

Resisting and Regulating Corporations through Ecologies of Alternative Enterprise: Insurance and Electricity in the US Case

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Little ‘r’ republicanism has proven a resilient animating theme in struggles over corporations and economic order in the United States, with its producerist visions of economic autonomy, self-governing communities and egalitarian, regionally based, small-stakeholder economies of yeoman farmers and independent producers.¹ Indeed, republican–producerist projects of reforming and reconstructing American capitalism have figured centrally in seemingly quite disparate places, ranging from nineteenth- and twentieth-century struggles over banking and railroads, the agrarian revolts and various strands of unionism to the local foods movement and even faith-based organizing (Goodwyn, 1976; Hattam, 1990; Voss, 1993; Berk, 1994; Donohue, 1999; Schneiberg, 2002; Marquis and Lounsbury, 2007). As the Table 37.1 suggests, even in the US, that ‘wellspring of corporate capitalism’, producer groups, farmers, workers, consumers and public officials have been remarkably varied in how they have worked to contest corporations and realize republican aspirations for more decentralized development. These groups have deliberately sought to *reform* markets and corporations via *overlays of organizational control*, whether through the regulatory state, in the form of independent commissions or mandatory disclosure, or through private governance, ranging from self-regulatory associations and third-party certification to consumer boycotts and collective bargaining. They have also used state power to *directly recompose the architectures of markets and corporations*, via anti-trust policies,

corporate charter reform, regulation or even (rarely and briefly) nationalization.

This chapter fills out the table by analysing an important but less well appreciated strategy for contesting corporations and reconstructing capitalism along republican lines: working mostly outside central states or formal political institutions to recompose markets directly by organizing parallel systems of cooperative, mutual and local/state-owned enterprise. The heart of this strategy is to complement, compete with or bypass for-profit stock corporations by self-organization among producers or consumers and by cultivating enterprises structured to serve different constituencies and purposes than shareholder value and financial returns for a specialized investor class.

I advance three points in the service of a broader counter-narrative about these alternative forms. First, dismissing cooperatives, mutuals and the like as relics of a small-town agrarian economy long past or as utopian experiments revived in the 1960s, underestimates not only their salience and persistence in American capitalism, but also how they stand with the regulatory state, anti-trust and private governance as vehicles for resisting corporations and pursuing distinctively modern projects of development, market-making and revitalization.

Second, worries notwithstanding that cooperatives and related forms sometimes look increasingly like corporations as they adapt to market conditions or incorporate managerial principles, they nonetheless possess distinct structural features that have let consumers and producer groups opt out of provision by corporations and pursue investments in service,

Table 37.1 Strategies for Contesting Corporations/Reforming Corporate Capitalism

	State	Non-State
Reform markets and corporations	Classic regulation	Private (neoliberal) governance
Recompose markets and corporations	Anti-trust policies, charter powers	Alternative enterprise systems

innovation and improvements that would not otherwise occur (Heflebower, 1980; Hansmann, 1996). Cooperatives and kindred forms eliminate the independent investor shareholder from the firm. They not only unify ownership and some level of formal authority over the firm with the roles of producer, consumer or citizen. They also substitute a market exchange and dependence on distal corporations with an ownership relation, local and decentralized collective self-provision and potentials for self-governance. Such features transform relationships and incentives among stakeholders and the firm. They shift the purposes and masters served away from shareholder value, eliminating many of the moral hazards associated with investor-owned firms, including incentives for stockowners to benefit themselves at producers' or consumers' expense. They tie enterprises instead to the substantive economic interests of the consumer or producer groups and communities they serve. Moreover, in supporting business strategies and investments that corporations are unwilling or unable to pursue, they can foster competitive dynamics that drive corporations and markets to new equilibria and create possibilities for decentralized, small stakeholder development (Schneiberg, 2011).

Third, more fully understanding these dynamics requires supplementing organizational-level preoccupations with the internal features of cooperative or local state-owned enterprises with ecological perspectives that consider the evolution of alternatives as *systems* of enterprise and their effects as systems on corporations, market dynamics and the state's regulatory capacities.

This chapter develops the core argument by presenting two cases of the use of alternative enterprise ecologies to resist and regulate corporations in the American economy. The first involves the evolution of a system of consumer-owned mutual companies alongside joint stock corporations in the property

insurance industry through the first half of the twentieth century. The second involves the mobilization of municipal enterprise and electrical cooperatives alongside and against investor-owned corporations in the electrical utility industry. Both cases reflect republican–producerist aspirations for economic development and reconstruction. Both reveal surprising leverage for contesting corporations and upgrading markets via organizational diversity and alternative enterprise forms.

1 Mutual Enterprise in Property Insurance Markets

The US property insurance industry of the late nineteenth century through the early twentieth strikingly resembled contemporary finance in key respects, standing as a system in which firms and shareholders relentlessly pursued short-term gains at policy holders' expense. The sector and its governance institutions were dominated by national and international stock corporations including Aetna, INA (later Cigna) and the Hartford that were closely linked and that often closely coordinated their activities via rate-making associations (Merritt Committee Report, 1911; Reigel, 1916; Wandel, 1935). These companies did not make money from their insurance operations via careful underwriting, reducing hazards or otherwise serving clients' insurance needs, but rather from 'banking profits' derived from maximizing premiums and investing them in securities and other financial instruments. Stock corporations thus faced powerful incentives to focus on dense urban areas and large commercial risks, where premiums were easy to collect in volume or values were high, which yielded accumulated and correlated risks in cities but uneven coverage that left various regions and risk classes underserved (Bissell, 1921; Zartmann, 1921).

Corporations also relied on independent agents and brokers to sell policies, who were paid on commission, and saw none of the costs of losses on policies they wrote. Here, too, key players faced powerful incentives to maximize premium flows with little regard to risks, generating complaints about commissions as a ‘corruption fund’ that induced agents to lower underwriting standards, waive restrictions, misclassify properties and pass risks, good and bad alike, on to the companies (who then passed them on to largely unregulated reinsurance pools). Furthermore, companies treated their actuarial experiences as proprietary trade secrets and resisted efforts to pool loss data. Failures to pool data left insurers without key foundations for estimating loss costs, knowing how far one could trim rates in competing for premiums, or estimating the level of risk piling up in firms’ underwriting portfolios (Dawson, 1921; Parker, 1965). To make matters worse, stock corporations and their rating bureaus proved stubbornly resistant through the 1890s both to the overall level of losses and to investing in helping individual insureds reduce losses. This reinforced disincentives for individual firms, agents and insureds to invest in loss cost-reduction, while fostering a general disregard for hazards associated with urban growth and industrialization (Brearley, 1916; Wandel, 1935; Heimer, 1985).

Thus, like contemporary finance, the property insurance industry of the turn of the last century was organized as a vehicle for generating income for investments and produced powerful tendencies for high-volume provision with excessive risk-taking, inadequate reserves and accumulating correlated risks in congested urban districts. Indeed, convergent incentives and underinvestment in insurance infrastructure left the industry vulnerable to scrambles for premiums and ‘rate demoralizations’ that eroded reserves, amplified underwriting cycles and magnified rather than reduced uncertainty for policy-holders and local economies. Insureds frequently experienced rate hikes and insurance shortages after price wars and large fires (Brearley, 1916). When cities burned, companies lacked the reserves to pay and experienced waves of bankruptcies that wiped out whole segments of the industry, followed by company reorganizations, new cartels and enforcement schemes, steep rate

advances for regions or whole classes of policy holders and protests against the ‘insurance combine’ (Bissell, 1921; Oviatt, 1921; Zartmann, 1921).

Consumer, business and farm groups responded with a full range of measures: anti-trust prosecutions; regulatory schemes that subjected rates and rating associations to state oversight; and private governance solutions, including boycotts and collective bargaining over rates (Grant, 1979; Schneiberg, 1999). They also organized ‘veritable tidal waves’ of property insurance mutuals from 1870 to 1900, yielding at least 3200 insurance mutuals in operation in the first decades of the twentieth century (Bainbridge, 1952; Schneiberg, 2002). This was an alternative system of enterprise structured along radically different lines than for-profit stock corporations, national markets and insurance provision for banking profits. Mutuals were consumer-owned enterprises tied to the substantive interests of insureds and their economic needs as producers and property owners rather than the interests of an independent class of owner–investor shareholders. They were cooperative enterprises grounded in strategies of collective self-supply and self-organization among pre-existing communities of producers and consumers. They reduced incentives for company owners to benefit themselves at consumers’ expense by unifying those two roles and eliminating the specialized investor–shareowner from the firm. And they constituted both a dispersed system of insurance provision and an infrastructure for realizing Jeffersonian, producer–republican aspirations for economic order pursued by the Grange, Farmers Alliance and other anti-corporate movements during the late nineteenth and early twentieth centuries in their effort to break ‘trusts’ and forge a more decentralized economy of independent producers, farmers, regional markets and self-governing communities (Schneiberg, 2002; Schneiberg et al., 2008).

For Grangers and Alliancemen, corporate consolidation and Wall Street left the producing classes degraded and in servitude, dependent and indebted to non-producing sorts – ‘combines’, middlemen, furnishing agents, financiers and ‘eastern interests’ – undermining virtue and depriving producers and their communities

throughout the west and south of resources for local development (Buck, 1913; Bainbridge, 1952; Knapp, 1969; Goodwyn, 1976; Nordin, 1974; see also Berk, 1994; Voss, 1993). Farmers especially were ‘fleeced coming and going’, their communities ‘starved’ for development resources, and their children at risk of becoming ‘slaves’. The solution was to combine legislation against monopolies with programmes of cooperative enterprise and self-help grounded in the mobilization of friends and neighbours in local communities and the creation of a ‘cooperative commonwealth’ of farmers and independent producers organized into purchasing associations, processing cooperatives, state exchanges, insurance mutuals and more. Cooperatives, advocates argued, would not only break servitude and foster ‘a free and independent people’ but also let producers recapture for themselves and their communities the fruits of the labour and resources for development. Grangers routinely likened stock insurers to railroads, advocating mutual responses.

Patrons, you cannot afford to pay those high premiums to joint stock companies. Insure yourselves and keep some money at home. Commercial companies wasted seven tenths of the premiums. This immense sum is an annual gift from the hard working people to a set of sharpers who ridicules us for our stupidity while reveling in luxury on our hard earnings. (cited in Kimball, 1960: 45)

Moreover, mutual solutions drew upon and encouraged civic virtues – self-help, diligence and self-discipline within local communities – fostering responsibility and self-improvement among policy holders, and even serving as training schools in business methods and democratic management (Knapp, 1969:14; Heimer, 1985). ‘It has always been the practice of mutual companies’, a key advocate explained, ‘to instruct owners in their duties to their own properties, and to keep them up to the mark by constant supervision’ (Atkinson, 1921: 370). Such solutions instantiate self-governing communities.

Since the executive committee and all the applicants are neighbors and acquaintances . . . no man with a secure reputation can secure insurance . . . and every policy holder is constantly, as it were,

under the surveillance of its neighbors, who are members – many of them – of the same company; consequently the opportunities for fraud are not good [and] usually results in ostracism for the offender. (Bissell, 1921: 123)

‘The policyholders, in a sense constitute a family’, another observed. ‘They are bound together by neighborly ties, and this almost eradicates the moral hazard’ (cited in Schneiberg, 2002: 54). Mutuals, in short, were mobilized both as organizational weapons against corporations in struggles over prices and service, and as platforms for broader efforts to reshape American economic order, to promote economic self-sufficiency and freedom and to pursue visions of a more decentralized and egalitarian republic of farmers, independent producers and self-governing communities.

Mutual enterprise made great business sense for their client consumer-owners, letting them organize an insurance system without the liabilities of for-profit provision and emerging, as much as the corporation, as a ‘natural’ organizational product of capitalism. Mutuals’ proliferation transformed insurance market dynamics – and the behaviour of corporate insurers – in ways that decisively benefited insurance consumers (Heimer, 1985; Schneiberg, 2002; Schneiberg, 2013). Most simply, mutuals directly competed with national stock insurers and their associations, counter-balancing the ‘insurance combine’ and tempering corporate excess –overcharging, onerous terms and poor service. Based on ties to insureds, elimination of the agent-middleman and distinct operating advantages in selecting risks and managing losses, mutuals offered insurance from 25 per cent to as much as 75 per cent below stock company rates. In so doing, they made serious incursions in the Upper Midwest and key industrial commercial lines, including textile and grain mills, and forced stock corporations to ‘meet the competition’ (Merritt Committee Report, 1911; Bissell, 1921; Bainbridge, 1952; Schneiberg, 2002). Like regulation and anti-trust, mutuals were a potent check on corporate profit-seeking and cartels.

Furthermore, unlike anti-trust and regulatory measures, mutuals also allowed property owners, producers, large industrial concerns and farmers

alike to opt out and effectively bypass the system of for-profit provision by stock corporations (Oviatt, 1921; Grant, 1979), avoiding that system's uncertainty-producing dynamics. Mutual companies represented a strategy of backward 'collective vertical integration' by consumers that eschewed market relations between consumers and the corporations in favour of an ownership relation in the firm and collective, often local self-supply (Heflebower, 1980). Mutuals eliminated independent shareholder-owners from the firm, along with incentives for firms to chase profits or shareholder value at insureds' expense (Heimer, 1985; Hansmann, 1996). Moreover, as their numbers increased, mutuals constituted an alternative, decentralized system of provision that was organized to serve insureds rather than the pursuit of banking profits. This system introduced institutional diversity and redundancy into American property insurance, enabling property owners to buffer themselves, their communities and their businesses from the market turbulence, rate hikes, and 'insurance famines' associated with the investment strategies and underwriting cycles produced by profit-seeking corporations in national markets. Indeed, property owners regularly flocked to mutuals when faced with rate hikes, insurance shortages or more restrictive claims policies after rate wars or conflagrations (Schneiberg, 2002; 2013). Mutuals also seeded insurance market growth and local development, directly and through their effects on corporate insurers. As producer groups and communities scattered in different locations used mutuals to supply themselves collectively with insurance, they expanded provision into under-served areas, making insurance markets where there had been none, but also signalling rich lodes and inducing stock corporations to enter newly developing regions and lines in the Midwest and plains states (Bainbridge, 1952; Hansmann, 1996; Schneiberg, 2013). Such dynamics helped shape American economic development. Property insurance was a condition for credit. Credit was a condition for industry, commerce and trade. This made insurance an infrastructure resource on a par with banks and railroads, failures to provide steady supplies of insurance an impediment to economic growth (Merritt, 1911; Mowbray, 1946), and

mutuals a spur to development. As Figure 37.1 shows, mutuals proliferated regionally, emerging most heavily in places like Wisconsin, Minnesota, Missouri and Nebraska and creating foundations for credit and decentralized development in what became the mixed economy regions of the Upper Midwest and plains states. Here, the evolution of alternative enterprises went beyond counterbalancing corporate excess to create new economic incentives for corporations, foster market growth and thereby support regional development, a productive economy and middle-class communities.

Finally, mutuals realigned the incentives firms and insureds faced regarding hazards and loss costs, dramatically transforming both the competitive dynamics of insurance markets and the strategies of corporate insurers. Prior to the 1890s, stock companies simply underwrote risks 'as found' and resisted making investments in prevention or loss reduction, whether by building engineering or testing capabilities, installing prevention technologies or redesigning factory layouts, production processes or dwellings (Brearley, 1916). Stock insurers construed their underwriting matters in terms of loss and expense ratios and were indifferent to the overall levels of losses, burning rates and the like so long as they could use their rating associations and sales forces to sustain acceptable ratios of premiums to losses. To complicate matters, investments in prevention were subject to information asymmetries and had collective goods or transaction-specific properties (Heimer, 1985). Companies were at a disadvantage relative to policy holders in evaluating hazards associated with particular plants, technologies or processes and the extent to which insureds took precautions. In addition, nothing prevented policy holders from simply switching firms after their insurers invested in developing expertise or improving the policy holder's facilities, appropriating insurers' investments rather than sharing those costs via higher rates. Companies were thus reluctant to bear the costs of investment or reduce rates when property owners argued they had reduced hazards, leaving insureds with little reason to avoid skimping on their own prevention investments and efforts. Nor were such incentives forthcoming where rate wars in competitive lines

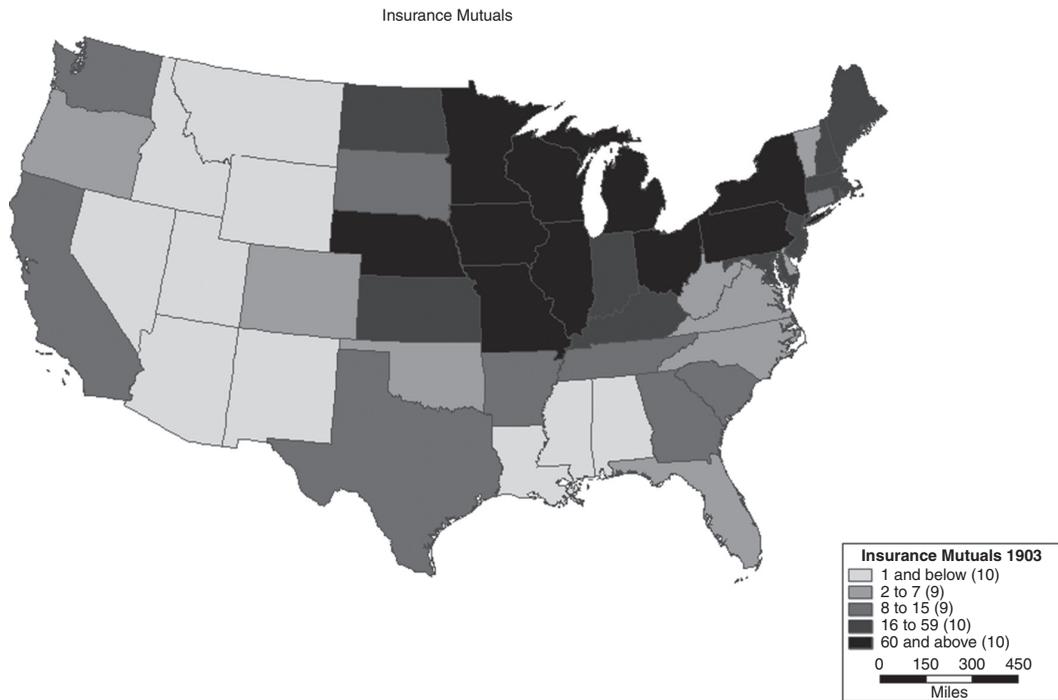


Figure 1

decoupled rates from hazards or prompted agents to relax underwriting standards (Merritt Committee Report, 1911; Wandel, 1935). Provision based on stock corporations produced powerful disincentives for firms or stakeholders to invest in improvement and loss cost-reduction (Bissell, 1921).

Mutuals, in contrast, aligned incentives for investments in loss cost-reduction (Heimer, 1985). Mutuals made policy holders the owners of the enterprise and eliminated a role division that let firms or policy holders try to benefit themselves at one another's expense, whether by overcharging for coverage or using confusing policy language to deny claims, or by skimping on prevention and withholding information about risk. As owners, policy holders could not only use the firm to invest in inspection and prevention technology services for members of the mutual association, knowing that they would capture the payoffs of those investments in the form of reduced loss claims. They could also direct the firm to support and reward policy holders' investments in prevention via dividends, lower rates and lower or no assessments. Mutuals established

a quid pro quo of tying rates more closely to documented hazards, passing savings from reduced losses onto insureds, while refusing to transact with clients who 'neglected their duty' (Atkinson, 1921; Heimer, 1985; Hansmann, 1996). Moreover, mutuals derived advantages in pursuing these strategies because members were well known to one another, located in the same area or trade and embedded in local networks of mutual monitoring and control. Embeddedness let mutuals assess and select clients, tap into members' specialized knowledge of factories, production processes and the like and encourage responsibility among clients they served (Schneiberg, 2013). And, as mutuals evolved, they developed sophisticated engineering, research and inspection facilities, worked closely with insureds to redesign plants and produced a stream of new prevention practices and technologies, letting them capture a range of key insurance lines, including farm risks and large commercial insureds (Merritt Committee Report, 1911; Atkinson, 1921; Bainbridge, 1952; Heimer, 1985; Schneiberg, 2002).

Mutuals' success introduced a new form of rivalry in insurance markets – competition based on improvement, consultation and loss cost-reduction, forcing stock insurers and agents to adopt these practices (Merritt Committee Report, 1911). Stock companies developed their own capabilities both by rebuilding their underwriting operations and by creating infrastructure organizations – the Factory Insurance Association for inspecting risks, the Underwriters Laboratories and the National Fire Prevention Associations – which broadly institutionalized pricing principles, prevention efforts and *quid pro quo* that mutuals had pioneered (Brearley, 1916; Oviatt, 1921). Agents likewise invested in learning about prevention, becoming 'expert advisers' to insureds in helping them make improvements that would give them the best rate. Along with prevention work by mutuals, these efforts not only reduced losses for the properties companies and agents insured but also created positive externalities, producing benefits to people who may not be insured at all, such as the neighbours of a factory, apartment complex, or retail establishment that installed fire prevention measures. Between 1900 and 1940, these efforts combined to yield a roughly 60 per cent reduction in the average loss cost from fires (Schneiberg, 2013).

Even lawmakers and state officials recognized mutuals' benefits for consumers and insurance market dynamics. In their Progressive Era struggles to create public administrative machinery to regulate rates, architects of regulation combined proposals for state regulation of stock corporations with measures that cultivated mutual companies and diversity within insurance markets (Merritt Committee Report, 1911). In effect, producers, consumer groups and officials effectively deployed 'fourth cell' strategies of mobilizing alternative enterprise ecologies to resist corporations and reconstruct markets not just alone but also in combination with other strategies.

2 Public and Cooperative Enterprise in Electricity

Few sectors differ as much from insurance as the electrical utility industry, a capital-intensive,

technologically advanced, 'network' industry of vertically integrated firms. But like insurance, this was an infrastructure sector – one providing a good sufficiently essential for industry and commerce that its availability – and absence – shaped the geography of development. Like insurance, this was a sector dominated by stock corporations, or investor-owned utilities (IOUs). Between 1900 and 1930, IOUs combined stand-alone utilities into centralized electric networks; secured long-term franchises granting them monopolies in most service areas; integrated generation, transmission and distribution within corporate hierarchies; and forged a pyramid of holding companies that concentrated 75 per cent of the business into ten power groups (Hughes, 1983; Schap, 1986; Nye, 1990). As in insurance, relying on corporations to provide infrastructure goods exposed cities and consumers to predatory practices and service failures that activated republican anxieties over centralization and dependence, sparking repeated mobilizations against the 'power trust'. Here, too, contestants turned to regulation and anti-trust. States enacted commission regulation during the Progressive Era, followed by the Federal Power Commission in 1920, the 'death sentence' effort in Congress to dismantle the holding company pyramid and the Public Utility Holding Company Act in 1935 (Funigiello, 1973; Anderson, 1981; McGuire, 1989). Here too, cities, business groups and consumers also mobilized alternative enterprises, turning first to municipal utilities and then to cooperatives, both as organizational weapons against corporations in conflicts over prices and services, and as vehicles for fostering decentralized, locally based and self-governed forms of more egalitarian capitalism.

Drives for municipals emerged from local struggles over electricity markets and municipal reform as one of two Progressive Era responses to private utility failures, predatory corporate behaviour and the failures of franchise regulation to correct those problems (Nord, 1975; Rudolph and Riley, 1986; Nye, 1990; Rodgers, 1998). With IOUs focusing on dense urban areas to maximize income for their investor-owner shareholders, many American cities received no service. Those that did issued multiple franchises to competing firms to resolve conflicts with utilities

over prices and service extension. Yet, franchise regulation promoted wasteful duplication, consolidation among local operators and corruption as utilities bribed city officials for franchises (and officials demanded pay-offs). Corruption, along with the consolidation of local utilities into regional holding companies, let IOUs escape public control, leading to shoddy service, neglect and high rates –hazards that deepened as consolidators saddled utilities with watered stock and debt to finance system-building and utilities passed those costs on via rate increases.

One solution was commission regulation, an option proposed in 1898 by utility magnate Samuel Insull that was codified around 1907 and ultimately embraced by IOUs (MacDonald, 1958; Anderson, 1981; McGuire, 1989). Commission advocates rejected competition as ruinous, arguing that utilities were best organized as natural monopolies subject to public controls at the *state* level via independent commissions of experts empowered to regulate rates and service. This scheme would avoid duplication, counter-balance monopoly with public oversight and requirements to serve and contain regional consolidations beyond municipalities' reach. *State*-level solutions would also insulate regulation from *local* politics – grassroots democracy, demagoguery and corruption – a foundation of the utility problem for this branch of progressivism – 'taking utilities out of politics' and subjecting them to public controls that combined the rule of law with the objectivity of science (Nord, 1975; Rodgers, 1998).

In contrast, municipal advocates eschewed technocratic for republican solutions, aiming instead to reform government and solve problems of private provision via local control of infrastructure and decentralized economic orders of self-owned, self-governing communities (Nord, 1975; Rudolph and Riley, 1986; Rodgers 1998). Municipal advocates might concede the case for natural monopoly. Yet they theorized local politics, control and (public) ownership as the solution, not the source, of the utility problem. Substituting public for private provision would eliminate the franchise rackets and swarms of private utilities that surrounded city government, rooting out one source of corruption. Moreover, by lodging control of utilities with citizen–customers and the local business groups most directly affected by utility operations,

municipal ownership would overcome the moral hazards of corporate ownership. It would eliminate independent investor–owners from the firm along with their tendencies to serve themselves at consumers' or cities' expense, whether by under-investing in electrification, exploiting monopoly power to hike rates, or using utility receipts to finance speculation and empire-building. Instead, in unifying ownership and control with local consumption, municipals would tie utilities to the needs of consumers and local communities, generating pressures for low rates and improved service and fostering a more democratic and egalitarian republic of self-governing cities.

As a National Public Ownership League president explained,

municipal enterprise is simply ownership by a large body of citizens instead of a ownership by a small body, many stockholders in place of a few, and equal instead of unequal holdings, whereby the benefits of industry are more evenly diffused, and the conflicts of interest between the owners and the public is eliminated by making the owner and the public the one and the same. (Parsons, 1901: 1)

Municipals can not only promote accountability and align incentives for efficiency, according to John R. Commons, particularly in smaller cities, where

government lies close the people. The officials are known to everyone. They cannot retire under the shield of their friends and party councilor. They are accessible to the complaints of everyone . . . and the result is a constant effort on the part of officials to meeting the demand for efficiency and economy. (Commons, 1899, cited in Schap, 1986: 24)

They also, municipal advocate Stiles Jones stressed, and in stark contrast to centralizing regulation in expert commissions, teach 'citizens self reliance and a capacity for self government'. The issue in the debate over reform, he explained, was not just

administrative efficiency, but rather the effect on the development of the power of self-government in the people. . . . Efficiency is a fine thing, but a successful self-government is better. Democratic government in a free city [is a] greater ideal to work to. And democracy plus efficiency is not unattainable. (Jones, 1914, cited in Nord, 1975; 233–34)

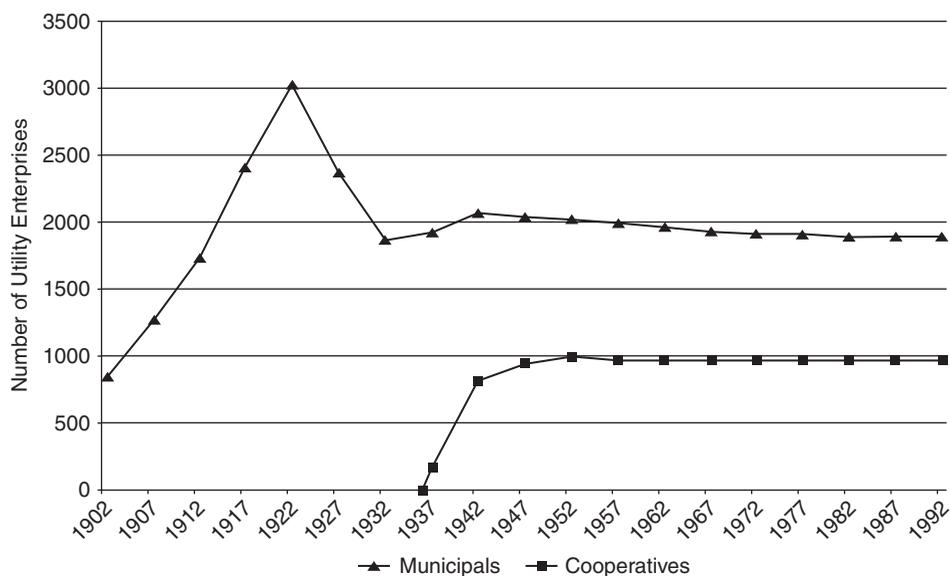


Figure 2

Advocates thus saw in municipal ownership prospects for efficient, public-regarding utilities and ways to strengthen equality, institutions and habits of self-rule. Fuelled by reform efforts and conflicts in local markets, municipal electric utilities proliferated alongside IOUs from the 1890s through the early 1920s, peaking at roughly 3000 (see Figures 37.2 and 37.3). They then fell on hard times as IOUs subsumed stand-alone utilities into centralized electricity networks to exploit economies of scale and waged political war against public ownership to counter economic competition from municipals (Schap, 1986; McGuire, 1989). From 1922 to 1932, municipal numbers and market shares relative to IOUs fell sharply, as corporate utilities merged into inter-regional holding companies, consolidated control over generation and transmission, and used state regulation, laws limiting municipalities' bonding authority and service areas and more to undermine municipal utilities' abilities to expand operations, raise funds for improvements and otherwise compete. Yet, with-holding companies' increasingly blatant subversion of state regulation, municipals enjoyed renewed support during the New Deal as anti-utility forces mobilized at the federal level to preserve public ownership of the nations' waterways, dismantle the holding company

pyramid and construct federal hydroelectric generating plants that gave preference to non-corporate utilities (Schap, 1986; Funigiello, 1973; Nye, 1990; Brigham, 1998). This support rested on a growing coalition of western progressives, neo-populists in the Senate, public power advocates, labour and farm groups including a revived Grange, aspiring regional planners, socially conscious engineers and southern agrarians who advocated decentralization of industry and regional economies. It let municipals regain market share relative to IOUs during the 1930s, institutionalizing an enduring system of 1900 publicly owned utilities that served small Midwestern cities and urban centres like Los Angeles, Seattle, San Antonio and Nashville. It also sparked the creation of a system of 1000 electrical cooperatives, which, like municipals, endured through the current period, providing power to steadily growing numbers and shares of electricity customers.

Cooperatives were a response to the failure of IOUs to provide power to millions of rural households, and the astonishing under-development that was the result. Barely 10 per cent of US farms received power in the early 1930s, and those that did paid up to twice the urban rate (Twentieth Century Fund, 1948: 442; Nye, 1990: 287).

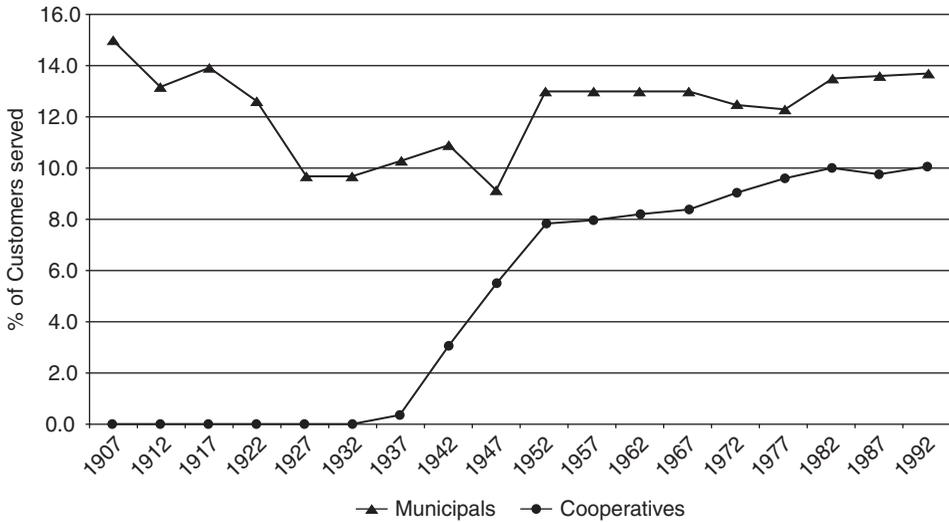


Figure 3

Electrification rates were low even in relatively prosperous mixed-economy states like Michigan, Wisconsin and Oregon, where only 12.4 per cent, 19.6 per cent and 27.5 per cent, respectively, of farms were connected to the grid in 1934 (REA 1940). In the Plains, West and South, matters were far more dire, with at most 4 per cent to as few as 0.9 per cent of farms linked to this foundation of modernity in Wyoming, the Dakotas, Texas and Oklahoma, Alabama, Georgia, Kentucky, Arkansas, Louisiana and Mississippi. Fearful that such deprivation would fuel massive internal dislocation and fascism, Roosevelt's New Dealers turned to an electrification programme that was organized by the Rural Electrification Administration (REA).

The REA first pursued recovery by offering IOUs low-interest loans to build transmission and distribution networks to connect farms to the grid. Borrowers would receive the monopoly franchise and be able to use receipts from power sales as both collateral and means to pay off what were essentially self-liquidating loans. Yet, IOUs were indifferent to rural markets, and conflict with the administration over holding-company legislation and the TVA led them to refuse the offer. In response, the REA launched a campaign that invited rural communities across the country to organize local cooperatives to do the job, and

supplemented loans with educational services, organizational plans, political cover against IOU counterattacks and the technical support needed to construct, connect and energize power lines. The federal hydropower projects like the TVA and Bonneville also served as incubators for cooperatives, advocating them to communities in their service areas, and integrating cooperatives into regional development clusters by providing them organizational and technical support and granting them preference in the sale of low-cost power.

The resulting burst of co-operativism effectively combined federal intervention and farmers' agitation for service with republican hopes for decentralized development via community self-organization (REA, 1938: vi; Funigiello, 1973: 128–35; Nye, 1990: 305–18). The New Dealers' turn to cooperatives made state-supported voluntary action the means for solving utility corporation failures and promoting regional development, self-consciously linking federal activism to traditions of community self-reliance and democratic self-governance, partly as a way to deflect fears of statism. 'Electrical cooperatives carried the spirit of self-help into a field of monopoly', the REA explained.

The farmer's cooperative, the heart of the Federal rural electrification program, is an organized

expression of the neighborly spirit ... shown at Jamestown when the settlers ... banded together to help one another build a home [and] is applied today whenever ... neighbors unite for a barn-raising [or] any common action is taken for mutual help. This spirit of neighborliness, or cooperation, of working together for a common end, lies at the heart of the representative democracy that is the American nation... The rural electrical cooperative is an adoption of the principles of democracy to the economic sphere. (REA, 1940: 55–56, 60)

Here, too, advocates saw in cooperatives ways to overcome conflicts of interests between stock owners and the public associated with investor-owned corporations, fostering efficiency and aligning utility enterprise incentives with the substantive needs of local communities. In cooperatives, an association of cooperative report explained:

The people who receive the service are also joint owners. The municipal systems and public power districts, as well as the cooperatives, are locally owned and locally managed [supporting stronger] pressure from the users for service to fit local need and for efficiencies in management. (Wise, 1965: 41–42)

Like mutuals in insurance, mobilizing ‘fourth cell’ strategies in this sector profoundly transformed utility market dynamics. Municipals served as ‘the gun behind the door’, counter-balancing the ‘power trust’ by competing directly with IOUs in many service areas. Even credible threats of organizing a municipal could evoke service improvements and rate reductions, with the onset of construction prompting rate cuts by IOUs of one-half to as high as two-thirds (King, 1914: 29; Twentieth Century Fund, 1948; Brigham, 1998). Generation and transmission cooperatives that supplied retail cooperatives had the same effects in wholesale markets (Anderson and Nelson, 1960).

Municipals and cooperatives also let citizens and communities bypass for-profit provision by investor-owned utilities. Like insurance mutuals, both forms replaced dependence on corporations for key goods with ownership relation and strategies of self-supply, eliminating incentives in firms to chase profits at customers’ expense and yielding alternative, decentralized systems of provision organized to serve consumers and their

communities rather than independent investor-shareholders. This was particularly important for regions and classes of customers outside the dense urban cores who had been largely ignored by IOUs. As strategies of self-provision, municipals were often the only means smaller communities had for securing power for themselves before 1930 and were the organizational infrastructure electrifying small and medium-sized cities throughout the Midwest and Plains states through the Progressive Era (Schap, 1986; Brigham, 1998). Cooperatives enabled millions of rural customers to connect themselves to power, managing by 1950 to integrate into the grid rural areas that had had 5 per cent or less of their farms receiving power fifteen years earlier. In Arkansas, Alabama and Iowa, 83 per cent, 89 per cent and 96 per cent of farms were connected, respectively, and even the two least-electrified states, Mississippi and Oklahoma, succeeded in connecting 58 per cent and 68 per cent of their farms to the grid, marking thirty- to sixty-fold increases in electrification rates (REA, 1951).

Indeed, both forms seeded market growth, absorbing the risks of widespread electrification and market development, creating retail markets in unserved areas and inducing IOUs to extend service or enter the wholesale trade in regions they had shunned (King, 1914; REA, 1938; Twentieth Century Fund, 1948; Wise, 1965). Both forms laid foundations for a truly national power network by connecting widely dispersed consumers in sometimes very sparsely populated places. Furthermore, in expanding markets and networks both forms helped promote modernization and balanced regional development in the vibrant, mixed-economy regions of the Upper Midwest, Pacific Northwest, Tennessee Valley and more generally in rural America. During the Progressive Era, local public ownership via municipals crystallized growth coalitions and fuelled development in small, medium and even some large cities throughout the Midwest (Schap, 1986; Nye, 1990). During the New Deal period, municipals and cooperatives were linked to federal power projects that granted them preference for low-price power and opted for flat-rate policies instead of pricing power in proportion to distance. Such strategies effectively mobilized both forms as vehicles for a regional development path in the

Tennessee Valley states and the Pacific Northwest that avoided concentrating large power users and development near dams or in urban centres, and that provided power for modernization, the mechanization of farms and the introduction of technology in homes that reduced the hours that women devoted to domestic labour in rural communities (Funigiello, 1973; Brigham, 1998; REA, 1940; Wise, 1965).

Finally, like mutuals in insurance, public ownership and cooperatives in electricity demonstrated potentials for using alternative enterprises to upgrade regulatory capacities and enhance conventional strategies for contesting corporations or making markets. Western progressives and New Dealers looked to public enterprises as sources for information about costs, capital requirements and more, to use as yardsticks for more effectively regulating IOUs, which proved notoriously unwilling or unable to supply public commissions with reliable data (Twentieth Century Fund, 1948; Brigham, 1998). Moreover, in response to attacks on what was called their socialist statist excess, the REA and the federal power projects self-consciously combined federal intervention and regulation with local, voluntary self-organization via cooperatives as the means to pursue one of the most extensive and successful development programmes in US history without having to create a correspondingly massive system of direct local administration. This strategy helped legitimate and institutionalize an organizationally diverse system of cooperative, public and corporate provision that persists – and thrives – through the present day.

3 Conclusion

Efforts to resist, reform and even displace corporations have generated strategies of contestation in American capitalism whose variety and ingenuity are not fully perceived in contemporary debates. Most centrally preoccupying such discussions are strategies that take existing enterprise structure (corporations) more or less as given but seek to reform corporations and markets by subjecting them to overlays of organizational control. These strategies can take public and private forms, working through the regulatory state, or through private

governance schemes – self-regulatory associations, collective bargaining, consumer boycotts or more recently certification schemes and other reforms that harness the ‘market forces’ of shareholder activism and informed consumer choice as disciplinary measures. Also subject to discussion are strategies that use state power to more directly reconstruct the market and corporate architectures, including anti-trust interventions, or also more recently, corporate charter reform and even partial nationalization.

Figuring far less centrally in current debates, if at all, is a fourth option for resisting and regulating corporations, one that would be self-evident not just to Progressive and New Deal era scholars, activists and policy analysts but also to millions of contemporary consumers and citizens: working mostly outside formal or central state institutions to recompose market architectures directly by organizing alternative systems of cooperative, mutual and local/state-owned enterprises. As the preceding case studies suggest, these forms are neither relics of the past nor utopian experiments. To the contrary, they have served and continue to serve as vehicles for contesting corporations in local markets, pursuing distinctively modern projects of development, market-making and revitalization, and at least partially realizing republican aspirations for decentralization, economic autonomy and small-stakeholder capitalisms of vibrant communities and independent producers. These are forms with distinct structural features. They have features that tie the firm to the substantive economic needs of consumers, business groups and regions, rather than the pursuit of shareholder value, that foster possibilities for local control and self-government and that induce investments in services, economies and improvements that corporations are unwilling or unable to pursue. Equally important, when mobilized as systems or ecologies of enterprise, cooperative and kindred forms have introduced diversity, alternative circuits and productive redundancies into the architectures of markets. They have let consumers, producers and their communities opt out or bypass provision by for-profit corporations. They have created levers for increasing and upgrading competition, seeding market development, supporting investments in quality and improvement, and for buffering businesses and communities from instabilities in critical markets, harnessing corporations to these more

public-regarding purposes along the way. They have also created levers for expanded access to vital resources and fostering broader, more balanced and egalitarian paths of development. They have even been built into regulatory architectures, linking central sponsorship and local action and enhancing states' capacities to reform corporations and undertake large-scale redevelopment programmes without having to create correspondingly massive arrays of bureaucratic controls and local administration.

These combinatorial possibilities and alternative enterprise strategies more generally could prove particularly important in the current period, given the obstacles to conventional state action, the declining efficacy of other countervailing forces and the breadth of existing organizational infrastructures for new forms. In electricity, municipals and cooperatives together currently serve nearly 40 million or approximately 27 per cent of customers served by utilities, including those in Los Angeles and elsewhere in California whose investments in generation and modernization let them serve customers without raising prices during the California energy crisis, buffering communities from market instabilities (APPA, 2014–2015). In food, local retail cooperatives were platforms for introducing organic, whole and bulk foods into the markets and, as parts of developing ecologies of farmers' markets, community-supported agriculture programmes and local food restaurants provide at least some leverage for pushing corporate chains to feature organic and local on their shelves. In finance, about 6900 local community banks and recent experiments with public banking along the Bank of North Dakota model coexist with over 6600 or so credit unions with 97 million members or roughly 46 per cent of the economic active population of the United States (WCCU, 2013). Even in manufacturing, in the ruins of mass production, in urban communities, in high technology, one can find vibrant experiments non-corporate or even post-corporate forms ranging from workers' cooperatives and other forms of worker-owned enterprise, localized production and maker movement enterprise to open source providers, crowd-sourcing firms, co-working spaces and incubators, B-corporations, sharing economy providers like Zipcar and more (e.g., Kruse et al., 2010; Davis, 2013), indicating possibilities for fourth cell

strategies for revitalization and revival in the most unlikely places, even in this wellspring of corporate capitalism.

Note

1. Republicanism in the US context was a theory of government and political order that figured centrally in the American Revolution. It took tyranny and the arbitrary exercise of domination as the central threat to freedom, located sovereignty in the people, and sought to realize liberty via a government of representative democracy with divided powers, rule of law and other checks and balances against the arbitrary use of state power on behalf of any faction, including state officials (e.g., Bailyn, 1967; Wood, 1969; Pettit, 1997). During the nineteenth and early twentieth centuries, agrarians, workers associations and others transposed republicanism into the economy in response to the rise of the corporation, redeploing its ideals to help frame their efforts to understand and contest corporate capitalism and its increasing concentration of economic power (Hattam, 1990; Voss, 1993; Berk, 1994 and sources cited therein; for a recent treatment, see Pettit, 2006). In this economic configuration, republicanism represented an alternative to corporate liberal, industrial unionist and socialist constructions of the American economy. It saw in that economy a class structure of producers, including skilled workers, artisans, yeoman farmers and small employers and non-producers who lived off the fruits of producers' labour, including middlemen, furnishing agents, bankers and financiers, large capitalists and monopolists. It took economic servitude, uneven development and unfair discrimination stemming from corporate consolidation and concentrated economic power to be the central defects of American capitalism, whether in the form of sweated wage labour, debt peonage and credit famines, political corruption or monopoly pricing in transportation, distribution and finance. It viewed politics and law as constitutive of economic order, rather than as a handmaiden of economic necessity destined merely to serve market forces, technological imperatives or

immutable economic laws. And it supported visions of a decentralized, regionally based economy of independent producers, skilled workers, farmers and self-governing cities of virtuous citizens, framing political mobilization to realize those visions via financial and monetary reform, anti-monopoly legislation, the regulation of railroads, insurance and electrical utilities and the creation of a 'cooperative commonwealth' (Goodwyn, 1976) of consumer, producer and state-owned enterprises.

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CAMBRIDGE
UNIVERSITY PRESS

University Printing House, Cambridge CB2 8BS, United Kingdom

One Liberty Plaza, 20th Floor, New York, NY 10006, USA

477 Williamstown Road, Port Melbourne, VIC 3207, Australia

4843/24, 2nd Floor, Ansari Road, Daryaganj, Delhi – 110002, India

79 Anson Road, #06–04/06, Singapore 079906

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Information on this title: www.cambridge.org/9781107073111

10.1017/9781139681025

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First published 2017

Printed in the United Kingdom by Clays, St Ives plc

A catalogue record for this publication is available from the British Library.

ISBN 978-1-107-07311-1 Hardback

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