The Growth of Corporations

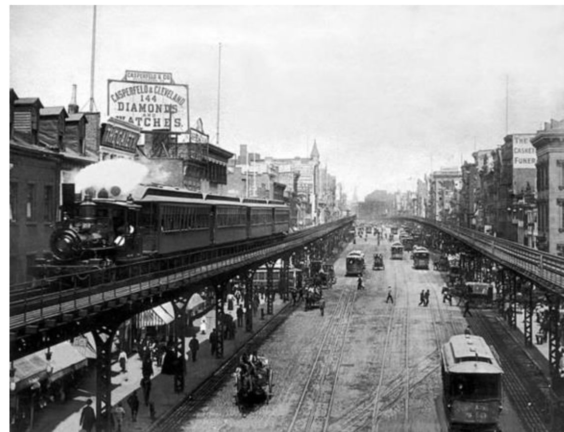
In the time period between Reconstruction and World War I, new machines led to mass production, the growth of industry, the rise of corporations and enterprising industrialists.

There was little or no government interference so corporate giants created new businesses, some legal and some not so legal. An elite group of businessmen used their wealth to both benefit society And to increase their own power. The factory worker had to work long hours for low pay and endure hazardous working conditions.

New technologies in transportation, architecture, utilities, and sanitation led to an increase in urbanization.

- Subways, elevated trains (“El”) and streetcars
- Steel girders and elevators led to skyscrapers
- Gas and electric lights lit city streets and made them safer
- Health problems improved by new water and sewerage systems
- Department stores now offered a wide variety of goods
- For rural dwellers, mail-order catalogs offered everything a person would need
- Consumer goods: the vacuum cleaner, telephone, electric light bulb, electric iron, safety razor appeared on store shelves and in catalogs.

5th Avenue and 42nd. Street, 1910



New York’s “El” Trains late 1800’s

The structure of business now changed. Before the Civil War, many businesses were owned by sole-proprietors (single-owners) but due to modernization the factories and mills now required more money for investment – **capital**. This was more than one person or a few partners could raise. This led to the creation of the **corporation**.

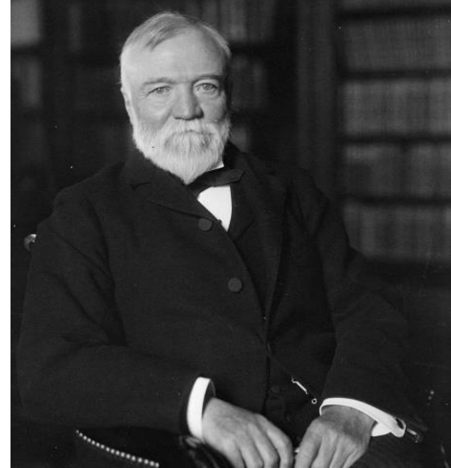
Many short-answer or short-essay questions ask for two components, **IDENTIFY** and **EXPLAIN**.

The following table will help you answer such a question relating to this time period.

IDENTIFY	EXPLAIN
Corporation	A business where many investors own shares, usually called stocks. In exchange for their investment each stockholder receives a dividend or part of the corporation's profits. If a corporation failed, the investor only lost what he/she invested and was not responsible for the corporation's debts.
Monopoly	A company or small group of companies that has complete control over a particular industry. Example E.C. Knight Sugar Company who raised prices to any level it wanted. Such abuses led to federal legislations. Some monopolies still exist today such as gas, water, and electric utility companies but they are closely monitored by the government.
Conglomerate	This is a corporation that owns a group of unrelated companies. They are usually formed by mergers, when one company acquires legal control of another. Mergers and conglomerates are common today, a good example is General Electric.
Pool	Sometimes companies in one sector enter into agreements to fix prices and divide businesses. Railroad companies in the late 1800's formed such pools, which were later outlawed. It is commonly called price-fixing.
Trust	A group of corporations in the same industry sometimes agreed to combine under a single board of trustees that controlled the actions of all of the member corporations. Shareholders in the corporations received their dividends but lost control or say in the operation. A good example is the Standard Oil Trust which was created using big business to limit competition. Trust were made illegal and "trust-busting" would be a major campaign for future presidents.
Holding Company	To bypass government regulations on trusts, corporations formed holding companies. The holding company bought controlling amounts of stock in different corporations rather than take operations over directly.

The Entrepreneurs: the people who took responsibility for the organization and operation of a new business venture. They often risked huge sums of money (venture capital) in hopes of making enormous profits.

Andrew Carnegie



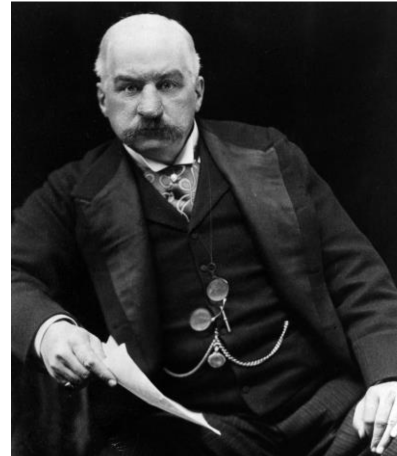
A Scottish immigrant who started work in a textile factory at the age of 12. He worked in various businesses and invested his money shrewdly. At 38, Carnegie entered the **steel** industry which was booming due to the growth of railroads. He began to control all aspects of the steel-making industry and built his company into the world's largest steelmaker. In 1901 he sold his company for a QUARTER OF A BILLION DOLLARS. He believed that the wealthy had a duty to society and gave hundreds of millions to charities. He also gave money to allow for free public libraries across the country.

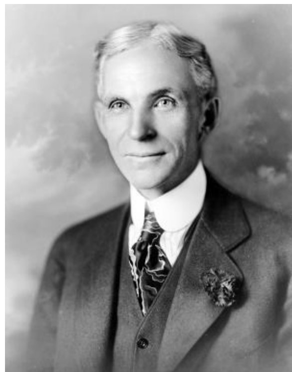
John D. Rockefeller

He entered the oil industry during the Civil War. He believed that competition was wasteful and used ruthless methods to eliminate his competitors. By 1882, his **Standard Oil Corporation** controlled over 90% of American oil refining. In the same year he also formed the Standard Oil Trust to control more aspect of oil production. Rockefeller also gave away millions of dollars to charity.

J. Pierpont Morgan (J.P. Morgan)

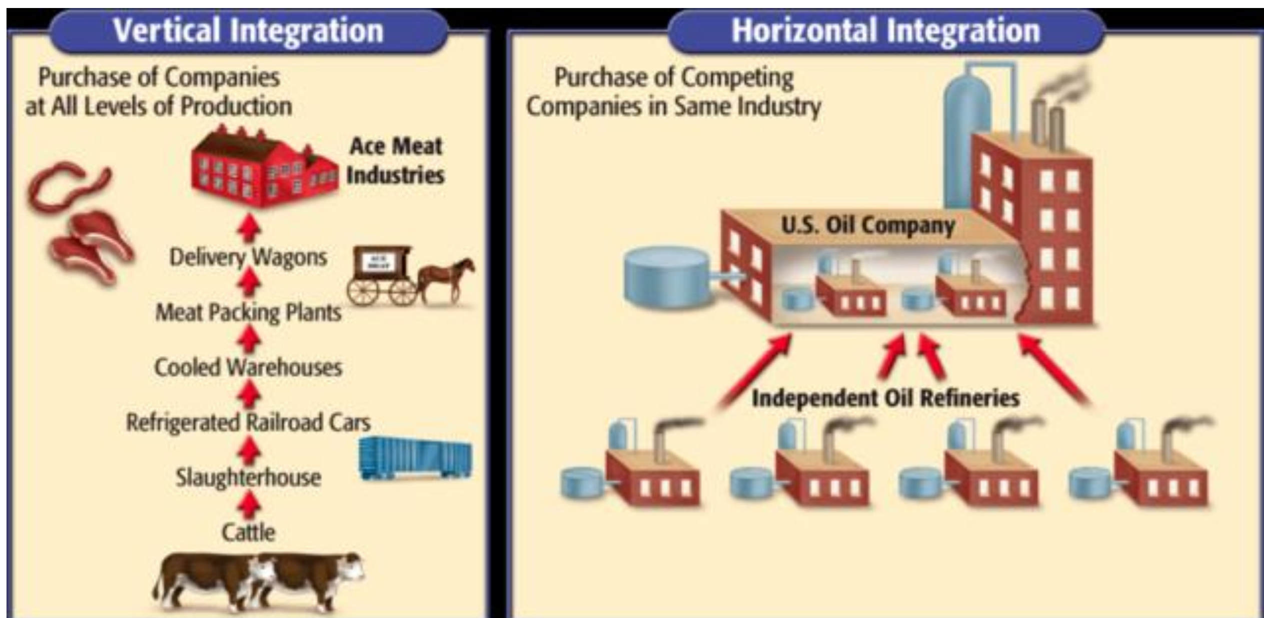
He was a banker who made his fortune by giving loans to growing businesses. In the late 1800's he took control over several bankrupt railroads and turned them into profitable businesses. He **"ReMorganized"** other businesses such as electrical, insurance, and shipping companies. In 1901 he bought Carnegie Steel and merged it with other companies forming the United States Steel Corporation, the world's largest.





Henry Ford

He revolutionized the automaking industry with a **moving assembly line** that permitted the mass production of cars. Ford paid his workers higher wages **($5 per day)** and set a standard that allowed his workers to afford what they produced.



The Nation's Attitudes Towards Big Business

The original **Puritan Work Ethic** of **Horatio Alger** where poor boys become rich by hard work and luck was still accepted but it would change by the end of the 19th century. The old preaching of **Cotton Mather**, a Puritan minister, where hard work builds character and is its own reward began to be questioned. New philosophies tried to explain and justify both the accumulation of wealth and the practices used to achieve it.

Laissez-Faire Capitalism (Adam Smith, *The Wealth of Nations*, 1776) was supported by many. This **free-enterprise system** with little or no government inference and private individuals making the decisions was deemed the most efficient.

Social Darwinism and the "survival of the fittest" offered the theories that unregulated business competition would see weak businesses fail and healthy businesses thrive. Any government actions regulating business practices would interfere with the process of natural selection. Also, any government programs to aid the poor workers would also violate these "natural laws."

Robber Barons or Philanthropists?

The divide between the rich and the poor led many to criticize the laissez-faire system. Those entrepreneurs who made their fortunes by ruthless methods at the expense of the poor and working classes became known as **robber barons**. Their lavish lifestyles led to a great deal of criticism within everyday society. The rich people spent freely to show off their wealth, a practice known as conspicuous consumption. Public criticism and a sense of social responsibility led entrepreneurs to use part of their wealth to aid society, becoming **philanthropists**, donating vast sums of money to charities and institutions.

The federal government generally kept a laissez-faire attitude towards business, justified by expanding business and growing foreign trade, both money-makers for the government. In addition, many of the entrepreneurs made large financial contributions, both legal and illegal, to the politicians who set the federal policies.

Some government policies provided loans and land grants to large railroad companies, others created high import tariffs discouraging foreign products, while keeping a tight control of the amounts of money in circulation to prevent inflation. Another key government policy was that there were few limits on immigration, creating a valuable source of uneducated and cheap labor for the factories.

However by the late 1800's, the government had to start taking steps regulating businesses due to

- Periodic downturns in the economy
- Growing criticism of practices that saw bug business profit at the expense of the poor and working class
- Increasing grassroots political pressure for change

In the late 1800's, railroads had policies that discriminated against farmers and small shipper. Some states were pressured to pass laws regulating railroad practices. The railroads sued to have these laws overturned.

Munn v. Illinois (1877) – The Supreme Court upheld an Illinois law controlling grain elevator rates. The Court ruled that the Constitution recognized a state's right to a "police power" that permitted regulation of private property "affected with a public interest."

Wabash, St. Louis & Pacific R.R. v. Illinois (1886) – saw the Court rule that states could not regulate railroad rates on portions of interstate routes that lay within their borders. Under the Constitution, only the federal government can regulate interstate trade. This decision meant that states could do little to regulate the railroads.

Interstate Commerce Act (1887) – public pressure to reform the railroads led to the creation of the Interstate Commerce Commission, an agency to end railroad abuses such as pools, rebates, and discounts available only to "special" customers.

Sherman Antitrust Act (1890) – To further prevent large corporations and trusts from eliminating all competition and gaining total monopolies, this act prohibited monopolies. It was now illegal for any business or trust to restrict trade or commerce.

However, when the federal government tried to enforce the Sherman Antitrust Act, the Supreme Court in the case of ***United States v. E.C. Knight Company (1895)***, ruled that many businesses were exempt from the new law. In addition, some companies bypassed the act by forming holding companies rather than trusts.

The **Progressive Presidents** in the early 1900's would begin a series of reforms. **Theodore Roosevelt**, vice-president in 1900, became President in 1901 when President William McKinley was assassinated and then elected in 1904 would create an administration known as the **Square Deal**.

Trust-Busting: Roosevelt saw a difference between "good trusts" and "bad trusts." Any "bad trusts" were to be dissolved after his Congress passed the creation of the **Bureau of Corporations** within the Department of Commerce and Labor. He pressured corporations through investigations and publicity about their illegal activities.

The **Northern Securities Case** in 1901 was when the Justice Department prosecuted this railroad system in the Pacific Northwest under the Sherman Antitrust Act. It became a Supreme Court Case, ***Northern Securities Co. v. United States (1905)*** and the Court upheld the judgement against the company and ruled that the company, Northern Securities, be dissolved.

The **"Beef Trust"** was another government action using the Sherman Antitrust Act. It was against a group of meat-packers known as the "beef trust." This prosecution was also upheld by the Supreme Court in the case of ***Swift and Co. v. United States (1905)***. This ruling now gave the government much broader powers under the interstate commerce clause set by the older case of *United States V. E.C. Knight Company* of 1895.

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