Corporations and Industry in the Late 19th Century

by Sophia

WHAT'S COVERED

Like the West and the South, the North experienced significant changes during the late 19th century. The most important of these was its transformation from a region of small farms and manufacturers into one of factories and cities.

A number of factors contributed to this remarkable change, including abundant natural resources, inventions, and an influx of immigrants who provided a stable labor supply. A new generation of entrepreneurs, with sufficient capital and the right mix of acumen and ambition, developed new ways to organize industries and dominate the American economy.

This tutorial examines corporations and industry in the late 19th century in four parts:

1. Northern Transformation

With the exception of a significant group of Northeastern textile mills, much of the Northern economy before the Civil War was based on small farms and manufacturers.

DID YOU KNOW

In 1860, New York was the only city in the United States with a population of more than a million people. Eighty percent of Americans lived in communities of fewer than 2,500 inhabitants.

Significant economic changes began to affect the North during the Civil War.

- To help pay for the war, the federal government implemented a paper money system and created a national network of chartered banks to handle Americans’ finances.
- The federal government also implemented high tariffs, which protected Northern manufacturing from cheap imports and encouraged economic development.
- The federal government entered into contracts with producers of food, weapons, and other products necessary to the war effort, which stimulated production and guaranteed that the Union Army was well-supplied.

These changes caused the Northern economy to continue to expand after the Civil War ended in 1865. Millions of immigrants entered the country, which provided a steady supply of labor. The growth of the railroad network enabled a shift in the Northern economy to heavy industry, particularly the production of iron and steel.

The significance of these trends was apparent as early as 1880, when the U.S. Census Bureau discovered that, for the first time in American history, the majority of the nation's workforce was engaged in a job other than farming.

By the late 19th century, the United States, particularly its Northern and Midwestern states, had entered one of the most important periods of economic growth in world history. The table below charts economic growth in the United States between 1870 and 1920 (Foner, 2014):

Economic Growth in the United States	1870	1920
Farming		
Number of farms (millions)	2.7	6.4
Land in farms (millions of acres)	408	956
Employment		
Number of people employed (millions)	14	44.5
Number of people employed in manufacturing (millions)	2.5	11.2
Percentage in Workforce		
Agricultural	52	27
Industry (includes manufacturing, transportation, mining and construction)	29	44
Trade, Service, Administration (includes trade, finance and public administration)	20	27
Railroads		
Miles of track (thousands of miles)	53	407
Steel Produced (thousands of tons)	0.8	46
Economic Activity		
Gross National Product (GNP) (billions of dollars)	7.4	91.5
Per Capita (in 1920 dollars)	371	920
Life Expectancy		
Life expectancy at birth (in years)	42	54

MAKE THE CONNECTION

In 1920, the U.S. Census Bureau divided the American workforce into the following categories: Agriculture, Industry, Trade, Service, and Administration. What other significant categories exist today?

The table above shows economic growth and development in almost every category. This growth was supported by a steady increase in the number of people employed in manufacturing, as well as ongoing additions to railroad infrastructure. What is perhaps most striking about these increases is that they were accompanied by growth in agricultural production—and a simultaneous decrease in the percentage of the workforce involved in agriculture.

BRAINSTORM

The table indicates an increase in life expectancy between 1870 and 1920. How might increased life expectancy affect economic production?

---

2. Railroads: The Nation’s First Big Business

The expansion of the American railway network paved the way for rapid growth and steady economic development throughout the late 19th century. The railroad industry quickly became the nation’s first big business, for two key reasons:

- *Size:* By 1900, railroad lines reached nearly every corner of the country. Almost every American had access to a railroad line. Before the Civil War, the network measured approximately 30,000 miles (much of it was located in the Northern and Midwestern states). By 1900, this increased to approximately 200,000 miles.
- *Scope:* Expansion of the railroad industry stimulated growth in related industries, especially those which produced iron, wood, and coal. The ever-expanding network opened new areas of the West and South to settlement and development. As the nation’s fastest and most reliable form of transportation, railroads significantly lowered shipping costs, facilitating the movement of raw materials and finished products across the country. Inventions, including car couplers, air brakes, and Pullman passenger cars (pictured right) increased the volume of freight and passengers carried on American railroads.

Pullman passenger car

DID YOU KNOW

From 1877 to 1890, both the amount of goods and the number of passengers transported by American railroads tripled.

The financing of railroads reflected their importance to the United States. Railroad growth was sustained by a combination of private capital and government loans and grants. The railroad companies listed their stocks and bonds on the New York Stock Exchange to attract investors in the United States and Europe. The federal and state governments offered generous loans and grants of public land to encourage railroad construction.

Government policies fostered the rise of giant corporations, as individual investors in railroad companies and other industries consolidated their power. As railroads merged and companies grew in size and power, some of these investors became the wealthiest Americans in the country’s history. Some were referred to as **robber**

barons as a result of their shady and exploitative business practices.

TERM TO KNOW

Robber Barons

A negative term for businessmen who amassed fortunes in the railroad boom of the late 19th century.

Jay Gould may have been the first railroad magnate to be labeled as a robber baron. In addition to owning the Union Pacific Railroad (which built the eastern portion of the first transcontinental railroad line), Gould controlled over 10,000 miles of track in the United States. Gould's holdings carried 15% of all railroad transportation at the end of the 19th century. He built his empire by buying old, small, or run-down railroads, and making minimal improvements to them. This enabled him to attract new investors and charge notoriously-high shipping rates.

DID YOU KNOW

When Gould died in 1892, he had a personal fortune of over $100 million.

PEOPLE TO KNOW

Jay Gould

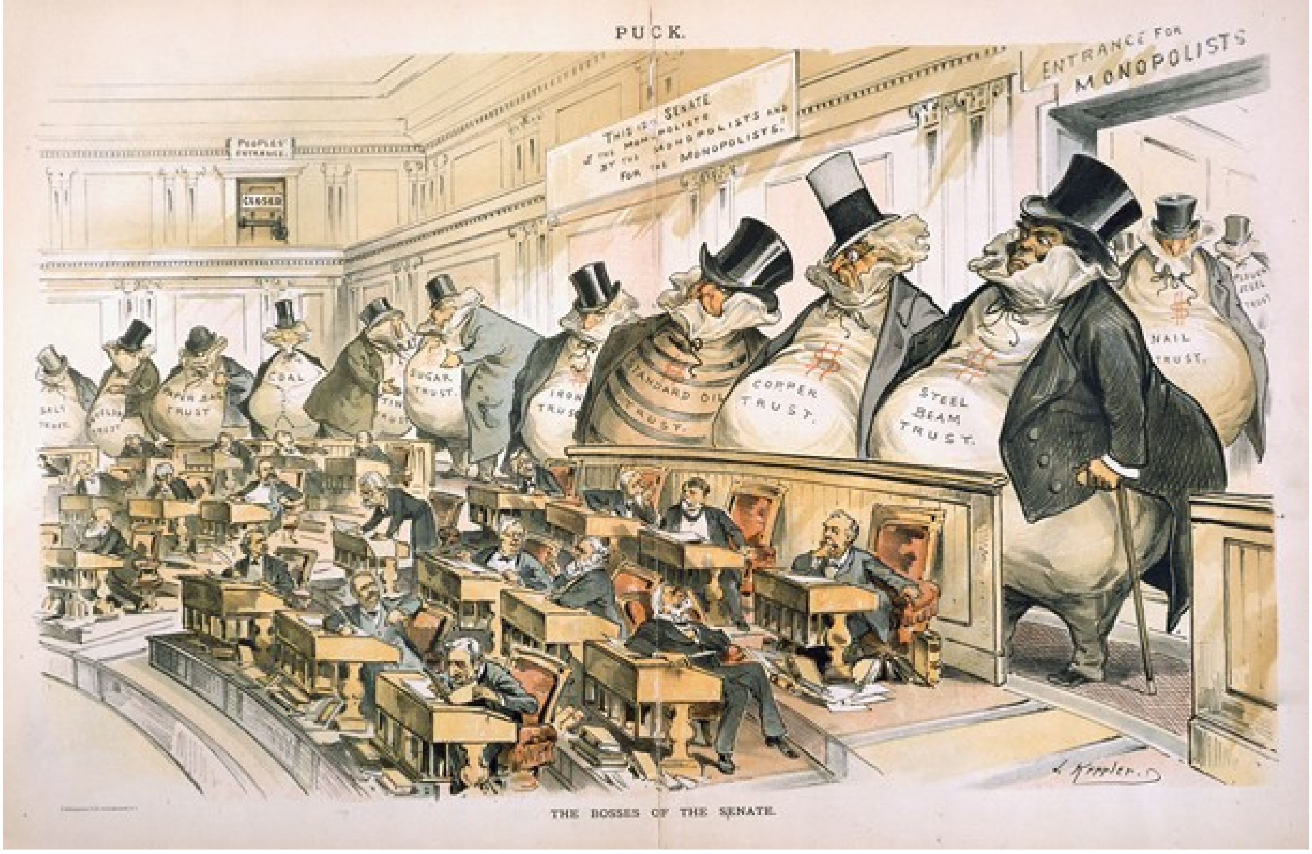
A prominent railroad magnate who owned the Union Pacific Railroad (that helped to construct the first transcontinental railroad line) and built significant personal wealth by the late 19th century.

---

3. New Forms of Business Organization

Jay Gould's actions exemplified how railroad companies took advantage of government and business partnerships to facilitate their expansion. The companies employed lobbyists who influenced members of Congress and state legislatures to pass charters, high tariffs, and other laws that protected the industry from competition.

EXAMPLE Lyman Trumbull, a Senator from Illinois (1855-1873, co-author of the Thirteenth Amendment), received an annual retainer payment from the Illinois Central Railroad throughout his senatorial career.



“The Bosses of the Senate,” by Joseph Keppler, published in Puck in January of 1889, depicts corporate interests as large money bags who oversee Senators at work in the Senate chamber. In the upper left, a door marked as the “People’s Entrance” is closed. A slogan above the corporate interests reads: “This is the Senate of the Monopolists by the Monopolists and for the Monopolists!”

THINK ABOUT IT

How does this cartoon portray the political influence of railroads and other large corporations during the late 19th century?

The robber barons colluded with each other to consolidate power and prevent competition, which might decrease profits and make the industry inefficient. Some of the railroad companies formed **pools**.

TERM TO KNOW

Pools

Voluntary agreements that divided markets among competing companies and set up prices.

In this arrangement, two competing railroad companies would agree to fix shipping rates at a level that benefited both. These agreements were voluntary, and there was nothing to prevent one company from breaking the agreement by offering lower shipping rates to gain an advantage over a rival company to make a quick profit.

---

4. The Creation of Corporations

Two other figures stand out in the effort to organize and regulate big business. One of them was**John D. Rockefeller**. Rockefeller was a clerk in Cleveland when, in 1859, he learned that Colonel Edwin Drake had struck “black gold” (oil) near Titusville, Pennsylvania. Drake’s strike set off an oil boom and, like the California Gold Rush a decade earlier, many sought to strike it rich by “wildcatting”—that is, by drilling exploratory oil wells. Rockefeller chose a more certain strategy: refining crude oil into kerosene, which was an efficient energy source for lamps and heating.

DID YOU KNOW

As a more efficient source of energy, and one that was less dangerous to produce, kerosene quickly replaced whale oil in many businesses and homes.

PEOPLE TO KNOW

John D. Rockefeller

A ruthless businessman and founder of Standard Oil Company who used horizontal integration and trusts to consolidate control of the oil market and become one of the wealthiest men in the late 19th century.

In 1870, Rockefeller created the Standard Oil Company of Ohio. He was ruthless in his pursuit of total control of the oil-refining business. Beginning in 1872, he made agreements with several of the major railroads to ship his product at discounted freight rates. This enabled him to deliver kerosene at lower prices—and to drive his competitors out of business. He often offered to buy them out for pennies on the dollar. This method of growth, via mergers and acquisitions of similar companies (oil refiners, in Rockefeller’s case), is known as **horizontal integration**.

TERM TO KNOW

Horizontal Integration

Method of growth wherein a company merges with or otherwise acquires similar companies to reduce competition and consolidate control of a market.

As a result of this strategy, Rockefeller’s Standard Oil controlled nearly 95% of the oil refining business in the United States by 1879.

Meanwhile, **Andrew Carnegie** used a different approach to build his fortune through the steel industry. During the Civil War, Carnegie was a manager of the Pennsylvania Railroad. He invested some of his earnings in Pennsylvania’s new oil industry. Unlike Rockefeller, Carnegie used the profits from his oil investments (which were worth more than $1 million by 1864) to enter the steel industry. In the early 1870s, he purchased the Edgar Thomson Steel Works in Pittsburgh. Carnegie then applied a tactic known as **vertical integration** to dominate the American steel industry.

PEOPLE TO KNOW

Andrew Carnegie

Scottish-American industrialist who made his fortune in the steel industry by applying the tactic of vertical integration; later became a noted philanthropist.

TERM TO KNOW

Vertical Integration

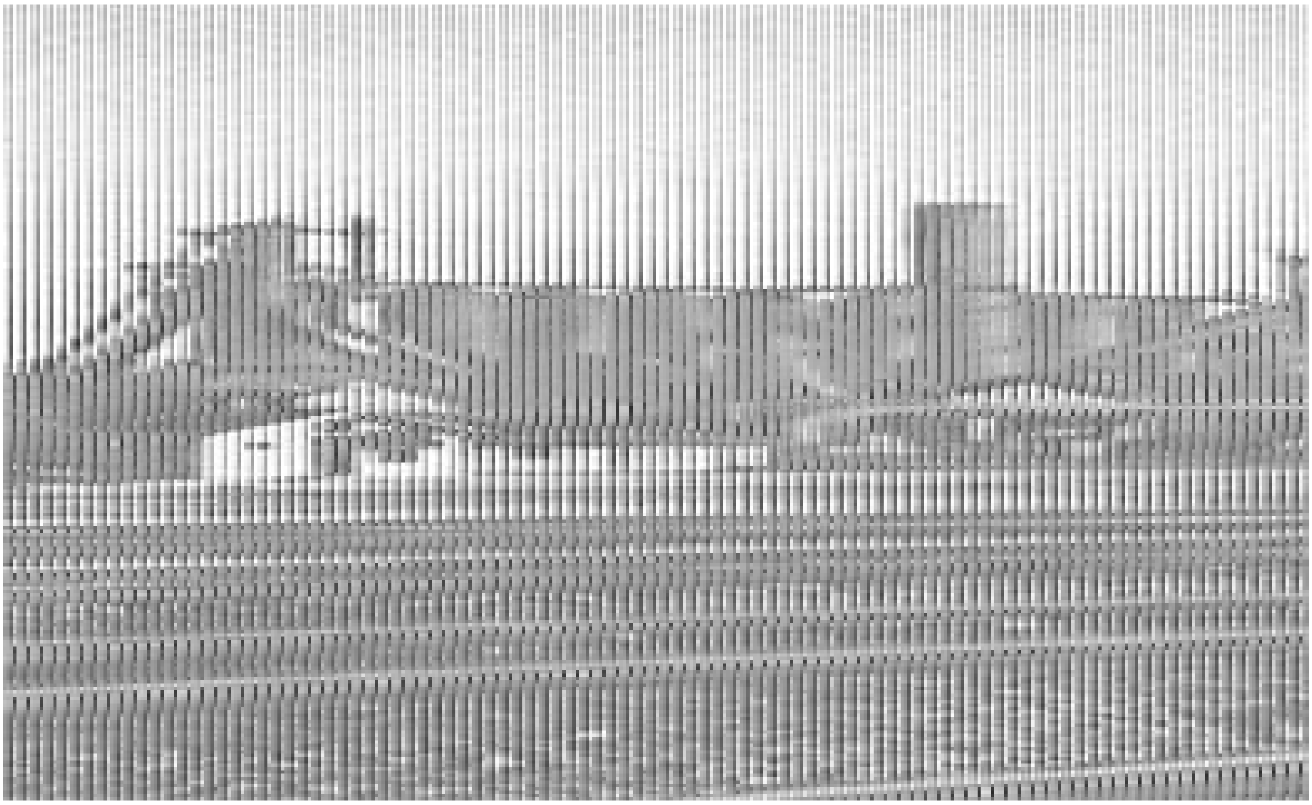
Method of growth wherein a company acquires other companies to control all aspects of the production process, from the processing of raw materials to the manufacturing of the final product.

Carnegie invested in iron mines in Minnesota, coal mines in West Virginia, and limestone mines in Ohio: all of these commodities were required to produce steel. He invested in the railroads that transported these raw materials to Pittsburgh. He also invested in engineers and up-to-date technology to increase production. In short, Carnegie sought to own or influence every facet of the steel industry.

During the 1880s, Carnegie consolidated his companies in Pittsburgh and bought out competitors, including the newly-built Homestead Steel Works from the Pittsburgh Bessemer Steel Company. He made millions of dollars, and Pittsburgh became synonymous with the steel industry.

DID YOU KNOW

By 1885, 50,000 men and boys worked at Carnegie-owned iron and steel furnaces in and around Pittsburgh.



Andrew Carnegie made his fortune through factories like the Carnegie Steel Works in Youngstown, Ohio, where advanced technology was used to produce steel that could be used in new ways, including the construction of skyscrapers. Carnegie's empire grew to include iron mines, furnaces, mills, and steel mills.

To control their various business interests, Rockefeller and Carnegie created new legal entities which consolidated and maintained their economic influence. These were known as **trusts**.

TERM TO KNOW

Trust

A legal arrangement in which a small group of trustees has legal ownership of a business that they operate for the benefit of other investors.

In 1882, all 37 stockholders in the various Standard Oil enterprises gave their stock to nine trustees who would control and direct all of the company's business ventures, collectively known as the Standard Oil trust. Because it directed all of the company's businesses, the Standard Oil trust was viewed as a **monopoly** that controlled nearly all facets of the oil refining industry.

TERM TO KNOW

Monopoly

The ownership or control of all enterprises comprising an industry.

In 1892, when the Ohio Supreme Court ruled that the Standard Oil trust must relinquish its control over all refining operations in the United States, Rockefeller moved his businesses to another legal entity called a **holding company**.

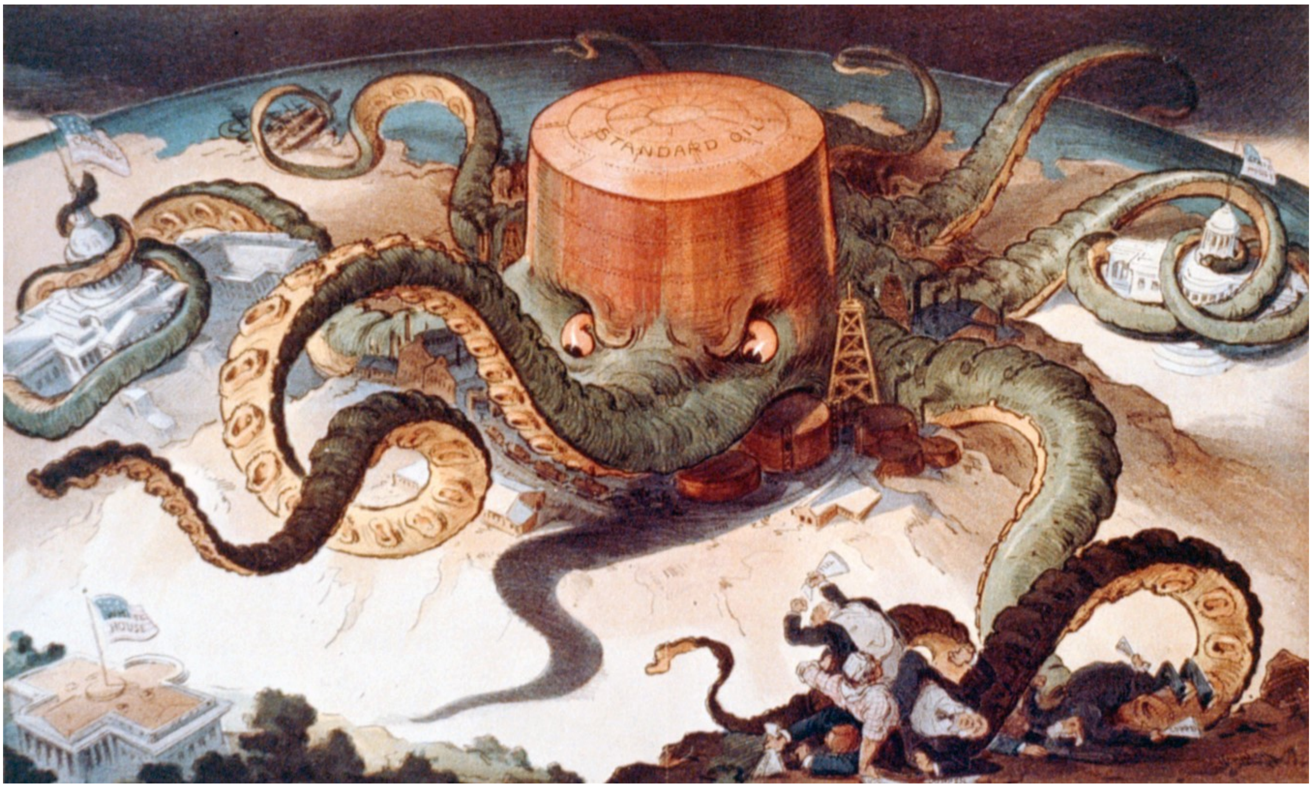
TERM TO KNOW

Holding Company

A central corporate entity that controls multiple companies by holding the majority of stock for each enterprise.

While not technically a "trust" and therefore not vulnerable to anti-monopoly laws, the consolidation of power and wealth into one entity—a holding company—was equivalent to a monopoly.

The political cartoon below depicts Standard Oil as a greedy octopus threatening to dominate every facet of American society. Big business had become a fact of life in the United States by the early 20th century. By 1905, over 300 business mergers had occurred in the United States, affecting more than 80% of all industries.



Published in *Puck* in 1904, the cartoon above depicts a Standard Oil tank as an octopus. In the background, its tentacles are wrapped around the steel, copper, and shipping industries. The monster also has tentacles wrapped around a state house, the U.S. Capitol, and greedily extends a tentacle toward the White House.

THINK ABOUT IT

1. Who is the intended audience for this cartoon?
2. How does the cartoon depict the influence of large corporations in American life in the early 20th

century?

SUMMARY

The growth of railroad companies, Carnegie's steel industry, and Rockefeller's Standard Oil, played key roles in the rise of the United States as an economic power by the early 20th century. Although many of these industries were based in the North, their reach extended throughout the United States. They took advantage of the nation's abundant natural resources and benefited from a labor supply that was swelled by immigration. The ways in which men like Rockefeller and Carnegie changed the organization of their businesses would change the ways in which many Americans worked and lived.

REFERENCES

Table adapted from Foner, E. (2017). Give me liberty!: an American history. New York: W.W. Norton & Company.

ATTRIBUTIONS

TERMS TO KNOW

Holding Company
A central corporate entity that controls multiple companies by holding the majority of stock for each enterprise.

Horizontal Integration
Method of growth wherein a company merges with or otherwise acquires similar companies to reduce competition and consolidate control of a market.

Monopoly
The ownership or control of all enterprises comprising an industry.

Pools
Voluntary agreements that divided markets among competing companies and set up prices.

Robber Barons
A negative term for businessmen who amassed fortunes in the railroad boom of the late 19th century.

Trust

A legal arrangement in which a small group of trustees has legal ownership of a business that they operate for the benefit of other investors.

Vertical Integration

Method of growth wherein a company acquires other companies to control all aspects of the production process, from the processing of raw materials to the manufacturing of the final product.

PEOPLE TO KNOW

Andrew Carnegie

Scottish-American industrialist who made his fortune in the steel industry by applying the tactic of vertical integration; later became a noted philanthropist.

Jay Gould

A prominent railroad magnate who owned the Union Pacific Railroad (that helped to construct the first transcontinental railroad line) and built significant personal wealth by the late 19th century.

John D. Rockefeller

A ruthless businessman and founder of Standard Oil Company who used horizontal integration and trusts to consolidate control of the oil market and become one of the wealthiest men in the late 19th century.