The Rise of Business and Industry

The Post War Economy

In the quarter-century after 1865, the nation witnessed the rise of big business. The tremendous expansion of business activity was accelerated by the influence of the dominant economic theory of the period, which favored the free play of individual initiative. However, the monopolistic practices of the large industrial firms and the abuses of the railroads—both of which powers the states were constitutionally prohibited from controlling because of their interstate nature—eventually forced the federal government to take action in the public interest.

THE SHAPE OF INDUSTRY

Following the Civil War the development of American industry was so extensive that the entire population was affected by it.

Manufacturing. A handful of significant characteristics marked manufacturing in the post-Civil War years. The most important of these was the transformation of industrial production from shops to factories. Before the war, only a small number of goods were produced in large factories. The most significant of these goods were cotton textiles, iron, weapons and ships and printing. But, by the 1880s, a very wide range of goods, from clothing to foods, were processed and mass produced in plants and factories all over the nation.

A NATIONAL MARKET. The opening of the West created an enormous American domestic market. The expansion of transportation the entire country within reach of the manufacturing centers of the East.

ABUNDANT RESOURCES. The nation's natural resources also aided the growth of manufacturing. The mining frontier contributed gold, silver, and copper. Large deposits of iron ore were found in Pennsylvania, in Alabama and in Minnesota. Oil was discovered in Pennsylvania and in the Southwest. The great northwestern forests increased the supply of lumber. Coal, which became of vital importance in providing power, could be mined in a number of regions, especially in the central Appalachian Mountains.

AN ADEQUATE LABOR SUPPLY. Following the Civil War the supply of labor was augmented by veterans seeking jobs and by persons, including many women and children (whose employment was not at the time restricted), who were attract back from farms to the new manufacturing centers. The largest source of factory labor, however, came from millions of immigrants—mostly from eastern and southern Europe—who arrived in the United States during the last quarter of the nineteenth century. Political unrest and religious persecution abroad, inducements offered by American manufacturing firms, and generally nonrestrictive immigration policies were factors that caused foreigners to flock to the United States. Lacking skills or bargaining power, most of those immigrants had to work long hours for low wages.

TRANSPORTATION. Advances in transportation in the latter part of the nineteenth century were crucial to manufacturing. The railroads carried raw materials to the manufacturing centers and carried finished goods to the domestic markets and to ports for shipment overseas. Refinements like the air brake, various signal devices, and the refrigerator car increased the value of railroads to manufacturing.

TECHNICAL IMPROVEMENTS AND INVENTIONS. The records of the Patent Office tell an impressive story of how old businesses were revolutionized and new ones created by the invention and improvement of machinery and processes.

- ★ The process for making steel by blowing air through cast iron in its molten state was discovered in the 1850s by the Englishman Henry Bessemer and the American William Kelly.
- ★ Thomas A. Edison and his laboratory associates were responsible for such significant inventions as the dynamo, the incandescent lamp, and the alkaline storage battery.
- ★ Charles Goodyear's process for the vulcanization of rubber to make it stronger and resistant to heat and cold.
- ★ Eli Whitney's system of interchangeable parts (although both inventors had accomplished their work earlier) came into widespread use after the Civil War.

All these devices enabled manufacturers to produce goods more cheaply and in ever-increasing quantities.

Developments in communication in the latter half of the 19th century also had an impact on American business. The amount of telegraph wire in use in the United States tripled within six years after the close of the Civil War. As the telegraph helped unite the remote sections of the nation, the trans-Atlantic cable, successfully laid in 1866 by Cyrus W. Field, brought other countries of the world into closer business contacts with the United States. Within a few years after its invention in 1876, Alexander Graham Bell's telephone, in addition to becoming a familiar convenience in thousands of American homes, revolutionized business activity throughout the nation.

CORPORATE ORGANIZATION. The very organization of business changed rapidly after 1850. The individual proprietorship and the partnership gave way to the corporation chartered under state law. During the 1850s and 1860s the obvious advantages of the corporate form—relative permanence of the organization, limited liability of the stockholders, and opportunity for the promoters to acquire large amounts of capita—induced the manufacturers to incorporate their enterprises.

TERRITORIAL EXTENSION. Although the northeastern states still led the nation in industrial production, manufacturing rapidly expanded into other sections of the nation. In the 1870s, Chicago became the center of the meat-packing industry, Pennsylvania's great iron and steel mills gave way to expansion of steel production in Ohio and Illinois, and even Alabama. In the 1880s, textile, tobacco, and lumber industries moved south, benefitting from the cheap labor and accessibility to raw materials.

The Growth of Cities. A significant characteristic of industrial expansion was the growth of cities, with an accompanying influence on national thought and action.

"NEW IMMIGRANTS." Urban America grew rapidly as opportunities in the United States drew millions of immigrants from Europe. Beginning in the 1880s the "new immigrants," coming from eastern and southern Europe, predominated. (Most previous immigrants had come from northern and western Europe.) Eastern Europeans, European Jews, Italians and others, fleeing from political and religious persecution in the Old World, filled the factories and shops of the United States. The immigrants built bridges, laid railroad tracks, strung telegraph and telephone wires, and dug mines. They also gave to the older American culture an awareness of Europe's treasures in art, literature, and music.

THE URBAN MIDDLE CLASS. Some Foreign-born immigrants along the native born joined the ranks of an ever growing middle class. This middle class was composed of business and professional people, bureaucrats, and skilled craftsmen. Some members of this American Bourgeoisie enhanced their wealth through investments in factories, banks, railroads, and mines. Their growing influence and power was recognized by the ruling and artistic classes. The upper class and the artistic class derided the American middle class as lacking in breeding and taste, unrefined and without manners. The truth is, that the middle class was basically a business class that cared little for European refinement in manners and the arts. Their focus was primarily on business activity and even the accumulation of wealth was for the American middle class simply a means of "keeping score." This lack of refinement annoyed the American literary class that was frankly admiring of European wealth and manners.

The upper class of American business and industry was actually more vulgar that the American bourgeoisie. The term "The Gilded Age" (the title of Mark Twain and Charles Dudley Warner's novel, published in 1873) was used to describe the ostentatious, vulgar, and frequently corrupt way of life that characterized this upper class.

MUNICIPAL PROBLEMS. Americans in a variety of professions grappled with the difficult problems presented by the disorderly growth of the cities. American cities, swollen with immigrants and workers, presented a variety if problems to city politicians and a rising class of university educated "specialists" in human activities and problems. They strove mightily, if not always effectively, to provide satisfactory housing, transportation, fire protection, and police service to growing and chaotic American cities. A few individuals persisted in attacking the poverty, disease, alcoholism, and crime that thrived in the congested byways of the cities. Among the reformers in a variety of fields were Henry George in politics; Joseph Pulitzer in journalism; Clara Barton in public nursing; Susan B. Anthony in the temperance crusade; Frederick Law Olmsted in public architecture;and William Graham Sumner in sociology.

The Business Cycle. America, like other advanced nations, had experienced periodic fluctuations in the economy from its inception. There were booms and busts, usually called panics, in the U.S. economy in the antebellum period. Periodic booms were followed by depressions, often severe like the panics of 1819, 1837, and 1857. These depressions were followed, in turn, by economic recoveries. In the years after the Civil War, economists, reformers and newspaper reporters began to connect these fluctuations in the economy with business as if they had never happened before. They preached that recessions hurt the "little guy," while enriching the "fat cats." As I have so often said before, Americans love conspiracies. Americans had always looked for conspiracies when trying to explain these economic collapses in the past. They had usually blamed the bankers (whose banks and fortunes were ruined by the collapse). In the post-bellum period, as now, reformers blamed big business. Now, we know, rationally, that economic cycles happen from time to time, generally in response to a whole, rather complex range of combined factors. But most folks don't want to hear long, complicated explanations. They want a villain.

The Panic of 1873 is a great example. The economic collapse of prosperity in the United States was part of the world depression resulting from a series of factors in the world market. Among them were:

- ★ A series of international conflicts, culminating in the Franco-Prussian War of 1870-1871; Germany over extended its capital economy expecting France to pay huge war reparations.
- ★ The government of Great Britain had experimented with inflation to drive her economy because British industry had fallen behind other European countries in the mid 1800s.
- ★ Germans and other Europeans over invested in the U.S. stock market.
- ★ The too-rapid expansion of railroads in central and eastern Europe. Rail building expanded into markets where demand was weak, so the countries spent lots of money in unprofitable markets.
- ★ The inflation of national currencies, which adversely affected international exchange.

The American economy was due for a correction.

- ★ The U.S. government had been spending enormous amounts of money on the military, the railroads, and public works since 1861.
- ★ The U.S. market had been expanding in the areas of agriculture, manufactured goods, railroads, and the production of raw materials since the Civil War as well.
- ★ This U.S. economic expansion was paid for by printing a huge quantity of unsecured paper money called "greenbacks.
- ★ The inflated currency and rising prices persuaded investors to put their savings into speculative enterprises. Stock speculation drove the stock market higher and higher, persuading more people to invest.

In September, 1873, the Philadelphia banking and brokerage firm controlled by Jay Cooke, folded. Cooke and his associates had formed a syndicate to finance the Northern Pacific Railroad. When the railroad market began to soften, investors rushed to withdraw their money and Cooke's syndicate went broke. In response to the bankruptcy of Cooke and Co., a series of banking houses fell, and finally the New York Stock Market crashed. Prices plummeted. In the following year 3 million men were thrown into the ranks of the unemployed. Farmers were forced to sell their grain and livestock below the cost of production. Businesses and factories closed and U.S. production fell. The United States joined Europe in what came to be known as the "Long Depression."

The New York Stock Exchange closed for ten days starting September 20. Of the country's 364 railroads, 89 went bankrupt. A total of 18,000 businesses failed between 1873 and 1875. Unemployment reached 14% by 1876. Construction work halted, wages were cut, real estate values fell and corporate profits vanished.

PROPOSALS FOR INFLATION. As is so often the case in depressions like this one, folks began to call for the government to "do something" in order to help fix the economy. Sadly, that "something" often further damages the economy and slows recovery. As prices for goods remained low in response to lowered demand, many people began to proposed inflationary schemes to raise prices and artificially stimulate trade.

- ★ Many people called for the government to issue more “greenbacks”—paper money backed not by a set amount of precious metal such as gold or silver but by “the faith and resources of the nation.”
- ★ Others demanded that the total amount of coins in circulation be increased by laws that would compel the government to mint coins of silver (then being mined in large quantities) as freely as it minted gold coins.
- ★ Both groups maintained that prosperity would follow the circulation of cheaper dollars.
- ★ Both also supported putting more and more “cheaper” money in circulation Farm groups, as well as labor organizations, gave strong support to inflation as the solution to recession.

Interestingly, as is often the case, cheap money and inflation were at the root of the problems that caused the Panic of 1873. If something is causing the problem, it is not really a good idea to do more of it in an attempt to solve the problem. But that is what the advocates of inflation did. Many countries tried to solve their own national problems by raising protective tariffs. In the long run this hyper protectionism prolonged the worldwide recession by slowing the re-expansion of industrial production.

As we will see next time, The Panic of 1873 would change the nature of American business and industry and really create a new age of big business.

The Rise of Big Business

One of the lessons of the Panic of 1873 that would change the nature of business and industry was that the larger and stronger businesses survived while the smaller and riskier businesses died. For the largest manufacturing companies in the United State the Panic years were golden. Large companies had enough capital reserves to finance their own continuing growth. Smaller industrial firms that relied on seasonal demand and outside capital, could not survive. As the capital reserves of the smaller companies dried up, those companies folded. The larger companies bought out their competitors for pennies on the dollar. The Age of Big Business had begun.

THE DEVICES OF INDUSTRY

It was generally believed that freedom of competition in industry would compel efficient methods on the part of the producer and insure fair prices for the consumer. But as industrial competition became more intense, businessmen, fearing its effect on profits, sought to limit it by combinations and concentrated control in ever-larger corporations.

Laissez Faire. This was the motto of eighteenth-century French economists who protested excessive government regulation of industry. The phrase means “to let [people] do [as they choose].” The doctrine of *laissez faire* emphasized that government, although responsible for the maintenance of peace and the protection of property rights, must not interfere with private enterprise either to hinder by regulation or to help by subsidy. In other words, government should pursue a “hands-off” policy. In the United States laissez faire as an economic theory was popularly summarized: “The government of business is no part of the business of government.”

As a matter of fact, American business men had become accustomed to a government that was more than generous with taxpayer dollars. During the quarter century following the Civil War, politicians—whether Democratic or Republican—seldom opposed the generosity of the government in its support of businessmen. This help took various forms:

- ★ government grants of land and loans to the railroad builders;
- ★ large government subsidies for military production;
- ★ high tariff rates maintained to protect American industrialists against foreign competition;
- ★ banking and financial policies that benefited investors at the expense of other elements in the nation.

Many Americans during the late nineteenth century believed that individual businessmen were responsible for the great industrial progress of the nation. They were inclined to admire the more prominent leaders of business— folks like John D. Rockefeller in oil, Andrew Carnegie in steel, Cornelius Vanderbilt and James J. Hill in railroads, and John P. Morgan and Jay Cooke in banking. Many Americans were pretty quick to excuse the practices in which such men often engaged. Business was, after all, competitive and rough and tumble, and these men “did what they had to” to achieve success. People who believed this stuff also believed that American prosperity depended on business.While it is undoubtedly true that American prosperity rests on the success of American business, it does not follow that businessmen should be allowed to engage in whatever practices they wish to achieve that prosperity. In point of fact, some practices may actually hurt the overall economy by discouraging competition and promoting monopolies.

The Trend toward Monopoly. A number of different methods were used by large corporations to secure dominant positions in their particular fields. Businessmen argued that unrestrained competition had become so intense that they had been compelled to correct the "evils of competition" by mergers and consolidations. Here are a few devices that they used to control competition.

- ✓ THE POOL. First used by the railroads. The pool took the form of an agreement by which several supposedly competing companies established prices, regulated output, and divided markets among themselves. Often a pool consisted of an agreement by companies to limit their territories, thus limiting competition. Since such agreements were not recognized by law, they could be easily broken and thus proved unsatisfactory to firms that tried them.
- ✓ THE TRUST. This form of combination was first tested when John D. Rockefeller, the founder of the Standard Oil Company, organized the Standard Oil Trust in 1879. Rockefeller's attorneys worked out a plan whereby a group of corporations that engaged in the refining and transportation of petroleum entrusted their stocks to a board of trustees, which was authorized to control the new combination. The original stockholders of the various corporations received in return for their stock "trust certificates" on which they were entitled to dividends from the earnings of the trust. By 1882, the Standard Oil Trust included seventy-seven companies, whose total stock was held in trust by a board of nine persons. These companies represented 90 percent of the oil refineries and pipelines in the nation.
- ✓ THE HOLDING COMPANY. When states prosecuted the trustees on the ground that they were restraining trade, leaders of industry began to abandon the trust device and experiment with the holding company. This was a corporation that neither manufactured a product nor engaged in a service but controlled one or more subsidiary companies that did produce goods or perform services by holding a sufficient share of stock in the latter companies.

THE REGULATION OF INDUSTRY

American voters during the 1880s and 1890s increasingly supported government intervention into unfair and monopolistic company practices. Many Americans were suspicious of all big corporations. They idealized earlier generations when production was on a small scale and most business firms were individual proprietorships or partnerships. To them big corporations meant trusts and trusts meant the threat of monopolistic control. Increasingly, the villains of American conspiracy theories became big business instead of earlier “culprits” like bankers and land speculators.

Criticism of Laissez Faire. Although Americans generally appreciated the cheaper prices made possible by large-scale production, they feared that most business managers were more interested in monopolistic control of prices than in quality production under conditions of maximum efficiency.

MOLDERS OF PUBLIC OPINION. During the 1880s and 1890s the popular magazines and sensational newspapers reported on the unfair practices of monopolistic corporations. A number of economists and journalists, such as Henry George, Edward Bellamy, and Henry D. Lloyd supported government regulation of industry, usually for the purpose of maintaining freedom of competition.

SMALL PRODUCERS. Farmers complained that the power of the large corporations to determine prices resulted in high transportation rates for the produce they shipped and excessive charges for the manufactured goods they purchased. Small businessmen accused their more powerful competitors of using unfair methods, based on monopoly, to force them out of business.

CONSUMERS. Many consumers demanded that government investigate the way that large corporations used their control of the market to charge exorbitant prices. They called upon the government to legislate to encourage competition in business and industry.

Antitrust Legislation. Since corporations received their charters from states, the first antitrust laws came from the state legislatures. But under increasing pressure from consumers and reformers, the federal government became involved in the regulation of big business.

THE SHERMAN ANTITRUST ACT. So powerful was the popular sentiment against the trusts that in 1889 Republican President Benjamin Harrison recommended action by Congress, and in 1890 the legislature followed his suggestion by passing the Sherman Antitrust Act. Named after its sponsor, Republican Senator John Sherman of Ohio, the act, using a principle of the English common law, the act stated “every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations” to be illegal. It authorized prosecutions by federal district attorneys and suits for damages by any individual or firm injured by a company in violation of the act's provisions. At first the federal government was not aggressive in seeking criminal indictments. The Harrison, Cleveland, and McKinley administrations did not want to undertake a vigorous campaign against the trusts. The primary reason wasn’t the result of any conspiracy by these presidents to protect big business. The main reason was that various attempts to employ the Sherman Antitrust Act had been overturned in the Supreme Court.

THE RAILROAD SYSTEMS

Perhaps the most important players in the new economy were the railroads. Railroads connected the nation and the nation’s economy. Railroads carried raw materials to factories, carried finished goods to market and carried people all over the country.

NEW LINES AND INVENTIONS. Between 1865 and the financial panic of 1873, more than 30,000 miles of track were laid; by 1880, despite the depression years, mileage had reached 93,000. During the same period the railroad companies improved their engines, introduced the air brake perfected by George Westinghouse in 1868, and used Pullman sleeping cars and dining cars, invented by George Pullman, to make it possible to carry passengers in comfort over longer and longer distances.

GOVERNMENT AID. In 1862, while the southern states were unrepresented because of the Civil War, Congress granted a charter to the Union Pacific Company to construct a railroad from the western border of Nebraska to the eastern border of California. The promoters of the company were to receive a right of way (the land occupied by the railroad for its tracks), free use of timber and minerals on public land, and a grant of ten square-mile sections of public land for every mile of track they laid. (Two years later the land grant was doubled.) In addition, Congress agreed to lend the company $16,000 for every mile built across the plains, $32,000 for every mile across the plateau region, and $48,000 for every mile across the mountains. At the same time similar terms were accorded the Central Pacific, a California corporation formed to build a line from within that state eastward to meet the Union Pacific.

GOVERNMENT STIMULUS. States and the federal government contributed more than 130 million acres to railroad corporations. Land grants were given to the railroads for laying rails, but also for development and settlement along the path of the railroads. Settlers bought land and settled and built farms and towns along the rail lines.

The transcontinental lines created a national market within which farm commodities, raw materials, and manufactured goods could be freely exchanged. Frontier farms and western mining communities could supply urban centers of the East.

As many Americans moved farther westward, new territories were organized to become states. Although Western had small populations, they began to exert a rural influence in American politics. Western voters were somewhat hostile to the urban East and to many business interests, especially the very railroads that had helped to created these new states.

ABUSES OF THE RAILROADS

Those responsible for the management of the great rail systems were charged with committing a number of abuses in their promotion, construction, and operation of the lines. Railroad owners and managers used speculative trickery and political pressure, the latter frequently of an exceedingly immoral kind.

Railroad owners and managers were often involved in:

- ★ promoting lines in regions where absence of competition enabled them to charge exorbitant rates;
- ★ selling large quantities of securities (stocks and bonds) of unsuccessful roads to the residents of the localities that the roads pretended to serve;
- ★ paying huge profits to themselves as directors of the construction companies that were commissioned to lay the tracks.
- ★ By resorting to extensive distribution of free passes among officeholders, generous contributions to party campaign funds, and outright bribery of legislators, the railroads gained" protection" but also incurred ill will.

Financial Abuses. Railroad companies also engaged in financial abuses. These practices of some owners and managers embraced a wide range of financial dishonesty.

- ★ FRAUDULENT SALE OF SECURITIES. European investors were successfully approached to put their money into American lines that had sold more stock than the law permitted. In a few instances powerful directors sold bonds and pocketed the proceeds, thus increasing the corporation's liabilities without adding to its assets.
- ★ MARKET MANIPULATION. Owners like Jay Gould, and James Fisk, used valuable railroad properties as devices for building up private fortunes through the unscrupulous manipulation of securities on the stock exchange.
- ★ “STOCK-WATERING.” Some railroad directors engaged in the practice of overcapitalization, or “stock-watering” (the phrase originally referred to feeding salt to livestock to make them thirsty, and then having them fill themselves with water before

being weighed for market). By selling more stock than was represented by the actual physical value of the railroad, those directors had given investors stock containing "water"; that is, the par (nominal) value of each share of stock was higher than what it should have been to indicate the true assets of the line.

- ★ POOLING AGREEMENTS. Many of the roads entered into territorial pooling agreements in order to eliminate competition among the roads and raise rates.
- ★ REBATES. Rail companies gave advantages to big customers in the form of secret rebates that reduced their freight costs far below the advertised rates.

CONTROL OF THE RAILROADS

Between 1869 and the 1890s, state and federal government began increasingly to regulate the rail industry. Despite the obvious benefits resulting from the rapid extension of railroad lines into all parts of the nation, protests against the methods of the owners of the transportation systems continually increased, resulting eventually in a variety of regulatory measures. States created regulatory agencies and posted fixed rates in reaction to rail company abuses. Federal government stepped into the fray in the late 1870s with a series of court cases against railroad corruption.

THE INTERSTATE COMMERCE ACT. Congress created the Interstate Commerce Act in 1887. The act attempted to regulate abuses in the rail industry like stock manipulation, pooling and trust agreements. It required rail companies to post their rates and to give a ten-day public notice of any rate change. The act created a bipartisan commission of five, called the Interstate Commerce Commission, to supervise the business methods of the railroads, and to assist the attorney general in prosecuting offenses against the law. The Commission wasn't always successful because:

- ★ of its inability to compel witnesses to testify;
- ★ of the numerous appeals to the courts from commission rulings;
- ★ the Supreme Court's tendency to interpret the Interstate Commerce Act in such a way as to restrict the commission's control over the long haul-short haul system and secret rebates.

Next time we will take a look at labor and workers in the second half of the 19th century.