The Rise of Industry and Industrialists

Document #1 *American Anthem*: Second Industrial Revolution (Ch. 5, Sect. 2)

The Rise of Big Business:
Big business prospered in the late 1800s because of entrepreneurs—risk takers who started new ventures within the economic system called free enterprise or capitalism, in which most businesses are privately owned. Under laissez-faire capitalism (French for "allow to do" or "leave alone"), companies operated without government interference.

There were huge inequalities under capitalism, but some people explained them by a philosophy known as social Darwinism. In studying nature, British scientist Charles Darwin had concluded that members of a species compete for survival. Stronger members adapt to the environment and thrive while weaker ones gradually die out in a process called natural selection. Social Darwinists believed that natural selection also applied to society. Stronger people, businesses, and nations would prosper.
New business organization In response to changes in industry, a new type of business organization developed. The corporation is a business with the legal status of an individual. Corporations are owned by people who buy stock, or shares, in the company. A board of directors makes decisions; corporate officers run day-to-day operations.

Corporate organization had advantages. To expand, a corporation can raise money by selling stock. Stockholders can lose only amount of money they have invested in the business. Finally, a corporation can continue to exist after its founders leave.

Competition in the 1800s was fierce. To gain dominance, some competing companies merged to form a trust. A board of trustees ran the companies like a single corporation. When a trust gained complete control over an industry—such as sugar—it held a monopoly. It had no competition and could raise prices or lower quality at will.
Industrial tycoons As businesses grew ever larger, some corporate leaders amassed staggering fortunes. Historians refer to this time period as the Gilded Age. . .

Some Americans viewed the tycoons of the late 1800s as robber barons, destroying competitors with tough tactics. Others, however, saw them as captains of industry, using their business skills to strengthen the economy.

Source: Ayers, Edward L, et al. *The American Anthem*. New York: Holt, Reinhardt, and Winston, 2007; 151-152.

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Document #2: *The American Vision*: Industrialization (Ch. 3, Section 2)

The Rise of Big Business
Before the Civil War, the personal wealth of a few people operating in partnership financed most businesses, including many early factories. Most manufacturing enterprises were very small. By 1900, everything had changed. Big businesses dominated the economy, operating vast complexes of factories, warehouses, offices, and distribution facilities.

The Role of Corporations Big business would not have been possible without the corporation. A corporation is an organization owned by many people but treated by law as though it were a single person. The people who own the corporation are called stockholders because they own shares of ownership called stock. Issuing stock allows a corporation to raise large amounts of money for big projects while spreading out the financial risks.

Before the 1830s, corporations needed charters by state legislatures. Beginning in the 1830s, states began passing general incorporation laws, allowing companies to become corporations and issue stock without such charters. With the money they raised from the sale of stock, corporations could invest in new technologies, hire a large workforce, and purchase many machines, greatly increasing their efficiency.

Small businesses with high operating costs found it difficult to compete against large corporations. At the time, many people criticized corporations for cutting prices and negotiating rebates, believing that corporations were behaving unethically. Still, many small companies were forced out of business.
The Consolidation of Industry To increase manufacturing efficiency even further, some business owners went one step further in building their business. One example is Andrew Carnegie, a Scottish immigrant who rose from bobbin boy in a textile factory ot owner of a steel company in Pittsburgh. Carnegie began the vertical integration of the steel industry. A company with vertical integration owns all of the different businesses on which it depends for its operation. Instead of paying companies for coal, lime, and iron, Carnegie's company bought coal mines, limestone quarries, and iron ore fields.

Successful business leaders like Carnegie also pushed for horizontal integration, or combining many firms engaged in the same type of business into one large corporation. Horizontal integration took place frequently as companies competed. When a company began to lose market share, it would often sell out to competitors to create a larger organization. By 1880, for example, a series of buyouts had enabled Standard Oil, a company owned by John D. Rockefeller and his associates, to gain control of approximately 90 percent of the oil refining industry in the United States. When a single company achieves control of an entire market, it becomes a monopoly. Opponents feared monopolies because they believed that a company with a monopoly could charge whatever it wanted for its products. Those who supported monopolies believed that monopolies had to keep prices

low because raising prices would encourage competitors to reappear and offer the products for a lower price.

By the late 1800s, many Americans had gown suspicious of large corporations and monopolies. To preserve competition and prevent horizontal integration, many states made it illegal for one company to own stock in another without specific permission from the state legislature. In 1882 Standard Oil formed the first trust, a new way of merging businesses that did not violate the laws against owning other companies. A trust is a legal concept that allows one person to manage another person's property. The person who manages another person's property is called a trustee. This arrangement enabled the Standard Oil trustees to control a group of companies as if they were one large merged company.

Many companies also created new organizations called holding companies. A holding company does not produce anything itself. Instead, it owns the stock of companies that produce goods, effectively merging them into one large enterprise.

Source: Appleby, Joyce, et. al. *American Vision*. New York: Glencoe, 2006; 248-249.

The Rise of Industry and Industrialists

Document #3 *American Nation*: The Rise of Big Business (Ch. 15, Sect. 2)

A New Capitalist Spirit
The United States operated under an economic system known as capitalism, in which private business run most industries, and competition determines how much goods cost and workers are paid. In the late 1800s, entrepreneurs, or risk-taking businesspeople, set out to gain economic wealth by building industries that took advantage of the era's new technological advances. Many of these industries made enormous profits. With the rapid increase in business ventures and wealth, new ideas began to emerge that would transform traditional business practices.

Business leaders shared an American ideal of self-reliant individualism. During the Second Industrial Revolution, Horatio Alger, Jr. published a popular series of novels that reflected the increasing importance placed on individualism. These novels, such as those in the 1869 *Luck and Pluck* series, were typically based on rage-to-riches theme. Poor children improve their social and financial status through hard work and self-motivation. Like Alger's characters, many American business leaders attributed their success to their work ethic. A high regard for self-reliance led many leaders to support the ideal of laissez-faire capitalism. *Laissez-faire* means "to let people do as they choose." The theory of laissez-faire capitalism calls for no government intervention in the economy. Most business leaders believed that the economy would prosper if businesses were left free from government regulation and allowed to compete in a free market. This idea is sometimes called free enterprise. In a free-market economy, supply, demand, and profit margin determine what and how much businesses produce. These entrepreneurs argued that any government regulation would only serve to reduce individuals' prosperity and self-reliance.
Critics respond. Some critics of this theory argued that the rapid industrialization of factory life was harmful and unjust to the working class. This view of capitalism was most forcefully argued in the mid-1800s by Karl Marx, a German philosopher. Marx proposed a political system that would remove the inequalities of wealth. He developed a political theory, later called Marxism, that called for the overthrow of the capitalist economic system.

Marx argued that capitalism allowed the bourgeoisie—the people who own the means of production—to take advantage of the proletariat, or the workers. He also suggested that a new society could be formed on principles of communism. This theory proposes that individual ownership of property should not be allowed. In a communist state, property and the means of production are owned by everyone in the community. The community in turn ideally provides for the needs of all the people equally without regard to social rank.

Social Darwinism. American businesspeople also responded to some of the same concerns Marx raised about the working class. These business leaders began to embrace the emerging theory of social Darwinism. Originally proposed by English social philosopher Herbert Spencer, social Darwinism adapted the ideas of Charles Darwin's biological theory of natural selection and evolution. Social Darwinists argued that society progressed through natural competition. The "fittest" people, businesses, or nations should and would rise to positions of wealth and power. The "unfit" would fail. Following the law of the "survival of the fittest," social Darwinists believed that any attempts to help the poor or less capable actually slowed social progress. "Nature's cure for most social and political diseases is better than man's," wrote American educator and philosopher Nicholas Murray Butler.

Some religious leaders offered religious support for social Darwinism by suggesting that great wealth was a sign of Christian virtue. Baptist minister Russell H. Conwell declared, "You ought to get rich, and it is your duty to get rich. . . . To make money honestly is to preach the gospel."

The Corporation

In the late 1800s changes took place in the way businesses were organized. At the close of the Civil War, businesses typically consisted of small companies owned by individuals, families, or two or more people in a partnership. These traditional business organizations proved unable to manage some of the giant new industries such as oil, railroads, or steel. Nor could these organizations raise the money needed to fund such industries. Business leaders therefore turned to another form of business organization—the corporation. Corporations had existed in one form or another since colonial times. In a corporation, organizers raise money by selling shares of stock, or certificates of ownership, in the company. Stockholder—those who buy the share—receive a percentage of the corporation's profits, known as dividends.

Giving advice to a group of young men, steel baron Andrew Carnegie urged them to invest in stocks as he had. He suggested, "If any of you have saved as much as $50 or $100 I do not know of any branch of business into which you cannot plunge at once." Although stockholders could earn large profits from the companies, they played little or no part in the corporation's daily operations. One corporate executive described owning shares of stock as simply representing "nothing more than good will and prospective [future] profits."

A corporation has several advantages over partnerships and family –owned businesses. First, a corporation's organizers can raise large sums of money by selling stock to many people. Second, unlike small-business owners, stockholders enjoy limited liability. In other words, they are not responsible for the corporation's debt. Finally, a corporation is a stable organization because it is not dependent on a specific owner or owners for its existence. A corporation continues to exist no matter who owns the stock. Moreover, the public ownership and trading of stock provides another source of income for entrepreneurs. For example, a former New York grocery clerk named Jay Gould later became a successful stock market manager. Gould earned an estimated $77 million just from trading railroad stock.

Corporations, however, needed more than organizational stability to deal with the economic climate of the late 1800s. Where competition was fierce, prices and profits tended to rise and fall wildly. Some corporations responded by forming trusts. In a trust, a group of companies turn control of their stock over to a common board of trustees. The trustees then run all of the companies as a single enterprise. This practice limits overproduction and other inefficient business practices by reducing competition in an industry. If a trust gains exclusive control of an industry, it holds a monopoly. With little or no competition, a company with a monopoly has almost complete control over the price and quality of a product.

Source: Boyer, Paul. *American Vision*. New York: Holt, 2003; 473-475