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Corporations and Big Business

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When the nineteenth century dawned, corporations were virtually nonexistent, and all business enterprises were relatively small. By the end of the century large corporations dominated many industries in the United States. Two factors in particular contributed to this development. State and federal laws and judicial decisions created a legal atmosphere that favored incorporation, while technological developments and organizational innovations in transportation, communications, and manufacturing made large business enterprises possible as well as profitable.

Rise of the Corporation

At the turn of the century business enterprises in the United States operated on a small scale, and the dominant figures in American commerce were merchant capitalists. These individuals usually owned one or more ships and made all of the decisions in their businesses, though many were assisted by family members or worked in conjunction with a partner or partners. Most manufacturing concerns were operated by an artisan, who was assisted by one or two apprentices or by family members. The textile and shoe industries relied on the putting-out system, whereby self employed, home-based workers drew their materials from and delivered finished goods to a central warehouse. The largest industrial concerns, iron foundries and shipyards, rarely employed more than fifty workers.

Between 1815 and 1840 this situation changed dramatically for two major reasons. In the 1820s the Industrial Revolution gradually spread from England to New England, where the increased use of machinery and economies of scale gave rise to the factory system. At first confined to the manufacture of textiles and shoes, this system by 1840 had almost completely supplanted the artisanal and putting-out systems. Because an unusual amount of capital was required to build and operate factories, by the 1820s corporations had begun to replace individuals and limited partnerships as the primary mechanism of business ownership. In part these developments grew out of legal changes that made incorporation more attractive. States changed their incorporation laws so that the simple payment of a fee, rather than a special act of the state legislature, sufficed to create a corporation. State court decisions, such as *Vose v. Grant* (Massachusetts, 1818) and *Spear v. Grant* (Massachusetts, 1819), established the precept of limited liability, which protected stockholders from financial ruin if a business enterprise failed. The Supreme Court's ruling in *Trustees of Dartmouth College v. Woodward* (1819) guaranteed the inviolability of a corporation's charter.

Between 1840 and 1860 the corporation became the preferred method by which to finance and organize a business. American merchant capitalists, whose shipping interests were being outpaced by government-subsidized British firms, were attracted by the limited-liability benefits of corporate investment and the substantial profits that factories produced, and many shifted their capital from trade to manufacturing. Beginning in 1848 European investors, fearful of the rising threat of political revolution on their own continent, began seeking investment opportunities in the United States. The efforts by American bankers and shipping agents to accommodate these investors led ultimately to the creation of Wall Street, the capital

market centered in New York City through which stocks and bonds could easily be bought and sold. This development made it possible for investors to buy stock in a company that they had no intention of running, thus greatly increasing the amount of capital available to corporations. The rowing scale and scope of business activity resulting from major developments in transportation, communications, distribution, and production demanded large amounts of capital, which could best be raised by a corporation.

Transportation

The first modern big business enterprises in the United States were railroads. The invention of iron rails, flanged wheels, and steam locomotives in the first half of the century allowed railroads to replace rivers, canals, and roads as the dominant mode of long-distance transportation. Unlike steamship lines, canal companies, and turnpike operators, railroad companies constructed and maintained rights-ofway and operated the equipment that used them. Huge amounts of capital were required to purchase and maintain the necessary land and equipment, and the corporation proved the best vehicle for raising such funds.

By 1860 several major rail systems connected eastern industry with western and southern agriculture. These systems employed thousands of workers in hundreds of different locations doing dozens of different jobs. This activity had to be coordinated so that passengers and products could be transported safely and profitably from one point in the system to another. Clearly the old ways of entrepreneurial behavior, whereby the owner-manager made all business decisions on an off-the-cuff basis, were no longer satisfactory. Instead railroad companies developed large managerial staffs composed of professionally trained employees, most of whom worked for a salary, owned little or no interest in the company, and made a career out of their specialty. These staffs developed and implemented complex administrative procedures for managing on a minute-by-minute basis the movement of passenger and freight trains. They also supervised the ancillary activities of finance, purchasing, locomotive and car repair, engineering and construction, rail maintenance, and communications necessary to keep the trains running. In addition they devised sophisticated methods of financial, capital, and cost accounting to keep track of income and expenses. By the 1880s these methods and procedures were fully developed and universally applied throughout the railroad industry.

Once the solutions to internal operating problems had been found, the railroads moved to reduce competition and increase profits by creating a national rail network. Following the failure of informal freight- forwarding agreements in the 1860s and formal freight cartels in the 1870s, railroad companies attempted to create self-sustaining transcontinental systems. Although no one railroad ever managed to run from sea to shining sea, the effort to do so resulted in the creation of increasingly larger railroad systems. By 1893 twenty-six companies each operated over one thousand miles of track and had a capitalization of more than 100 million dollars. The Atchison, Topeka, and Santa Fe Railway, which connected Chicago to California, included over nine thousand miles of track, approximately three times the distance from New York to San Francisco. The Pennsylvania Railroad, which

connected New York to Chicago and St. Louis, was capitalized at almost 850 million dollars. In their capital, size, and sophistication of operations, railroads were the biggest businesses of the nineteenth century.

Communications

The growth of railroads was aided immensely by the telegraph, which was invented in 1844. Building their lines along railroad rights-of-way, telegraph companies handled most of the communications between railroad stations. Early on, telegraph companies were faced with the problem of coordinating through traffic over the lines, and in 1857 telegraph companies organized themselves into six regionally managed pools. In 1866 these pools were consolidated into one company, Western Union. The first nationwide multiunit modern business enterprise in the United States, Western Union operated more than twenty-five thousand miles of line connecting more than three thousand different stations. To coordinate its operations, the company adopted many of the management and organizational techniques used by the railroads. Central and regional staffs composed of professionally trained career managers supervised traffic, repair and maintenance, purchasing, and accounting functions.

A similar pattern occurred in the telephone industry. Following the invention of the telephone in 1876, telephone service was quickly monopolized by the American Bell Company, which acquired all the patent rights. Although these patents expired in the 1890s, American Bell continued to dominate the industry because it owned the nation's only long-lines network. Reorganized in 1885 as American Telephone and Telegraph, the company managed its operations by using many of the same basic procedures and structures that prevailed in the railroad and telegraph industries.

Production

The rise of mass production during the late nineteenth century resulted partly from major developments in transportation and communications and partly from the development of new technologies. The invention in the mid-1830s of new mining equipment and techniques greatly increased the supply of anthracite coal, which made possible the use of steam for driving machinery in every industry. The introduction shortly after the Civil War of the Bessemer process, which produced steel on an unprecedented scale, led to the phenomenal rise of the steel industry. The appearance in the late 1860s of superheated steam distillation contributed significantly to major production increases in the refining and distilling of petroleum. The development in the 1880s of continuous-process technology, whereby a series of integrated machines processed raw materials into finished products in a matter of hours, contributed to astronomical increases in the production of a diverse group of items, such as cigarettes, matches, soap, photographic negatives, flour, and canned goods.

As manufacturing companies grew, they organized themselves along lines similar to the railroads. Corporations were formed to raise the capital necessary to build huge factories and equip them with state-of- the-art machinery. Professional managers operated departments, each of which employed hundreds if not thousands of workers, dedicated to

purchasing, manufacturing, repair, shipping, sales, and accounting. General managers and their staffs made sure that the various departments worked together in harmony, thus guaranteeing the steady flow of finished products from plant to public. In this endeavor they were greatly aided by the railroads, which speedily delivered raw materials and finished goods, and modern communications, which eliminated delay in placing, processing, and delivering orders.

Consolidation

The evolution of transportation, communications, and production led to the development of a number of manufacturing concerns in any given industry, all competing fiercely with one another. During the 1870s major corporations in most industries attempted to reduce competition and increase profits by forming a horizontal combination, so called because all of the companies taking part in the endeavor produced the same product. At first these entities took the form of trade associations, in which most if not all of an industry's manufacturing enterprises formed a cartel to set prices and limit production. Typically these cartels succeeded in curbing competition only to have one or more members revert to the old practices of cutting prices and raising production. To overcome this problem, in the 1880s competitors began forming trusts, whereby a number of competing companies exchanged their stock for trust certificates, thereby granting the trustees, who were always the most important figures in the industry, legal control over the participating firms. Only about a dozen trusts formed, and by far the largest and most profitable was Standard Oil. That trust organized in 1882, when Standard Oil Company, the country's largest petroleum refiner, combined with a number of affiliated oil producers, refiners, and marketers. At its peak the trust owned fourteen companies outright and a majority of the shares in at least two dozen others, an arrangement that gave it controlling interest over 90 percent of all oil produced in the United States.

Because the effects of trusts were so visible to the general public, who perceived the curtailment of competition negatively, Congress attempted to restrict the rise of big business via the Sherman Antitrust Act of 1890. Ironically, this act aided the growth of big business. Although it prohibited trusts from engaging in monopolistic practices, it did not prohibit corporations from doing so. After 1889, when New Jersey became the first of many states to permit a company to buy stock in its competitors without a special act of the state legislature, trusts took the form of holding companies, which differed from trusts mostly in terms of legal niceties. The Standard Oil Trust led the way by incorporating as Standard Oil Company of New Jersey in 1889, and over the next fifteen years smaller competitors in other industries merged into over one hundred giant corporations. Many of them, such as American Can, Continental Tobacco, General Chemical, International Harvester, National Biscuit, Union Bag and Paper, and U.S. Steel, controlled between 40 and 90 percent of their industry's market share.

Although horizontal combinations were the most visible big businesses of the nineteenth century, in most cases the more profitable ones were the vertical combinations. Generally speaking, these enterprises came into being when a manufacturing company

experienced difficulty in obtaining raw materials or marketing its products and solved the problem by acquiring a controlling interest in suppliers, shippers, or distributors. One of the first and most important vertical combinations was Carnegie Steel. Formed in 1872 as J. Edgar Thomson Steel Works, the company worked assiduously to undersell its competitors by controlling costs. To this end the company purchased coalfields and iron ore deposits, thereby reducing the cost of raw materials, as well as ships and railroads to haul coal and ore to the mills, thereby reducing shipping costs. It also replaced independent manufacturing agents, who sold the company's products as well as the products of its competitors, with a force of salaried salespeople working o t of branch offices, thereby reducing marketing costs. As a result Carnegie Steel became the nineteenth century's most important producer of steel with assets valued in 1901 at almost 500 million dollars.

In some cases a vertical combination was absolutely necessary to bring a particular product to market because standard shipping or marketing facilities were inadequate for the task. In order to get the general public to buy beef that had been slaughtered and dressed days earlier in a distant city rather than local meat that was freshly butchered and more expensive, Swift and Company built the first refrigerated railcars and warehouses and developed a national sales organization. Early manufacturers of electrical machinery and equipment, such as General Electric and Westinghouse Electric, established their own marketing operations because independent agents lacked the technological know-how to sell and service prospective customers.

Economic and Societal Effects

By the end of the nineteenth century giant corporations ruled the U.S. economy. Over one-third of all manufactured goods produced in the United States was made by 1 percent of U.S. manufacturers, a handful of railroads controlled interregional ground transportation, and two companies operated the nation's long-distance communications. Even retailing, the last refuge of the entrepreneur of modest means, was being taken over by the giant corporation. In 1900 Sears, Roebuck and Company, the nation's foremost mail-order house, did 100 million dollars in sales, while chain stores such as F. W. Woolworth and the Great Atlantic and Pacific Tea Company (A&P) opened dozens of outlets across the country in direct competition with "mom and pop" stores.

The economic changes resulting from the rise of big business were generally beneficial to consumers and investors. Giant corporations contributed to substantial economic growth by developing new goods and services, often as a result of technological innovation that was beyond the capabilities of small enterprises to finance and exploit. These corporations also created a number of modern business practices, such as integrated operations, cost accounting, and mass production. The higher efficiency rates and lower operating costs that resulted from these practices led to lower prices for goods and services.

The social changes resulting from the rise of big business are harder to categorize. On the one hand giant corporations created millions of jobs for unskilled

and propertyless workers, many of whom were immigrants, thereby enabling them to support their families. The managerial revolution, which big business brought about, created dozens of new specialties and middle-management positions. By thus allowing intelligent, educated people of average means to improve their lot, both socially and economically at an unprecedented rate, this revolution increased the numbers of the middle class and made it more prosperous and important in U.S. society than ever before.

On the other hand many Americans felt uneasy about the rise of giant corporations and their increasing influence over people's lives. Workers had virtually no bargaining power with their employers and were extremely vulnerable to economic downturns, which left them unemployed at a moment's notice. Similarly they were forced to accept the dangerous working conditions, long hours, and often low pay offered by large enterprises. Big business placed tremendous economic power in the hands of a few tycoons, who used their power and wealth to influence the political process. State legislators, judges, and U.S. senators wound up on the payroll of many corporations, and graft and corruption in politics became the rule. As a result many Americans feared that giant corporations, in their never ending drive to monopolize their markets, would one day seek to restrict the ability of common people to get ahead and curtail individual freedoms. These fears were particularly strong among farmers, laborers, and owners of s all businesses, who generally failed to share in the economic bonanza. The result was political unrest and the rise of the Socialist Labor Party in the 1870s and the Anti-Monopoly Party and the People's, or Populist, Party in the 1880s. Although these parties differed in many respects, each sought federal government regulation of railroads and large corporations.

Big business also created a class of fabulously rich people. By 1900, 1 percent of the population controlled approximately 75 percent of the wealth, while millions lived in poverty. Many tycoons contributed generously to charities and philanthropic organizations, including Andrew Carnegie, who gave away over 300 million dollars of his own money. However, many more flaunted their wealth and justified their way of life by citing the tenets of social Darwinism, which glorified "survival of the fittest" and blamed poor people for their own misery.

Although Progressivism did not come to fruition during the nineteenth century, the abuses of giant corporations and the excesses of the wealthy led to the rise of that movement, which began during the 1890s. Because most Americans saw that big business was, in many respects, a good thing, the Progressive movement sought to regulate rather than destroy giant corporations. By 1920, as a result of the leadership of Presidents Theodore Roosevelt and Woodrow Wilson, the role of the federal government as a regulator of big business was firmly established.

Scholars continually debate the positive and negative effects of the changes wrought by giant corporations during the nineteenth century, but all agree that these enterprises laid the foundation for the twentieth-

century economy of the United States. Many of the late twentieth century's leading corporations in transportation, communications, manufacturing, and distribution got their starts during the nineteenth century. Many long-lasting revolutionary changes in management, production, and marketing, including mass production, rapid transportation, and near-instantaneous communications, were first developed and implemented by big business in the nineteenth century.

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