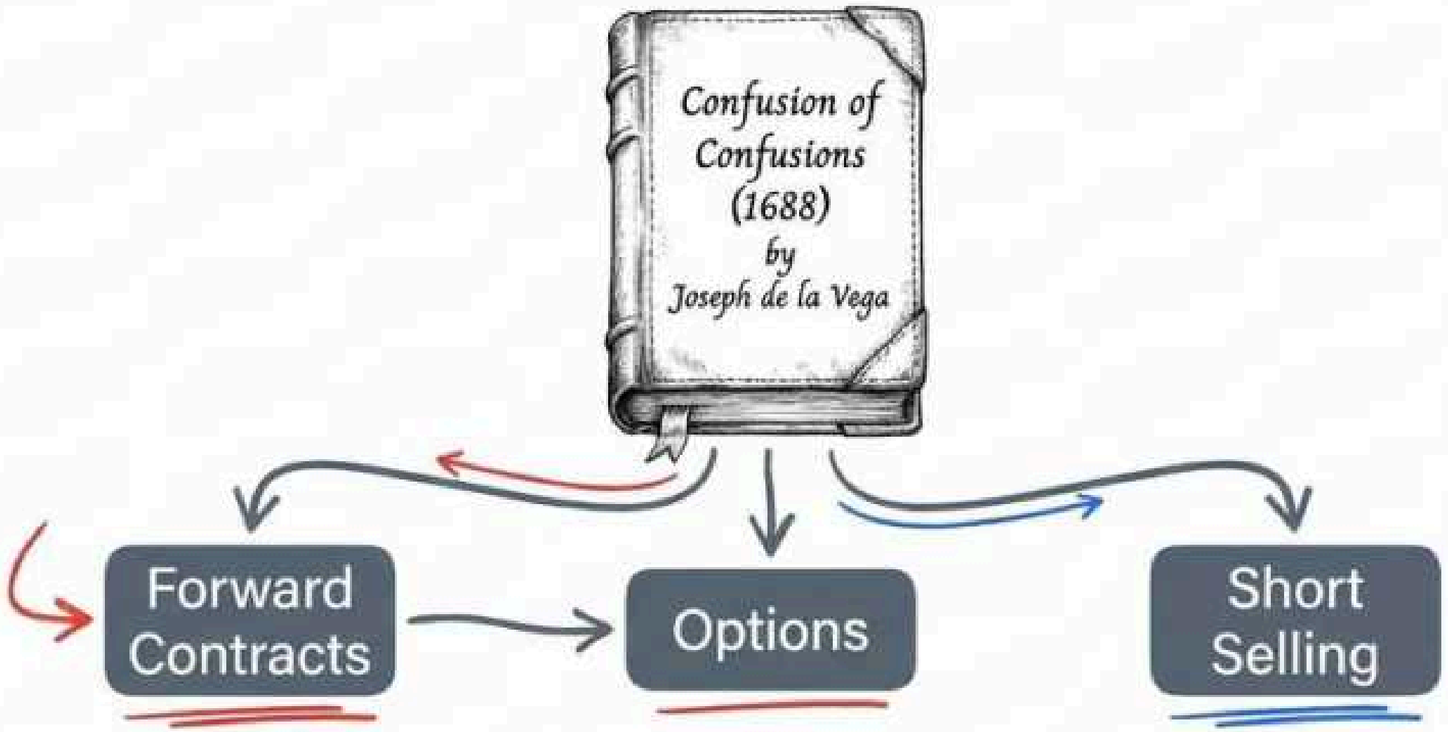
Capital is locked in for years. Enables long-term infrastructure (forts, warehouses, fleets).



The Locked-in Capital Reservoir

The First Modern Stock Exchange (Amsterdam)

¶ 1.7

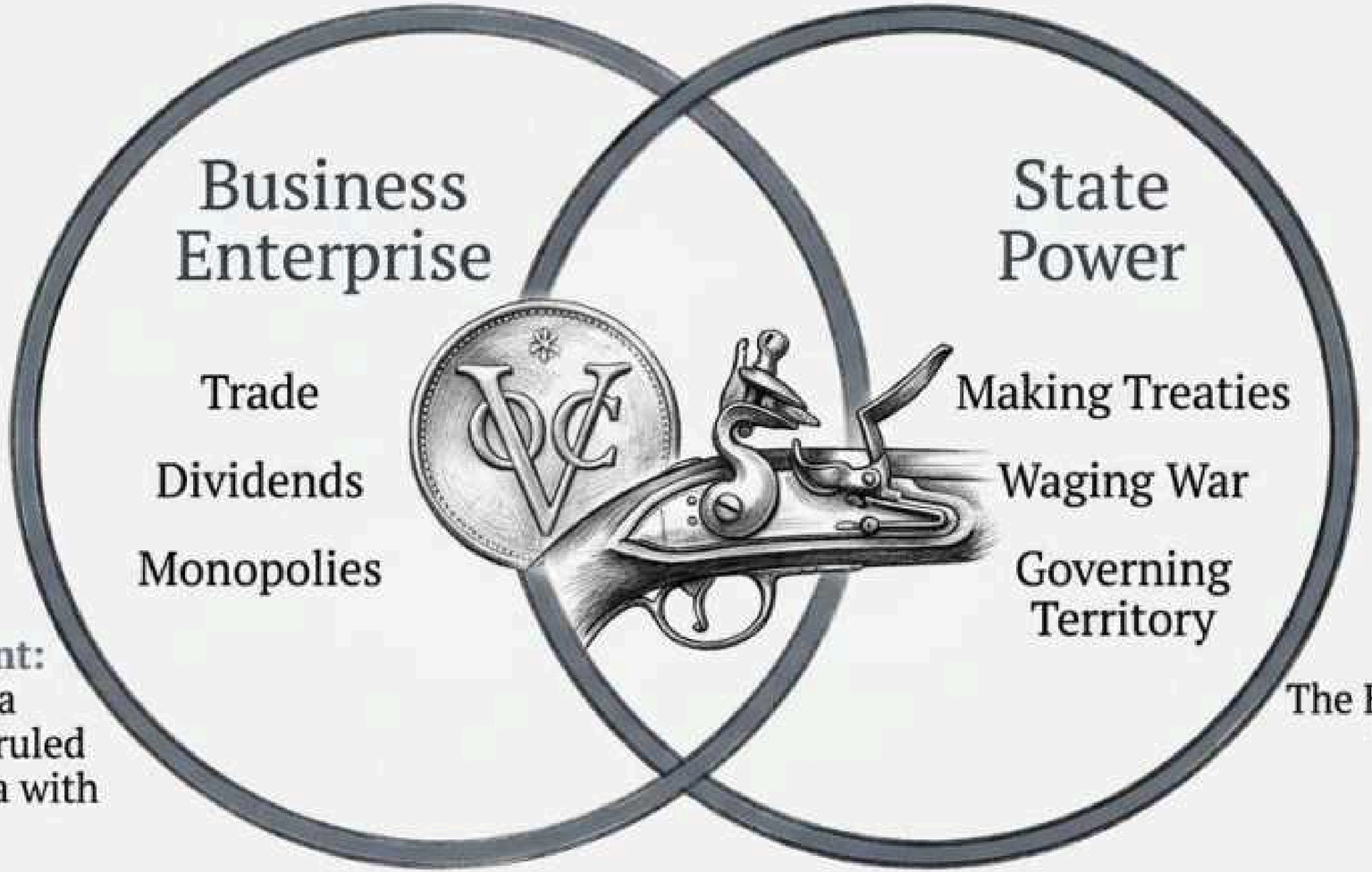


Ownership changes hands; the Company retains the capital.

The ability to exit an investment without forcing the company to repay the funds is the engine of modern finance.

The Corporation as Sovereign

¶ 1.8



Historical Proof Point:
The English East India Company eventually ruled vast stretches of India with its own private army.

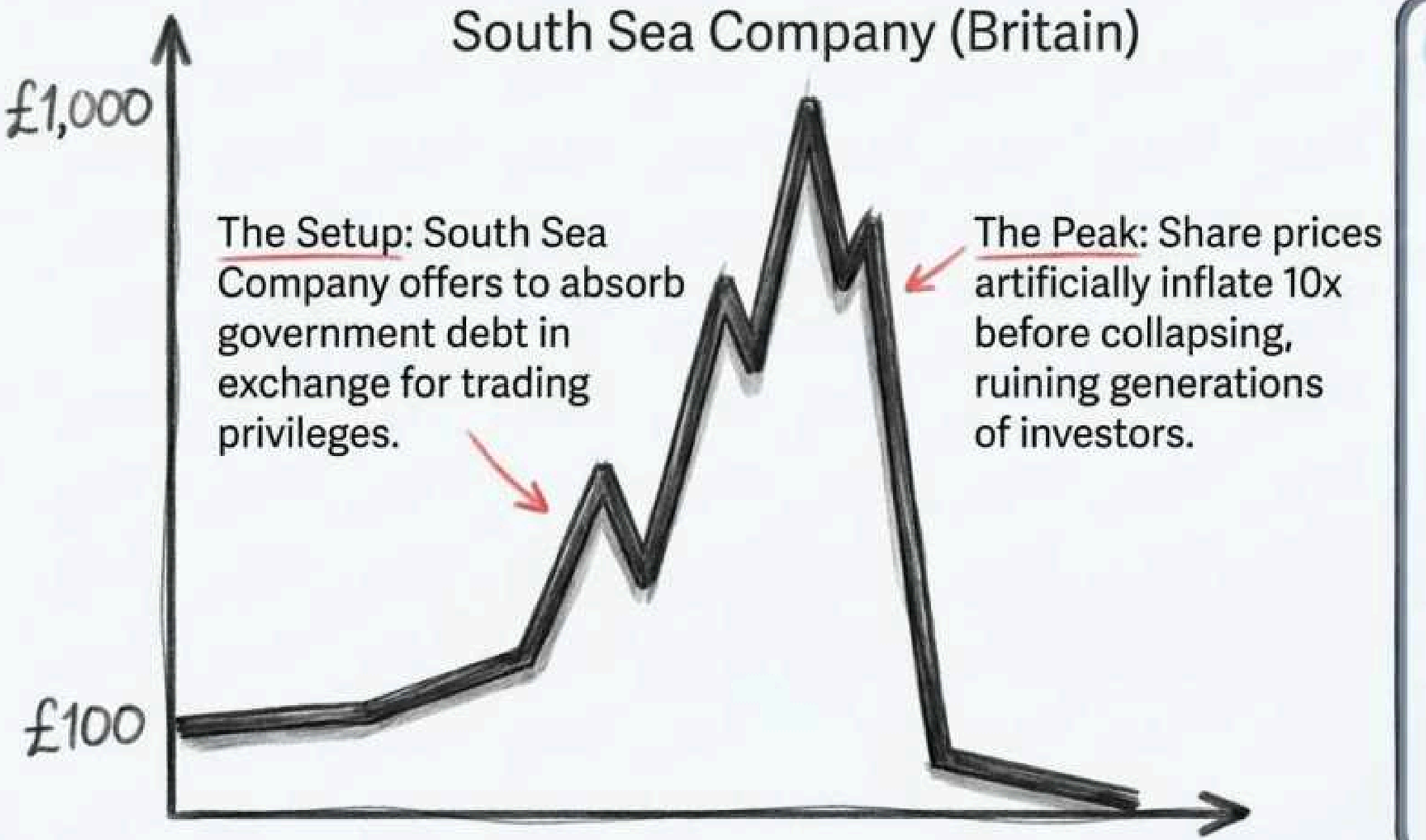
Resolution:
The British Crown forcibly took over operations following the Indian rebellion of 1857.

A recurring historical theme: whenever corporations grow massive, their borders blur with state power.

1720: The First Great Bubble

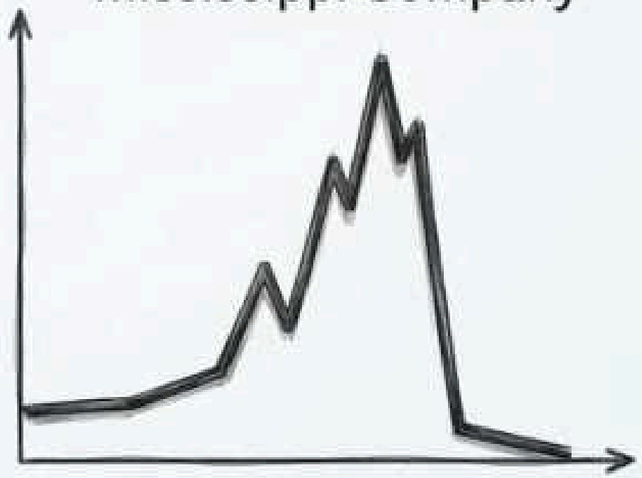
¶ 1.9

South Sea Company (Britain)



Meanwhile in France...

John Law's Mississippi Company



The exact same speculative rise and ruin occurred simultaneously across the channel.

The Bubble Act & The Era of Unlimited Liability

Parliament passes the Bubble Act of 1720.

↓

Joint-stock companies are completely banned unless they secure a rare Royal Charter or Act of Parliament.

↓

Businesses are forced into Unincorporated Associations.

Partnership = Unlimited Personal Liability



↓

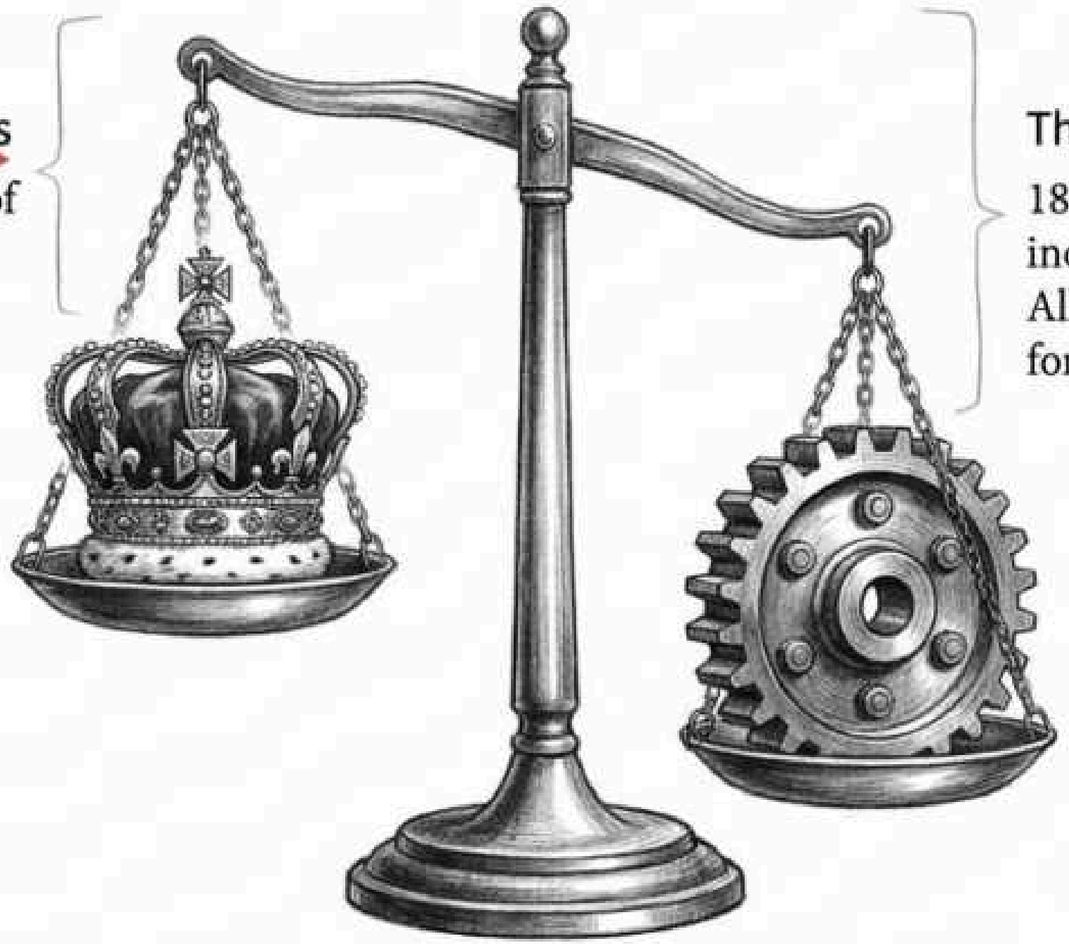
Every partner became personally liable for the firm's debts to their last penny.
This massive risk completely chilled the participation of passive investors.

Democratization in the New World

The scale of new 19th-century infrastructure (canals, railways, factories) demanded vastly more capital than a few partners could supply.

The Old Way: Special Charters

Slow, elite, and a massive source of corruption in state legislatures.

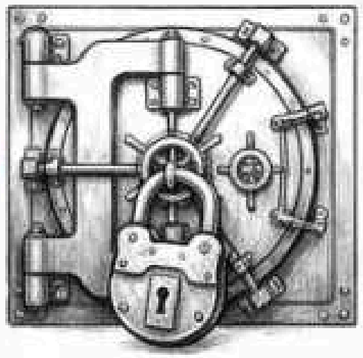


The New Way: General Registration

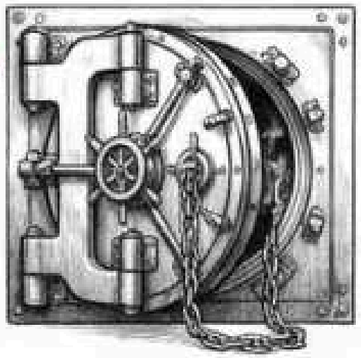
1811 New York Law. The first general incorporation law for manufacturing. Allowed anyone meeting basic conditions to form a corporation by simple registration.

The British Legislative Unlocks (1825–1862)

¶ 1.12



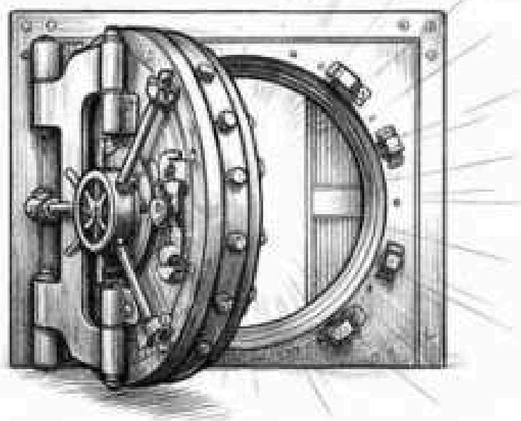
1825: Bubble Act Repealed
(The freeze ends)



1844: Joint Stock Companies Act
(Incorporation by registration becomes possible)



1855: Limited Liability Act
(Shareholder personal wealth is shielded)



1862: Companies Act
(Consolidation of the modern form)

The democratization is complete. By the late 19th century, a small shopkeeper wields the exact same legal instrument as a railway baron.

The Fierce Debate Over Limited Liability

The Critics

Core Fear: Moral Hazard.

Allows investors to reap rewards while pushing losses and ruin onto innocent creditors.

Actively rewards reckless speculation.



The Supporters

Core Benefit: Capital Aggregation.

Without a shield, wealthy savers would never invest in firms they do not directly manage (fearing the loss of their homes).

Limited liability prevailed because it allowed savers to safely spread small sums across many ventures, making large-scale industry possible.

The Ultimate Test: Aron Salomon (1892–1897)



Step 1: The Setup (1892): Aron Salomon, a London boot maker, incorporates. He holds almost all shares; his family members hold exactly one share each to meet the legal minimum.

↓

Step 2: The Crisis: The company fails. Creditors demand Salomon's personal assets, arguing "Salomon Ltd." is just an alias for Salomon the man.

↓

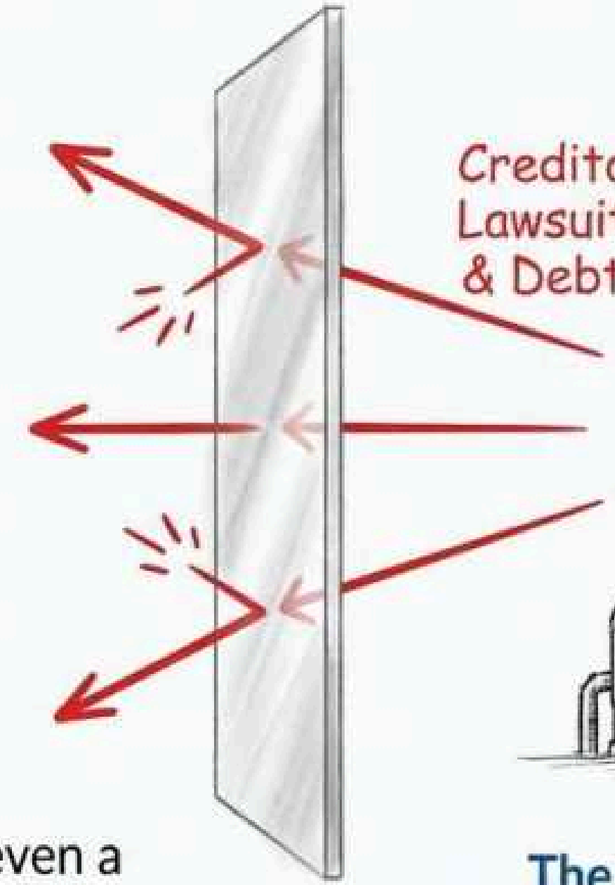
Step 3: The Ruling (1897 House of Lords): The court sides with the bootmaker. The company is a separate person.

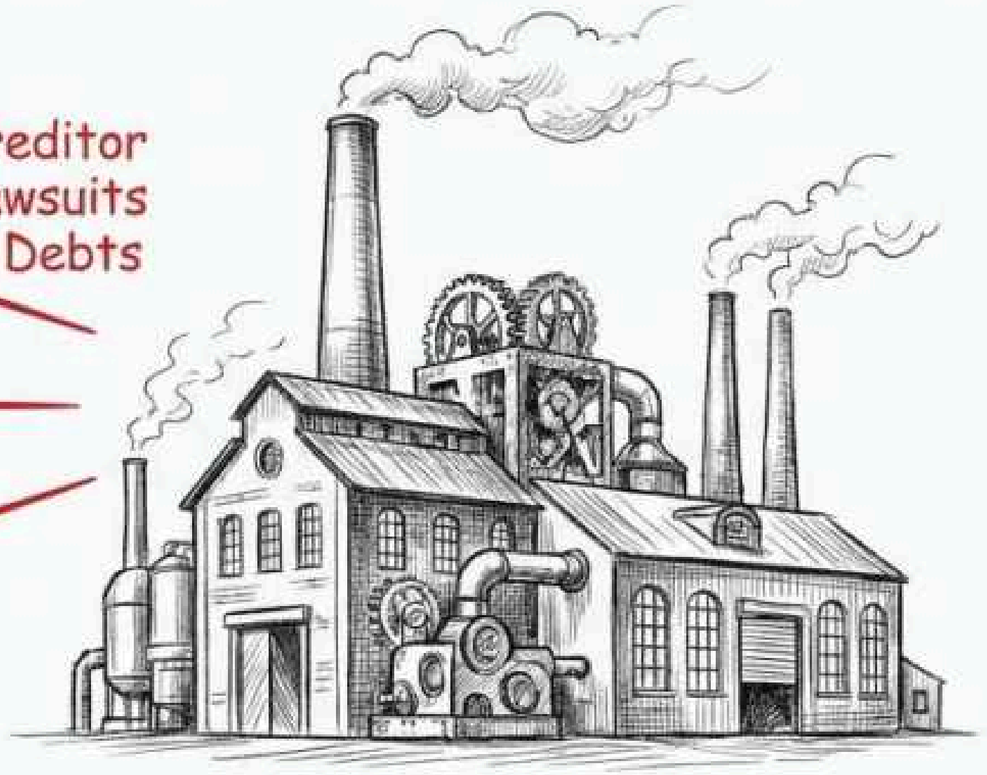
Aron Salomon (Natural Person) ≠ Salomon Ltd. (Legal Person)

The Corporate Veil

¶ 1.15







The *Salomon* decision proved that even a one-person business can legally shelter behind the entity. Explains why most small firms today incorporate rather than operating as sole traders.

The Lasting Dilemma: Under what extreme conditions should courts pierce this veil? (To be explored in Lecture 2).

Arrival of the Modern Titan (By 1900)

$f_n = \sum f(xi) = \log \frac{d(x)}{dt}]$

The Completed Machine

- [x] Open Access to Anyone
- [x] Limited Liability
- [x] Transferable Shares
- [x] Perpetual Life

$\{X = l\}$

The Resulting Scale

In the US, **giant firms** like Standard Oil and US Steel emerge.

1901: US Steel becomes the first company in history valued at over $1 Billion.

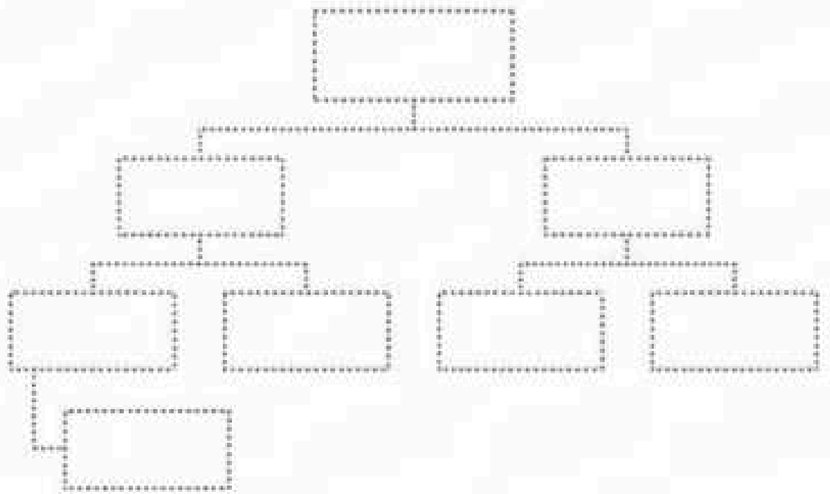
$[x = b]$

Consequence: The immense power of these completed entities forces the creation of modern **Antitrust Laws**.

Closing Exercise: Erasing the Architecture

1. Choose a modern company you know well. Find out when and where it was incorporated.

2. Thought Experiment: Mentally strip away the corporate veil. Imagine it is forced to operate as an unlimited partnership.



Δ Owner Risk = ?

Δ Capital Friction = ?

