The rise of the big business in America

- 1880’s: Richard Sears from a station agent to a businessman.
- Richard Sears and Rosenwald open the road for the big business.
- 1906: construction of a $5 million mail-order plant which was the biggest business in the world.
- Rosenwald introduced a series of innovations such as the mechanical schedule system and a sort of assembly line for customer orders.

- By the WW1 the giant corporation had become the dominant business institution in America and that propelled it to the top of the economic league.

The rise of the big business in America

- Rural economy → Industrial economy

- 1913: America produced 36% of the world's industrial output compared with Germany's 16% and Britain's 14%.

First came the railroad

- *Why did these extraordinary organizations take off when they did?*
- Alfred Chandler has provided the classic answer: ‘Modern business enterprise became viable only when the visible hand of management proved to be more efficient than the invisible hand of market forces.’
- The railroads were not just great enablers for modern business; they were also the first modern businesses. It took gigantic quantities of capital - much of it from Britain to build ten of thousands miles of railroads.

First came the railroad

- The railways' voracious requirement for capital did more than anything else to create the modern New York Stock Exchange.
- In 1830's, a good day on the Exchange might have seen a few hundred shares changing hands.
- By 1850's, while the railways booming, the figure ballooned to hundred of thousands.
- In 1886, it had its first million-share day.
- From the end of the Civil War to the 1890's Wall Street existed almost exclusively to finance the railroads.

First came the railroad

- But rogues like Daniel Drew made their name manipulating the stocks of railroads.
- Another speculator, Jay Cooke failed to sell bonds to the Northern Pacific Railroad, his bank collapsed (‘Black Thursday’, September 18, 1873), leading to other and shutting the Exchange for ten days.
- 1875-1900: 700 bankruptcies.

First came the railroad

- Railroad growth → evolution in other domains.
- Commercial and Financial Chronicle (1865), Wall Street Journal (1889), America's railroad Journal and Poor's Manual of railroad securities.
- Telegraph and telephone lines.
- Revolution in Post Office.
- Above all enabled large quantities quickly and predictably and brought together a far-flung country.

First came the railroad

- Narrow equity base (1913: $7,2 billion of common stocks vs $11,2 billion worth of railroad bonds+ debt in different banks), made bankruptcy a common threat → consolidation → avoided price wars and ensured a regular flow increasing the power.
- 1891: Pennsylvania Railroad: 110.000 workers vs U.S. army and navy: 40.000 workers.
- In the same year: Pennsylvania Railroad capitalization: $842 million vs U.S. total gross national debt: $997 million.
- Creation of national markets led to global ones.
- 1914: U.S. exports $1,4 billion gallons of wheat in Europe, 15 times higher for 1850.

The retailers before manufacturers

- Railroad infrastructure helped the sector of retailing and distribution.
- 1850’s-1860’s: appearance of wholesalers who bought directly from producers and sold to retailers.
- 1870’s-1880’s: appearance of modern mass retailers(chain-stores, department stores).
- Frank Woolworth in 1880’s owned 7 small department stores. By 1909, he owned more than 300 stores in U.S.A. and branches in Britain.

The retailers before manufacturers

- Spur in manufacturing, too, due to innovations such as electricity, machineries(internal combustion machine) and organizational changes.
- Andrew Carnegie: introduced the line production system which was later perfected by Henry Ford and the changes in industrial organization (workers, foremen, managers, marketing specialists, equity holders).

All under one roof

- Ford's success was not only about building cars more swiftly but also about bringing both mass production and mass distribution under the roof of a single organization.
- Integrated industrial firm → economies of scale (high quantity of output in low AC).
- Henry Ford even owned the land on which grazed the sheep that produced the wool that went into the cars' seat covers.
- Another example of integration was James Buchanan Duke who made use of Bonsack cigarette machine. In 1890, he merged with four competitors to form the American Tobacco.

All under one roof

- 1890-1904: consolidation period in which some of the most powerful companies formed (U.S. Steel, American Cotton, AT&T, General Electric, United Fruit, American Tobacco, etc).
- John D. Rockefeller (oil refineries), J.P. Morgan (bank sector).
- J.P. Morgan and a few other bankers wielded enormous power since USA had no central bank.
- The bankers made use of the new holding companies themselves to get around the rules preventing them from investing in shares.

All under one roof

- 1890: fewer than 10 manufacturing shares were traded on the main exchanges (most of those closely related with railroads). Investors regarded industrial firms as risky. Industrialists hung on the equity in the company themselves raising money through family connections and commercial loans rather than equity markets.
- Morgan engineered an extraordinary change: the total amount of capital in publicly traded manufacturing companies increased from $33 million in 1890 to more than $7 billion in 1903.

All under one roof

- 1901: Carnegie sold his company, Carnegie Steel, to Morgan for $480 million. Then combined it with 200 smaller firms and offered it to the public with a valuation of $1,4 billion.
- The new company called U.S. Steel had a value which was equivalent to the two-thirds of all money then in circulation in USA.
- Also it accounted for two-thirds of America’s steel production and employed almost 250.000 workers.

The backlash

- *Were these new companies making America a better place?*
- The companies definitely changed society but also society changed the companies.
- Initial labor unions were small with skilled workers in particular crafts.
- Consolidation in capital → consolidation in labor.
- The first confrontations: the Homestead Strike and Pullman Strike.
- American Federation Union started developing close relations to political parties and fought for safer working conditions and restrictions in child labor and working hours.

The backlash

- Politicians due to popular pressure were forced to break up the enormous and powerful companies

- 1890: Sherman Antitrust Act

- 1914: Clayton Antitrust Act

The popularity of the firm

- Three things kept popularity of the company high.
- 1. The big companies developed close relations with politics becoming active participants a lot of times.
- 2. The big companies made positive efforts to cement the bond between capital and labor. U.S. Steel for instance spent $10 million a year on employee welfare programs. Rosenwald also set up a pension fund for Sear’s workers.
- Furthermore, businessmen embraced philanthropy. Carnegie spent over $350 million on a huge variety of projects such as libraries and churches. The question was: ‘ Philanthropists were inspired by a genuine desire to do good or to atone for past sins?’

The popularity of the company

- 3. The company was making America richer, although the income gap was widening. The firms improved the living standards of millions of ordinary people putting the luxuries of the rich within the reach of the man in the street.

- **CONCLUSION**: the only way to compete with one of the huge companies was to build a huge new company of your own.