

ESSENTIAL QUESTION

- How did the United States become an industrialized society after the Civil War?

THE STORY BEGINS...



LESSON 2

Big Business and Unions

For many, Andrew Carnegie's accomplishments demonstrate the capitalist ideal. He was born poor in Scotland and immigrated to the United States, where he went on to become, at one point, the wealthiest man in America. He believed that extreme wealth concentrated in the hands of a few was the natural order of things.

“We accept and welcome . . . as conditions to which we must accommodate ourselves, great inequality of environment, the concentration of business, industrial and commercial, in the hands of a few, and the law of competition between these, as being not only beneficial, but essential for the future progress of the race. . . . That this talent for organization and management is rare among men is proved by the fact that it invariably secures for its possessor enormous rewards, no matter where or under what laws or conditions.”

—from “Wealth,” by Andrew Carnegie, in the *North American Review*. June, 1889

Carnegie also believed, however, that the wealthy have an obligation to use their riches for the good of their community. True to that sentiment, he made a fortune during his lifetime and then gave a great deal of it away to community improvements—especially libraries.

◀ Carnegie often said that “the man who dies . . . rich, dies disgraced.”



ANALYZING KEY IDEAS AND DETAILS

ORGANIZING As you read about the rise of corporations in the United States, use the following graphic organizer to identify the steps big businesses took to weaken or eliminate competition.

THE RISE OF BIG BUSINESS

GUIDING QUESTION What advantages do large corporations have over small businesses?

By 1900, big business dominated the economy, operating vast complexes of factories. The **corporation**, which spread out risk among many stockholders, made big business possible. Corporations sold stock to raise money to finance the business. Before the 1830s, few corporations existed because entrepreneurs had to convince state legislatures to issue them charters. In the 1830s, however, states began allowing companies to become corporations and issue stock without a charter from the legislature.

With the money raised from selling stock, corporations could invest in new technologies, hire large workforces, and purchase machines. They efficiently moved raw materials for production and achieved **economies of scale**, in which the cost of manufacturing is decreased by producing goods quickly in large quantities.

Big corporations had several advantages. They could produce more goods at a lower cost and could stay open in bad economic times by cutting prices to increase sales. Rebates from the railroads further lowered their operating costs. This led to one of the major costs of laissez-faire economics: small businesses, many family owned, could not compete with large corporations and were forced out of business.

CONSOLIDATING INDUSTRY

Although a laissez-faire economy benefited **consumers** because the intense competition led to falling prices, business leaders did not like the competition. Cutting prices to beat the competition also cut into profits. However, with no regulations governing their competition, companies were free to make deals with each other to fix prices by organizing pools, or agreements to keep prices at a certain level.

American courts and legislatures were suspicious of pools because they interfered with competition and property rights. As a result, even though companies could legally fix prices, they found that they had no legal protection and could not enforce their pool agreements in court. Pools generally broke apart whenever one member cut prices to steal market share from another.

ANDREW CARNEGIE AND STEEL

Andrew Carnegie, a Scottish immigrant, started working in a textile factory at the age of 12. He worked his way up through the ranks to become the superintendent of the Pennsylvania Railroad.

ANALYZING KEY IDEAS AND DETAILS

1. DETERMINING CENTRAL IDEAS

How does the structure of a corporation lessen its owners' risk of investment?

2. CITING TEXT EVIDENCE

What corporate practice of the late 1800s resulted in the decrease of many industries to a few large, highly efficient corporations?

ANALYZING PRIMARY SOURCES

1. **CITING TEXT EVIDENCE** What technological innovation is Carnegie referencing in this quote?

2. **DETERMINING CENTRAL IDEAS** What point is Carnegie making about his relationship to the consumer?

Carnegie bought shares in iron mills and factories that made sleeping cars and railroad locomotives, as well as a company that built railroad bridges. By his early 30s, he quit his job to concentrate on his investments. As part of his business activities, he met Sir Henry Bessemer, who had invented a new process for making high quality steel efficiently and cheaply. After meeting Bessemer, Carnegie opened a steel mill in Pittsburgh in 1875 and began using the Bessemer process. He boasted about how cheaply he could produce steel:

“Two pounds of ironstone . . . one pound and a half of coal, mined, manufactured into coke . . . one-half pound of lime, . . . [and] a small amount of manganese ore, . . . these four pounds of materials manufactured into one pound of steel, for which the consumer pays one cent.”

—from *Triumphant Democracy*, 1893

To make his company more efficient, Carnegie began the vertical integration of the steel industry. A vertically integrated company owns all of the different businesses on which it depends for its operation. Instead of paying companies for coal, lime, and iron, Carnegie's steel company bought coal mines, limestone quarries, and iron ore fields. Vertical integration saved money and enabled many companies to expand.

BIOGRAPHY



MADAM C. J. WALKER (1867–1919)

Sara Breedlove was born in 1867 to parents who had been recently freed by the Emancipation Proclamation. After experiencing scalp problems due to the inadequate hair products of the era, Sara developed her own line of products under the name Madam C. J. Walker. Walker established her business in Denver, Pittsburgh, and Indianapolis, and before expanding her business even further. Her beauty products empire made her one of the wealthiest women of her time.

ROCKEFELLER AND STANDARD OIL

Successful business leaders also pushed for horizontal integration, which combined firms in the same type of business into one large corporation. Horizontal integration took place frequently. When a company began to lose market share, it would often sell out to competitors who wanted to create a larger organization.

John D. Rockefeller achieved an almost completely horizontal integration of the oil industry through a series of buyouts. By 1880, the company controlled about 90 percent of the oil refining industry in the United States. When a single company achieves control of an entire market, it becomes a **monopoly**.

NEW BUSINESS ORGANIZATIONS

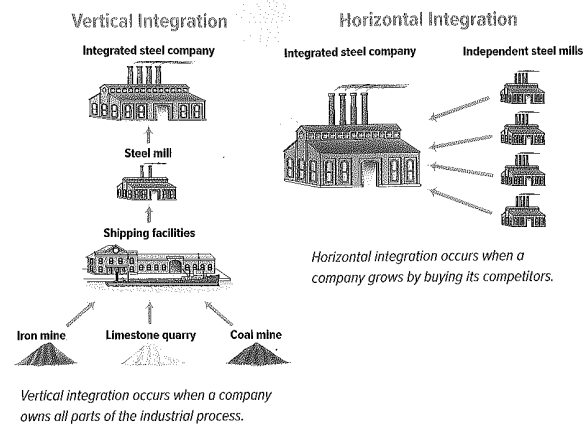
Many Americans feared monopolies because they believed that a monopoly could charge whatever it wanted for its products. They argued that one cost of laissez-faire economics was that it allowed the creation of large powerful corporations that could control prices and manipulate politicians and laws to ensure that they did not face any new competition.

Supporters of laissez-faire disagreed. They asserted that monopolies had to keep prices low because high prices could allow competitors to reappear and offer products at a lower price.

Trusts In the late 1800s, in an effort to stop the rise of monopolies, many states made it illegal for one company to own stock in another company. Soon, however, companies formed trusts to get around these laws. A **trust** is a legal arrangement that allows one person to manage another person's property. The person who manages that property is called a trustee.

Stockholders gave their stocks to a group of trustees, who awarded them with shares of the trust and a portion of the trust's profits. The trustees

VERTICAL INTEGRATION AND HORIZONTAL INTEGRATION

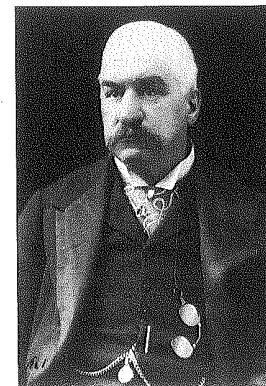


- 1. DETERMINING CENTRAL IDEAS** How does a large company benefit when it buys its competitors?
- 2. ANALYZING CENTRAL IDEAS** Why did business owners want to vertically integrate their companies?
- 3. SUMMARIZING** Write an essay explaining the main reasons the American economy changed so dramatically in the years after the Civil War. As part of your report, be sure to explain key historical concepts including industrialization, entrepreneur, laissez-faire economics, economies of scale, and corporations.

managed the stock but did not own it, and could control a group of companies as if they were one large merged company.

Holding Companies In 1889, the state of New Jersey further accelerated the rise of big business with a new incorporation law. This law allowed corporations set up in New Jersey to own stock in other businesses. Many companies immediately used the law to create holding companies. A **holding company** does not produce anything. Instead, it owns the stock of companies that do produce goods, effectively merging them into one large enterprise.

Investment Banking Investment bankers specialized in helping companies issue stock. Companies would sell large blocks of stock to investment bankers at a discount. The bankers would then find the investors and sell the stock for a profit. Perhaps the most successful investment banker was J. P. Morgan. After years of trying to buy Carnegie Steel, J.P. Morgan bought out Andrew Carnegie in 1901 and renamed it U.S. Steel. Within a few short years, Morgan's U.S. Steel was the first billion dollar business in the United States.



J. P. Morgan created one of the largest holding companies, United States Steel Company.

SELLING THE PRODUCT

The vast array of products led retailers to look for new ways to attract consumers. N. W. Ayer and Son, the first advertising company, pioneered the use of large illustrated ads, and by 1900, retailers were spending over \$90 million a year on advertising in newspapers and magazines.

Advertising attracted readers to the newest retail business: the department store. In 1877, advertisements billed John Wanamaker's new Philadelphia department store, the Grand Depot, as the "largest space in the world devoted to retail selling on a single floor." Soon many different department stores offered a huge selection of products. Chain stores, a group of retail outlets

owned by the same company, first appeared in the mid-1800s. Chain stores such as Woolworth's focused on offering low prices.

To reach the millions of people who lived in rural areas, retailers began issuing mail-order catalogs. Two of the largest mail-order retailers were Montgomery Ward and Sears, Roebuck and Co. Their huge catalogs were widely distributed through the mail. They used attractive illustrations and appealing descriptions to advertise thousands of items for sale.

☑ CHECKING FOR UNDERSTANDING

1. **EVALUATING** What factors give large corporations an advantage over small businesses?
2. **ANALYZING CHANGE** What was horizontal integration, and when did it usually occur?
3. **IDENTIFYING CONNECTIONS** What did many see as a negative result of horizontal integration?

WORKING IN THE UNITED STATES

GUIDING QUESTION *Why did workers try to form unions in the late 1800s?*

There were many benefits of laissez-faire economics in the late 1800s—including rapid industrialization, dramatic innovation, and an improving standard of living—but the idea that governments should avoid regulating the economy had costs. Working conditions in factories and mines were difficult and dangerous. Many workers performed dull, repetitive tasks in dangerous, unhealthy working conditions. Workers breathed in lint, dust, and toxic fumes. Heavy machines without safety devices led to injuries. With no regulations governing workplace safety or training requirements, workers had no recourse when they were poorly treated other than to quit and look for a new job, which they may not be able to afford.

While average worker's wages rose by 50 percent between 1860 and 1890, the uneven division of income between the wealthy and the working class caused resentment among workers. In 1900, the average industrial worker made 22¢ per hour and worked 59 hours per week.

Between 1865 and 1897, **deflation** caused prices to fall, which increased the buying power of workers' wages. Although companies cut wages regularly in the late 1800s, prices fell even faster, so that wages were actually still going up in buying power. Workers, however, resented getting less money. Eventually, many concluded that they needed a union to bargain for higher wages and better working conditions.

EARLY UNIONS

There were two basic types of industrial workers in the United States in the 1800s—craft workers and common laborers. Craft workers, such as machinists, iron molders, stonecutters, shoemakers, and printers, had special skills and training. They received higher wages and had more control over their time. Common laborers had few skills and received lower wages.

In the 1830s, craft workers began to form trade unions. By 1873, there were 30 national trade unions in the United States. Among the largest and most

successful were the Iron Molders' International Union, the International Typographical Union, and the Knights of St. Crispin—the shoemakers' union.

OPPOSITION TO UNIONS

Employers had to negotiate with trade unions because the unions represented workers with skills the employer needed. Employers, however, generally viewed unions as conspiracies that interfered with property rights. Business leaders particularly opposed **industrial unions**, which united all the workers in a particular industry.

To stop the formation of unions, companies required workers to take oaths or sign contracts promising not to join a union. They hired detectives to identify union organizers. Workers who tried to organize a union or strike were fired and placed on a blacklist—a list of "troublemakers"—so that no company would hire them. Companies also used "**lockouts**" to break up existing unions. They locked workers out of the property and refused to pay them. If the union called a strike, employers would hire replacements, or strikebreakers.

There were no laws giving workers the right to form unions or requiring owners to negotiate with them. Instead of staying out of economic disputes and allowing workers to confront owners and work out their disagreements on their own, the government implemented policies that supported business owners and impeded the development of unions. Courts frequently ruled that strikes were "conspiracies in **restraint of trade**," and labor leaders were often fined or jailed. Eventually even state militias and federal troops would be used to break up strikes.

Part of the reason for the government's actions was the perception that unions were "un-American." In the 1800s, the ideas of Karl Marx, called Marxism, became very influential in Europe. Marx argued that the basic force shaping capitalist society was the class struggle between workers and owners. He believed that workers would eventually revolt, seize control of the factories, and overthrow the government. Eventually, Marx thought, the state would disappear, leaving a communist society in which classes did not exist.

While many labor supporters agreed with Marx, a few supported the anarchism, or the belief that society does not need any government, that tended to go with Marxism. In the late 1800s, anarchists assassinated government officials and set off bombs across Europe in an attempt to begin a revolution.

During the same period, tens of thousands of European immigrants headed to America. Anti-immigrant feelings were already strong in the United States. People began to associate immigrant workers and unions with radical ideas. These fears, and concerns for law and order, often led officials to use the courts, the police, and even the army to crush strikes and break up unions.

☑ CHECKING FOR UNDERSTANDING

1. **EXPLAINING CAUSE AND EFFECT** How did working conditions encourage workers to form unions in the late 1800s?
2. **IDENTIFYING EFFECTS** How did government involvement influence the relationship between workers and business owners?
3. **UNDERSTANDING CONTEXT** Why did immigrant membership in unions make many Americans uneasy?



In 1894 a former quarry foreman named Jacob Coxey organized unemployed workers and began a march on Washington to demand jobs on public works projects. The marchers were known as "Coxey's Army."

IDENTIFYING CONNECTIONS

Were the people in this photograph likely to have been supporters of laissez-faire? Explain.

ANALYZING KEY IDEAS AND DETAILS

- ANALYZING EVENTS** How did the Great Railroad Strike affect the American public's perception of labor unions?
- DETERMINING CENTRAL IDEAS** Why might the Knights of Labor have seemed more reasonable to the American public than most unions?

DETERMINING MEANING

Examine the definition of the word **arbitration**. What are some synonyms for the term?

Samuel Gompers concentrated his efforts on improving working conditions and believed that a just society was built on a fair labor policy.

UNDERSTANDING CONTEXT

How do you think Gompers would view a society that did not allow labor unions?



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THE STRUGGLE TO ORGANIZE

GUIDING QUESTION *What advantages do large corporations have over small businesses?*

Although workers tried on many occasions to create large industrial unions, they rarely succeeded. The First Amendment's right to "peaceful assembly" does not extend to violent actions, and these clashes with owners often led to violence and bloodshed.

THE GREAT RAILROAD STRIKE

The Panic of 1873 was a severe recession that forced many companies to cut wages. The economy had still not recovered when, in July 1877, the Baltimore and Ohio Railroad announced it was cutting wages for the third time. In Martinsburg, West Virginia, workers walked off the job and blocked the tracks. As word spread, railroad workers across the country walked off the job. The strike eventually involved some 80,000 railroad workers and affected two-thirds of the nation's railways. Angry strikers smashed equipment, tore up tracks, and blocked rail service in New York City, Baltimore, Pittsburgh, St. Louis, and Chicago.

Declaring a state of "insurrection," President Rutherford B. Hayes sent federal troops to Martinsburg, Baltimore, Pittsburgh, and elsewhere. It took 12 days to restore order. Over \$10 million in railroad property had been destroyed and over 100 people were killed. The violence alarmed many Americans and only added to the idea that allowing workers to organize was dangerous to society.

THE KNIGHTS OF LABOR

The Knights of Labor, founded in 1869, took a different approach. Its leader, Terence Powderly, opposed strikes in favor of boycotts and **arbitration**, in which a third party helps workers and employers reach an agreement. Unlike other unions, the Knights welcomed women and African Americans. They called for an eight-hour workday, equal pay for women, no child labor, and worker-owned factories.

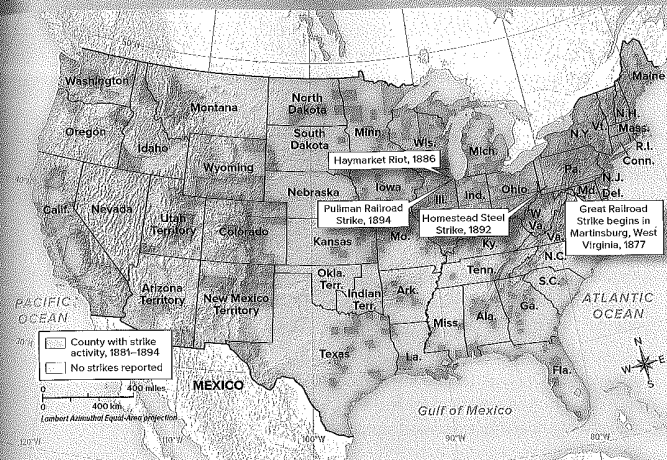
The Haymarket Riot Supporters of the eight-hour workday called for a nationwide strike on May 1, 1886. On May 3, Chicago police intervening in a fight on a picket line opened fire on the strikers, killing four. The next day, about 3,000 people gathered to protest the shootings in Chicago's Haymarket Square. Someone threw a bomb, police opened fire, and workers shot back, injuring about 170 people and killing 10 policemen. Eight men were arrested for the bombing. Though evidence against them was weak, public anger resulted in eight convictions. Four were executed.

THE HOMESTEAD AND PULLMAN STRIKES

In the summer of 1892, Homestead steel mill manager, Henry Clay Frick proposed cutting wages by 20 percent. He then locked out employees and had the Pinkerton Detective Agency bring in replacements. When the Pinkertons and strikebreakers approached the plant, the strikers resisted. Over the next 14 hours, Pinkertons and strikers clashed, leaving several dead and dozens injured. The governor of Pennsylvania sent in the militia to protect the strikebreakers, and four months later, the strike collapsed.

In 1894, the Pullman Palace Car Company slashed workers' wages without lowering rents and prices in the company town. American Railway Union (ARU)

STRIKES AND LABOR UNREST 1870-1900



GEOGRAPHIC REASONING

Strikes and labor unrest were felt in all regions of the United States.

- EXPLORING PLACE** What region of the country seems to have had the most strikes? Why do you think this was so?
- EXPLORING REGIONS** What region of the country seems to have had the fewest strikes? Why do you think this was so?

workers refused to handle Pullman cars, and railroads ground to a near halt. Railroad managers arranged to have U.S. mail cars attached to the Pullman cars, and President Cleveland sent in federal troops to keep the mail running. A federal court then issued an **injunction**, or formal order, to halt the boycott. Both the strike and the ARU collapsed. The Supreme Court later upheld the right to issue such an injunction. This gave business a powerful tool for dealing with labor unrest.

THE DEVELOPMENT OF UNIONS

The American Federation of Labor (AFL) was the dominant labor organization of the late 1800s. In 1886, leaders of several national trade unions created the AFL. It focused on promoting the interests of skilled workers. Samuel Gompers was the first president of the AFL. He focused on "pure and simple" union goals—wages, working hours, and working conditions. He preferred negotiations over strikes.

The AFL had three main goals. First, it tried to convince companies to recognize unions and agree to collective bargaining. Second, it pushed for **closed shops**, meaning that companies could hire only union members. Third, it promoted an eight-hour workday. By 1900, the AFL was the biggest union in the country but it represented less than 15 percent of all nonfarm workers. Most AFL members were white men, because the unions discriminated against African Americans, and only a few would admit women.

In 1905, a group of labor radicals, many of them socialists, created the Industrial Workers of the World (IWW). The IWW wanted to organize all workers in "One Big Union" according to industry, without making distinctions between skilled and unskilled workers. In 1912, the IWW led a successful strike of 25,000 textile workers in Lawrence, Massachusetts, to protest wage cuts. The companies reversed the wage cuts after 10 weeks. The Lawrence strike was the IWW's greatest victory but it never gained a large membership. Its radical philosophy led many to condemn the IWW.

MAKING CONNECTIONS TO TENNESSEE

COAL CREEK SAGA

After the Civil War, coal mining became a booming business in Tennessee. The state, looking to rebuild its finances, began to lease convicts to companies. Under the Thirteenth Amendment, slavery had been banned except as a punishment for crime, so convict lease laws provided a way around the restrictions on slavery. The coal companies in Coal Creek decided to lease convicts for their mines. Local miners revolted and sent the convicts back to Knoxville. The miners would free the next batch of convicts sent to break their strike. The conflict would eventually lead to the repeal of the convict lease laws.



By the beginning of the twentieth century, many women had entered the workforce. Some were industrial workers in clothing or food-processing factories.

DETERMINING CONTEXT What is one question that you could ask to begin researching women in the industrial workforce?

WOMEN AND ORGANIZED LABOR

After the Civil War, the number of women wage earners began to increase. By 1900, women made up more than 18 percent of the labor force. The types of jobs women did outside the home reflected society's ideas about "women's work." About one-third of women worked as domestic servants. Another third worked as teachers, nurses, sales clerks, and office clerical workers. The remaining third were industrial workers, often in the garment industry or food-processing plants. Women were paid less than men even when they performed the same jobs. It was assumed that a woman had a man helping to support her, while a man needed higher wages in order to support a family. Most unions excluded women.

One of the most famous labor leaders of the era was Mary Harris Jones, also known as "Mother Jones." Jones worked as a labor organizer for the Knights of Labor before helping organize mine workers. Her public speaking abilities made her a very successful organizer, leading John D. Rockefeller to dub her "the most dangerous woman in America."

In 1900, Jewish and Italian immigrants who worked in the clothing business in New York City founded the International Ladies' Garment Workers Union (ILGWU), which represented female and male workers in the women's clothing industry. Membership expanded rapidly, and in 1909, a strike of some 30,000 garment workers won the ILGWU recognition in the industry, better wages, and benefits for employees. In 1903, Mary Kenney O'Sullivan and Leonora O'Reilly decided to establish a separate union for women. With the help of Jane Addams and Lillian Wald, they established the Women's Trade Union League (WTUL), which pushed for an eight-hour workday, a minimum wage, an end to evening work for women, and the abolition of child labor.

CHECKING FOR UNDERSTANDING

- 1. DETERMINING CONTEXT** Why did women need to form their own trade unions?
- 2. SUMMARIZING** How did railroad managers and the federal government cooperate to end the Pullman strike?
- 3. UNDERSTANDING CHANGE** What newer forms of worker protection did the American Federation of Labor support?

LESSON 2 REVIEW

Time and Place

- 1. ANALYZING CHANGE** Explain how the ideas of Karl Marx came to influence American workers in the late 1800s.

Building History-Social Science Analysis Skills

- 2. EXPLAINING EFFECTS** How did trusts and holding companies create unofficial monopolies?
- 3. SUMMARIZING** What advantages do large corporations have over small businesses?
- 4. DETERMINING CONTEXT** Why did workers try to form unions in the late 1800s?

Writing About History

- 5. ARGUMENTATIVE WRITING** Industrialization introduced many new ideas about how businesses could be formed and operated. Write a one-page essay explaining how these new ideas helped to improve the standard of living in the United States.

Collaborating

- 6. PRESENTING** Work with a small group to create two or three brief skits that dramatize the early history of unions in the United States. The skits should include a scene with a union member reading aloud from a letter he or she has written advocating changes in wages or other work policies. Ask your classmates to take notes for an after-presentation class discussion.