SECTION 2

WITNESS HISTORY AUDIO

From Rags to Riches

In 1848, 12-year-old Andrew Carnegie and his poverty-stricken family immigrated to the United States. He immediately began work in a Pennsylvania textile factory. Two years later, he got a job in a railroad office. By the time he was 40, he was a wealthy investor and the nation's most successful steelmaker, famous for his commitment to innovation. Carnegie's "rags to riches" story did not end with wealth. Believing that "the man who dies rich thus dies disgraced," he established a number of charitable organizations in the United States and around the world.

◄ Young Andrew Carnegie (far left) worked as a "bobbin boy," winding cotton thread onto a bobbin like the one at left.

The Rise of Big Business

Objectives

- Analyze different methods that businesses used to increase their profits.
- Describe the public debate over the impact of big business.
- Explain how the government took steps to block abuses of corporate power.

Terms and People

corporation	Andrew Carnegie
monopoly	vertical integration
cartel	Social Darwinism
John D. Rockefeller	ICC
horizontal integration	Sherman Antitrust Act
trust	

NoteTaking

Reading Skill: Identify Supporting Details Record supporting details about the rise of American big business in a chart like this one.

Rise of Big Business

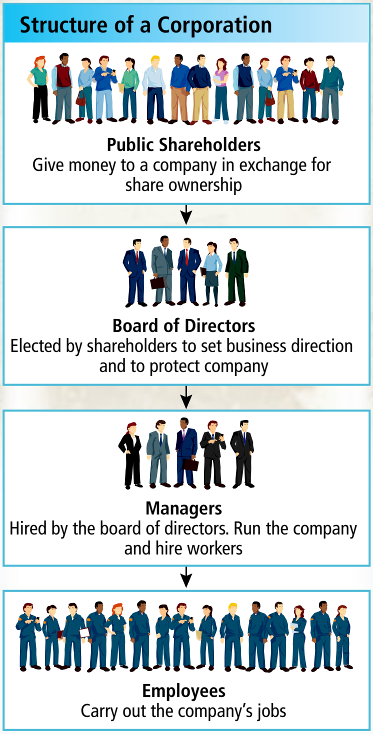
Corporations | Debates

Why It Matters The rapid industrial growth that occurred after the Civil War transformed American business and society. Yet it was only the beginning. The rise of big business, characterized by the investment of huge amounts of resources, turned the United States into one of the most economically powerful countries in the modern world. **Section Focus Question: How did big business shape the American economy in the late 1800s and early 1900s?**

Fighting for Profits

Until the mid-nineteenth century, most businesses were run by one person or family. This meant that no business could grow bigger than one family's ability to invest in it or run it. Businesses were also local, buying and selling to customers who lived nearby. Industrialization changed all this. Railroads provided businesses with access to raw materials and customers from farther and farther away. Business leaders, lured by the profits offered by these larger markets, responded by combining funds and resources.

The Corporation Develops To take advantage of expanding markets, investors developed a form of group ownership known as a **corporation.** In a corporation, a number of people share the ownership of a business. If a corporation experiences economic problems, the investors lose no more than they had originally invested in the business. The corporation was the perfect solution to the challenge of expanding business, especially for risky industries such as railroads



Running a Corporation
Companies issue shares like those above to their investors. In every corporation, shareholders have the final say on how their money should be invested. *How does the role of director differ from that of manager?*

or mining. A corporation had the same rights as an individual: it could buy and sell property, and it could sue in the courts. If one person chose to leave the group, the others could buy out his interests.

Corporations were perfectly suited to expanding markets. They had access to huge amounts of capital, or invested money, allowing them to fund new technology, enter new industries, or run large plants across the country. Aided by railroads and the telegraph, corporations had the ability to operate in several different regions. After 1870, the number of corporations in America increased dramatically. They were an important part of industrial capitalism, or the economic free-market system centered around industries.

Gaining a Competitive Edge Corporations worked to maximize profits in several ways. They decreased the cost of producing goods or services by paying workers the lowest possible wages or paying as little as they could for raw materials. They tried to increase profits by advertising their products widely, thus increasing their potential customer base. Like J. P. Morgan, the heads of some corporations supported research laboratories where inventors could experiment with products and methods that might bring the corporations future profits. Others thought up new ways to make money. Cornelius Vanderbilt, a self-made businessman in the railroad industry, got his start in the steamboat business. He cleverly succeeded in getting his competitors to pay him to relocate because his low fares were driving them out of business.

Some corporations tried to gain a **monopoly,** or complete control of a product or service. To do this, a corporation either bought out its competitors or drove them out of business. Once consumers had no other choices for a given product or service, the sole remaining company was free to set its own prices. Other corporations worked to eliminate competition with other businesses by forming a **cartel.** In this arrangement, businesses making the same product agree to limit their production and thus keep prices high. Still other corporations came up with new methods. **John D. Rockefeller,** an oil tycoon, made deals with railroads to increase his profits:

Primary Source "[Rockefeller's company] killed its rivals, in brief, by getting the great trunk lines to refuse to give them transportation. Vanderbilt is reported to have said that there was but one man—Rockefeller—who could dictate to him."

—H. D. Lloyd, *The Atlantic,* 1881

Horizontal and Vertical Integration Businessmen continued to develop ever more effective ways to increase profits and decrease costs. One way was to create a giant company with lower production costs. This system of consolidating many firms in the same business is called **horizontal integration.** Rockefeller was one of the first businessmen to use this method. However, Ohio state law prevented one company from owning the stock of another, meaning that Rockefeller could not buy out his competitors. His lawyer had an idea to get around this law, called a **trust.** In a trust, companies assign their stock to a board of trustees, who combine them into a new organization. The trustees run the organization, paying themselves dividends on profits.

Rockefeller, steel tycoon **Andrew Carnegie,** and other businessmen also increased their power by gaining control of the many different businesses that make up all phases of a product's development. This process, called **vertical integration,** allowed companies to reduce costs and charge higher prices to competitors.

✓ **Checkpoint** **What strategies did corporations use to decrease costs and increase profits?**

Debating the Role of Big Business

Throughout the 1880s, business mergers created powerful empires for those who invested in steel, railroads, meat, farm equipment, sugar, lumber, and a number of other enterprises. However, while business leaders grew wealthy, many smaller companies and consumers began to question their goals and tactics.

Comparing Viewpoints

What is the Legacy of the Business Tycoons?

Business tycoons like Carnegie, Rockefeller, and Vanderbilt had a huge role in spurring America's industrial growth. Yet even today, historians debate the real legacy of those men.

Matthew Josephson

Josephson (1899–1978) was the political and economic historian who coined the phrase "robber barons."

Primary Source

"To organize and exploit the resources of a nation upon a gigantic scale . . . and to do this only in the name of an uncontrolled appetite for private profit—here surely is the great inherent contradiction whence so much disaster, outrage and misery has flowed."

Burton W. Folsom, Jr.

Folsom (born 1948) is a historian who has described the great businessmen of the time as entrepreneurs.

Primary Source

"In 1870, when Rockefeller founded Standard Oil, kerosene was 30 cents a gallon. Twenty years later, Rockefeller had almost a 90 percent market share and kerosene was only eight cents a gallon. Customers were the real winners here, because Rockefeller's size allowed him to cut costs. . . ."

Compare

1. What is the basic difference between Folsom's and Josephson's views of these businessmen?
2. What is Folsom's main defense of Rockefeller's tactics?

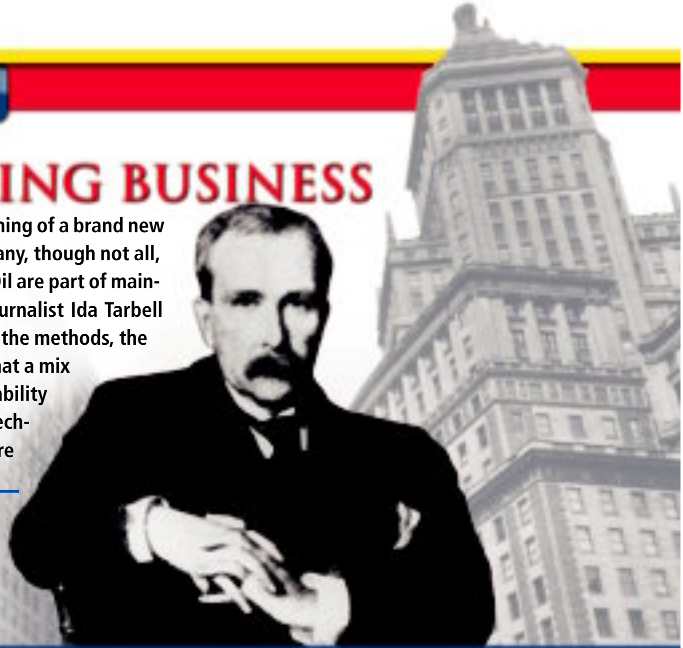
"Robber Barons" or "Captains of Industry"? Gradually, consumers, workers, and the federal government came to feel that systems like trusts, cartels, and monopolies gave powerful businessmen an unfair advantage. Most small businesses were bought up or squeezed out of competition. Small businesses that joined trusts found that they received few profits. Consumers were harmed by the unfairly high prices that monopolies and cartels set on their products. Because of their capacity to swindle the poor, shrewd capitalists became known as "robber barons."

At the same time, many people believed that business leaders served the nation positively, thus earning the nickname "captains of industry." Factories, steel mills, and railroads provided jobs for an ever-growing labor force. The development of efficient business practices and industrialists' support for developing technology benefited the nation's economy, stimulating innovation and shaping

Events That Changed America

NEW WAYS OF DOING BUSINESS

The rise of the Standard Oil Company marked the beginning of a brand new way of building and conducting business in America. Many, though not all, of John D. Rockefeller's business practices at Standard Oil are part of mainstream corporate culture in the U.S. today. In 1904, journalist Ida Tarbell wrote, "It was the first in the field, and it has furnished the methods, the charter, and the traditions of its followers." Believing that a mix of small and large companies produced chaos and instability in prices and supplies, Rockefeller pioneered new techniques for organizing the oil industry to create a more stable and seamless business environment.

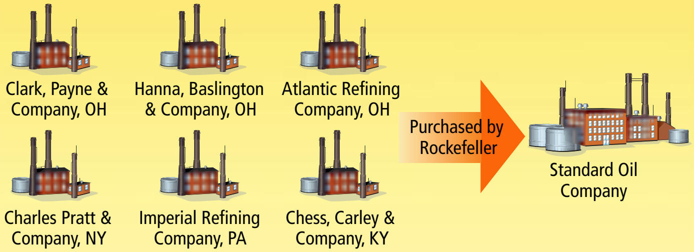


Through creativity and hard work, Rockefeller rose from a ► modest background to become the world's first billionaire. From his first paycheck he gave 10 percent of his earnings to his church. By the time he died, he had given away hundreds of millions of dollars.

▲ Standard Oil became a dominant symbol of the bustling American economy. At its height, the company controlled 90 percent of the nation's oil industry.

Horizontal Integration

Rockefeller bought up rival businesses in Ohio, Pennsylvania, and New York to gain more control of the oil-refining industry. One of Rockefeller's harshest critics led protests against the growing power of Standard Oil—only to take a job there years later.



the United States into a strong international leader. Furthermore, many business leaders, like Carnegie, Rockefeller, and Vanderbilt, were important philanthropists. They established universities, museums, and libraries, believing that such institutions made it possible for the disadvantaged to rise to wealth.

Social Darwinism Catches On In 1859, biologist Charles Darwin published *On the Origin of Species,* arguing that animals evolved by a process of "natural selection" and that only the fittest survived to reproduce. Yale professor William Graham Sumner soon applied this theory to the rough-and-tumble world of American capitalism, calling it **Social Darwinism.** He declared that wealth was a measure of one's inherent value and those who had it were the most "fit."

People used Social Darwinism to justify all sorts of beliefs and conditions. Supporters of the laissez-faire economic system argued that the government

Vertical Integration

Rockefeller next sought to turn Standard Oil into a kind of empire. He invested in industries related to oil production, including pipelines, tank cars, oil barrels, railroads, and marketing companies. By taking control of the entire supply chain, Rockefeller was able to exert almost complete control over competitors.

Why It Matters

Rockefeller's methods—from advertising (below) to buying out competitors—changed the American business climate. In turn, big business transformed American society itself in the twentieth century, becoming the accepted means for the nation to conduct its business and produce and sell its goods. It also ushered in the globalization that would become the striking characteristic of twenty-first century life.

Following in Rockefeller's ► footsteps, Microsoft's Bill Gates carried the torch of modern business leadership. While praised for his philanthropy, he has also been criticized for monopolistic techniques— just as Rockefeller was.

Thinking Critically

In the late 1800s, people debated the impact of corporations, calling their leaders either "robber barons" or "captains of industry." Are such debates still relevant today?

History *Interactive*
For: More about big business
Web Code: ncp-1320

should stay out of private business, because interference would disrupt natural selection. Many Social Darwinists believed that the nation would grow strong by allowing its most vigorous members to rise to the top. Therefore, they felt that it was wrong to use public funds to assist the poor. Social Darwinism was often used to fuel discrimination. Social Darwinists pointed to the poverty-stricken condition of many minorities as evidence of their unfitness.

✓ **Checkpoint** **What arguments did people use to support or oppose big business?**

NoteTaking

Reading Skill: Recognize Sequence As you read, record details about how the government gradually became involved in regulating industry.

The Government Imposes Regulations

The great industrialists' methods and their stranglehold on the nation's economy worried some Americans. The railroad industry was renowned for unjust business practices, including random and unfair rates and the process of pooling rates and traffic.

Finally, in 1887, the United States Senate created the **Interstate Commerce Commission (ICC)** to oversee railroad operations. This was the first federal body ever set up to monitor American business operations. The ICC could only monitor railroads that crossed state lines, and it could not make laws or control the railroads' transactions. Still, the ICC could require the railroads to send their records to Congress, so that Congress could initiate investigations of unfairness. Over the next several decades, the government would set up many other federal bodies to regulate American businesses.

Vocabulary Builder
restraint–(rih STRAYNT) *n.* holding back or checking of action

Similarly, the federal government slowly became involved in regulating trusts. In 1890, the Senate passed the **Sherman Antitrust Act,** which outlawed any trust that operated "in restraint of trade or commerce among the several states." For more than a decade, the provision was seldom enforced. In fact, the law was often used in the corporations' favor, as they argued that labor unions restrained trade. However, the ICC and the Sherman Antitrust Act began a trend toward federal limitations on corporations' power.

✓ **Checkpoint** **How did the federal government regulate business?**

SECTION 2 Assessment

Progress Monitoring *Online*
For: Self-test with vocabulary practice
Web Code: nca-1321

Comprehension

1. **Terms and People** For each item below, write a sentence explaining how it relates to the rise of big business in the late 1800s.
   - corporation
   - monopoly
   - cartel
   - John D. Rockefeller
   - horizontal integration
   - trust
   - Andrew Carnegie
   - vertical integration
   - Social Darwinism
   - ICC
   - Sherman Antitrust Act

2. **NoteTaking Reading Skill: Identify Supporting Details** Use your completed charts to answer the Section Focus Question: How did big business shape the American economy in the late 1800s and early 1900s?

Writing About History

3. **Quick Write: Narrow Down the Topic** You are the head of a corporation and need to write a memo to your shareholders about the company's financial situation. You want to make a positive impression. What kind of information should you include? What should be the subject line of the memo?

Critical Thinking

4. **Identify Central Issues** Why did business leaders create new forms of ownership like monopolies, cartels, and trusts?
5. **Determine Relevance** How accurate is it to describe business leaders like Rockefeller and Carnegie as both "robber barons" and "captains of industry"?
6. **Draw Inferences** What does the fact that government regulation of business was not very successful at first tell you about the relationship between government and big business?