

The Start of Corporate Bankruptcy

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This is chapter 3 from my forthcoming book *A Difficult Foundation, The Creation of Corporate Bankruptcy* (Columbia University Press, 2025). Chapter 3 presents an account of the 1885 receivership of the Texas and Pacific Railway, which I identify as the first successful, large-scale corporate reorganization.

The book places the start of large-scale corporate bankruptcy about a decade earlier than the conventional account, arguing that modern chapter 11 owes as much to Jay Gould as it does to J.P. Morgan. Moreover, I largely reject the "Morgan Myth," that paints the financier as the guardian of bondholders foreign and domestic.

That is, rather than start with the "Morganizations" of the 1890s, I look to the work of Jay Gould in the 1880s. Particularly, as developed in early chapters of the book, I view the Texas and Pacific's 1885 receivership as a moment when several already extant techniques came together to be used in the successful reorganization of a large railroad.

Then focusing on key corporate bankruptcies from the Richmond Terminal reorganization of the 1890s through to the W.T. Grant bankruptcy of 1975 and drawing on my effort to gather primary sources from around the country, the book shows how modern chapter 11 was enacted in 1978.