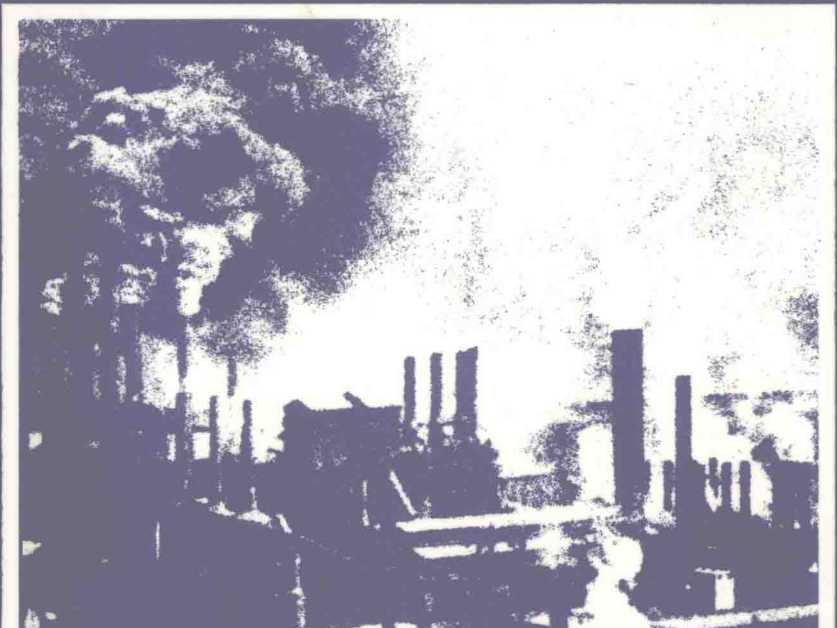
The American History Series

The Rise of Big Business

1860–1910

Glenn Porter



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For KT, my southern hothouse flower

The American History Series

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EDITORS' FOREWORD

Every generation writes its own history, for the reason that it sees the past in the foreshortened perspective of its own experience. This has certainly been true of the writing of American history. The practical aim of our historiography is to offer us a more certain sense of where we are going by helping us understand the road we took in getting where we are. If the substance and nature of our historical writing is changing, it is precisely because our own generation is redefining its direction, much as the generations that preceded us redefined theirs. We are seeking a newer direction, because we are facing new problems, changing our values and premises, and shaping new institutions to meet new needs. Thus, the vitality of the present inspires the vitality of our writing about our past. Today's scholars are hard at work reconsidering every major field of our history: its politics, diplomacy, economy, society, mores, values, sexuality, and status, ethnic, and race relations. No less significantly, our scholars are using newer modes of investigation to probe the ever-expanding domain of the American past.

Our aim, in this American History Series, is to offer the reader a survey of what scholars are saying about the central themes and issues of American history. To present these themes and issues, we have invited scholars who have made notable contributions to the respective fields in which they are writing. Each volume offers the reader a sufficient factual and narrative account for perceiving the larger dimensions of its particular subject. Addressing their respective themes, our authors have undertaken, moreover, to present the conclusions derived by the principal writers on these themes. Beyond that, the authors present their own conclusions about those aspects of their respective subjects that have been matters of difference and controversy. In effect, they have written not only about where the subject stands in today's historiography but also about where they stand on their subject. Each volume closes with an extensive critical essay on the writings of the major authorities on its particular theme.

The books in this series are designed for use in both basic and advanced courses in American history. Such a series has a particular utility in times such as these, when the traditional format of our American history courses is being altered to accommodate a greater diversity of texts and reading materials. The series offers a number of distinct advantages. It extends and deepens the dimensions of course work in American history. In proceeding beyond the confines of the traditional textbook, it makes clear that the study of our past is, more than the student might otherwise infer, at once complex, sophisticated, and profound. It presents American history as a subject of continuing vitality and fresh investigation. The work of experts in their respective fields, it opens up to the student the rich findings of historical inquiry. It invites the student to join, in major fields of research, the many groups of scholars who are pondering anew the central themes and problems of our past. It challenges the student to participate actively in exploring American history and to collaborate in the creative and rigorous adventure of seeking out its wider reaches.

John Hope Franklin

Abraham S. Eisenstadt

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ONE

What Is Big Business?

The purpose of this volume is to impart some information and some ideas about one of the most important, yet widely misunderstood, topics in American history—the coming of big business. The average American has a limited understanding of his society, his government, and his past, but above all, of the economy. This is not entirely his fault. Anyone who has watched economists trade jargon and conflicting predictions may feel that he has fallen among soothsayers just back from examining entrails. As for the public's attitude toward big business, most Americans of the last quarter-century seem to have accepted its existence as a normal and natural part of their lives, like the certainty of taxes and the four seasons. Many citizens, of course, continue to be deeply concerned about abuses of power by large corporations and about the dangers posed by the often intimate connections between business and government. Nevertheless, it is clear that the American political process has accepted the fact of the existence of big business, that large-scale enterprises are not likely to be destroyed or fundamentally altered via political action, though their behavior will continue to be constrained and influenced by political and social criticisms.

Throughout our national history, Americans have shaped much of their politics around one or another variant of the struggle against big business. The lineage of ideas about the evils of large-scale business goes back at least as far as Thomas Jefferson. Andrew Jackson and his followers later molded an era around the fight to destroy the "monster" Bank of the United States and its influence. Both the populist and progressive movements, though extremely complex experiences, were ultimately rooted in a deep reluctance to accept the rise of big business without protest. After an apparent national accommodation with the new economic order in the 1920s, the New Deal witnessed what may well have been the Indian summer of any genuine widespread concern with antitrust movements. The recent rekindling of public interest in the shortcomings of big business, sparked by critics such as Ralph Nader, may develop into a significant political force, though that remains to be seen.

Most of our earlier political conflicts about business, like other political clashes, were couched in very vague terms. Few people were specific about what they meant by big business or how to correct its alleged evils. In addition, the opposition to large-scale business often was mixed with a confused array of related but distinct ideas such as the persistent idealization of rural, agrarian civilization and the rejection of urban, industrial life—what Richard Hofstadter (in *The Age of Reform* [1955]) called the "agrarian myth." Most Americans witnessed in confusion and doubt the passing of the older, agrarian society whose businesses were small, local affairs.

The coming of giant corporations was profoundly unsettling, for the process not only altered the way of life of the great majority of people, but it seemed to call into question many of the ideas and values by which Americans had defined themselves and their nation. The cult of individualism, the belief in competition and in democracy, the belief that anyone could rise through his own efforts to wealth and power—all seemed threatened by the giant corporations whose influence came to be felt in virtually every city and town across the land. Of the many changes that have occurred in our history, few if any have made such a deep and lasting difference as the emergence of industrialization and its characteristic institution, the large corporation. Until recent decades, however, historians had talked a great deal about the antitrust movement but had provided relatively little in the way of thoughtful generalizations about the process by which big business actually arose.

To some extent, historical work on the coming of giant corporations has reflected the rather paradoxical way in which Americans have responded to large-scale enterprise. At the same time that the American people were upset about the rise of big business, they were also eagerly embracing it. No other country in the Western world made antitrust a prime political issue, and none has exhibited the same kind of long-run tradition of institutionalized concern about big business as has the United States. Paradoxically, few nations have created so many giant firms so quickly and have extended the bureaucratization of their economic activities so far as the United States. Americans have always admired giant economic organizations while at the same time fearing them, and the treatment of the rise of big business by American historians has reflected the conflicting popular views.

For many years, most historical assessments of the rise of big business were either emotionally slanted attacks on the "robber barons" or else attempts to refute such interpretations by focusing on the positive side of the coming of large-scale enterprises (that is, such contributions as greater productive efficiency and expanded economic growth). The first group of historians usually coupled a "liberal" or "progressive" political preference with a view of history in which the rise of big business was seen as the inevitable product of capitalism's continuous tendency toward the concentration of capital and production into larger and larger units. "If society is founded on the idea that property belongs to the strongest," Henry Demarest Lloyd argued in *Wealth Against Commonwealth* (1894), "these will sooner or later get all the property, by bargains or by battles according to 'the spirit of the age.' " Some of the better contributors to the robber baron school of historiography, such as Matthew Josephson (*The Robber Barons* [1934]), demonstrated an appreciation of the varieties and complexities of history by acknowledging the role of factors such as entrepreneurship, technology, and plain good luck in shaping the coming of big business. Rather than lingering upon explanations of the coming of big business, however, such historical works usually featured moral denunciations of the avarice and ruthlessness of big businessmen, questioning the appropriateness of the wealth and power society conferred on a relative few. Invoking the American ideals of political and economic democracy, Josephson denounced the "new nobility" whose members "organize and exploit . . . farmers and workers into harmonious corps of producers . . . only in the name of an uncontrolled appetite for private profit. . . ."

The opposing interpretation of the period was, for many years, that the business giants had made positive contributions by bringing greater efficiency and organization to the economy. This approach came to be known in some quarters as the "industrial statesmen" view. By looking at events from the perspective of the businessman, these historians naturally came to see history in terms which made all business behavior reasonable, and even praiseworthy. Sometimes this process of revisionism went to extremes, as in Julius Grodinsky's *Jay Gould* (1957). Matthew Josephson had called Gould (an unscrupulous railroad promoter in the 1870s and 1880s) "Mephistopheles"; in Grodinsky's view, Gould's schemes "performed a service to society" by encouraging competition. One could choose his political preferences, observe the era from the standpoint of the large businessmen or "the public interest," and decide whether Carnegie, Rockefeller, and the others were robber barons or industrial statesmen.

The historical treatment of the coming of big business was thus a part of the larger, twentieth-century historiographical trend toward "progressive" history. Liberal historians interpreted American history from the populist movement on as a series of conflicts between the forces of good (fighting for greater democracy and a more nearly equal distribution of wealth) and the opposing forces of conservatism (fighting to maintain the status quo). This interpretive tradition was dominant in America at least until the 1950s. Dissenters (usually called "revisionists") merely had a differing set of political views; they did not alter the prevailing view of history as a moral struggle.

The historical work of the last two decades has seriously eroded the progressive view of history. The "consensus" historians of the 1950s and 1960s emphasized the relatively narrow range of political and social disagreement in American history, and some undermined the progressive historians by pointing out the uglier sides (such as anti-Semitism, racism, and nativism) of various reform movements. Even more recently, the New Left has broken completely with progressive history's admiration of the post-industrial reform movements, denouncing the reformers for failing to bring more fundamental changes. Gabriel Kolko's *The Triumph of Conservatism* (1963), for example, painted the progressive movement as a basically conservative phenomenon heavily influenced by businessmen. The New Left has not, however, abandoned the politically influenced methods of earlier historians; their more demanding moral sieves merely produce far fewer good guys than those of their less radical predecessors.

In recent years, there has been an effort to reshape our view of the past by writing what might be called "amoral" history. Each generation of historians believes itself to be more objective and scientific than the last, and the present one is surely no exception. The decline of progressive history (and perhaps a spreading dissatisfaction with the ability of traditional mid-twentieth-century American liberalism to serve as an organizing social philosophy) has sent historians looking for new ways of doing history. Many have turned to quantification and have sought through voting analyses, demographic data, and econometric models to produce a new history which will qualify as a truly scientific "social science." Still others, drawing on sociology, organization theory, and (to a lesser extent) economics, have attempted to analyze process and structure without passing explicit moral judgments on the men and institutions of the past. This kind of work in institutional economic and business history, such as that by Alfred D. Chandler, Jr., has pointed to the relationships between the functions of an organization and its structure; his *Strategy and Structure* (1962) demonstrated that the form of a business enterprise is shaped by the nature and complexity of the tasks it performs. In the study of the rise and later development of big business, this last historical viewpoint has been especially fruitful.

This present book is framed in that institutional tradition, and the author hopes to avoid explicit moralizing. The book attempts to look at the rise of big business by examining the underlying institutional changes which made it possible, by investigating the role of markets, changing transportation and communication networks, production processes, legal environment, financial institutions, and other factors, and by posing some suggestions about the wider implications of the new, giant businesses which rose to dominance in the American economy between the Civil War and the early years of the twentieth century. By exploring these and similar questions, we may be able to reach a deeper understanding of this important part of American history than by approaching the topic in a spirit of blame or praise.

The essential first step is to be clear on what is meant by the term "big business." The purpose of this first chapter, therefore, is to provide a general definition of the nature and functions of big business; the creature will at least be surrounded if not completely subdued. It is important to understand the differences between this brand of big business and the smaller type of business firms common in America before the last half of the nineteenth century.

There are a great many kinds of businesses operating in the American economy. Major examples include: agriculture; forestry; fishing; mining; construction; manufacturing; transportation; communications; utilities; wholesale and retail trade; finance; insurance; service industries such as repair facilities and legal, medical, and educational businesses; and the operations of various governmental agencies. When Americans think of big business, however, they usually think of the large corporations engaged primarily in manufacturing—General Motors, Standard Oil, du Pont, U.S. Steel, and so on. Other kinds of businesses, of course, would also probably come to mind, firms such as United Airlines, the Chase Manhattan Bank, and American Telephone and Telegraph. In the decades after the Civil War, when people spoke of big business, they had in mind three kinds of enterprises in particular: railroads, manufacturing corporations, and banks. The men of those businesses—the Vanderbilts, Harrimans, Rockefellers, Carnegies, Dukes, Morgans, and others—symbolized the changing nature of the economy. Although other kinds of businesses, both then and later, exhibited some of the characteristics of big business, it was the "rise" of large-scale firms in those three areas (particularly in railroads and manufacturing) which signaled the coming of a new economic order in the land. Those are the industries with which most of this book will deal.

"Big business" refers (at least in this book) to a particular kind of institution through which men financed, produced, and distributed goods and services. A big business was a very different economic creation from the businesses of colonial and early national days. It was structured differently, and it did different things in new ways. These differences may be looked at from various viewpoints, but here they will be explained in terms of several basic institutional characteristics—characteristics of the structure, function, and behavior of the businesses. Most enterprises considered to be big businesses exhibited these distinctive features.

One obvious characteristic of large-scale enterprises was that they embodied very much larger pools of capital than the businesses of earlier days. The typical business establishment of the first part of the nineteenth century was financed by a single person or by several people bound together in a partnership. As such, it represented the personal wealth of a very few persons. Most manufacturing enterprises (with the exception of some textile mills and iron furnaces) were quite small, involving little in the way of physical plant or expensive machinery. It was relatively easy to get into business, for the initial costs of going into trade or simple manufacturing were within the reach of many citizens. Business failures were frequent, but there was little social or economic stigma attached to having failed unless the bankrupt man was thought dishonest; stupidity, but not deception, was repeatedly forgivable. Corporations were rare and business had a very personal tone. The fact that it was easy to enter business nurtured the belief that the society was open and fluid, that this was a land of opportunity. The goods most men bought were made and sold by small businesses, and because the capital requirements for most businesses were small, people could easily dream of owning and operating their own establishments. A great many people in antebellum America, it seemed, were in business, if only in a small way. "What most astonishes me in the United States," Alexis de Tocqueville recalled of his visit in the 1830s, "is not so much the marvelous grandeur of some undertakings, as the innumerable multitudes of small ones."

The capital represented by many of the late-nineteenth-century corporations was obviously vastly larger than even the grandest undertakings of the antebellum years. The buildings and machines of the later enterprises were numerous and expensive. The capital needed to build, maintain, and operate the many factories, warehouses, offices, distribution facilities, and other accouterments of big business was enormous. It was almost impossible to create and run such an institution without gathering money from many people. The capital represented by early giant enterprises such as Standard Oil, American Tobacco, Swift and Company, and the various large railroads amounted to many millions of dollars. For example, the excellent study of Standard Oil by two basically sympathetic revisionist historians (Ralph and Muriel Hidy's *Pioneering in Big Business, 1882–1911* [1955]) showed the company's net book value in 1910 to be in excess of 600 million dollars. And when U.S. Steel was created in 1901, the news which most amazed and impressed contemporaries was the fact that the firm was capitalized at over one billion dollars. By way of comparison, the capital represented by even the largest of antebellum manufacturers—the textile companies—was less than a million dollars, and the vast majority of firms engaged in factory production before 1860 were much smaller. The coming of giant corporations soon altered the old assumption that almost anyone could go into his own business and have some chance of succeeding as well as anyone else. A man would surely have been thought a lunatic in 1901 if he sat around planning the creation of, say, another U.S. Steel with the savings and credit of a few friends.

Another important difference between small and large businesses was related to the scale of capital needs just discussed. This related distinction lay in the differing nature of capital needs and costs for small and large firms. A business needed two kinds of capital, fixed and working, and it encountered two