Lecture 1: The Rise of Big Business in the Gilded Age

Famous photograph taken by A.J. Russell, the photographer of the Union Pacific Railroad, commemorating the “Last Spike” of May 10, 1869, in Promontory Summit, Utah. Chinese, Irish, and Mormon laborers were crucial to the joining of the Union and Central Pacific lines that completed the transcontinental railroad.
Some characteristics of the Gilded Age

- Conflict between capital (owners) and labor (workers) in which capital wins most of the time
- New business models to deal with increased volumes of trade and expanding populations
  - Ex: Trusts, combinations, and holding companies
  - Companies are more complex, hierarchical, and run like bureaucracies with salaried middle managers
- Fierce competition and more demand forces businesses to cut costs and use technology
- US becoming world’s leading industrial power
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<th>Antebellum Era</th>
<th>Gilded Age</th>
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<tbody>
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<td>Typical Firm</td>
<td>Partnerships, family businesses</td>
<td>Larger corporation, trusts, holding companies</td>
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<td>Corps. were</td>
<td>Artificial creations of the state that serve a public function</td>
<td>Private entities that often have the rights of persons</td>
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<td>Corp. Charter</td>
<td>Limited – 20-30 years; need special charter from state leg.</td>
<td>Perpetual; there are general incorporation laws</td>
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<td>Liabilities</td>
<td>Unlimited</td>
<td>Limited – shareholders not responsible for all debts</td>
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<td>Customers</td>
<td>More personal – sold to families, friends, a few others</td>
<td>More impersonal – selling to distant customers</td>
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<td>Shareholders</td>
<td>Connected with management (they’re often the same people)</td>
<td>Separated from management</td>
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<td>Freedom</td>
<td>Linked to production</td>
<td>Linked to consumption</td>
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<td>Women</td>
<td>Separate spheres – stay in home (middle-class ideal)</td>
<td>Work in offices as clerks, cashiers, accountants, typists</td>
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This is a general model of overall trends that might mask some complexities.
Why Big Business at this time?

- Significant support from the federal and state governments (see next slide)
  - During Civil War, southern Dems are not in Congress
  - Republican Party connected with Big Business
    - Often controls Congress and the presidency
- Cheap Labor – Immigrants, women, children
- Access to Natural Resources – oil, coal, iron
- New Technology – e.g. Edison, Bell
- Overseas Investment – esp. from Great Britain
  - Critical to growth of railroads
How Government shaped the economy

- National Banking Act – standardized the banking system
- Lucrative war contracts given to northern railroads, financiers, and manufacturers for supplying union army
- Pacific Railroad Act – federal and state subsidies to railroads
  - Sale of public lands at low rates to the railroad companies
    - 131 million acres – larger than the state of California (see map)
  - Govt paid interest on stocks and bonds that funded RxR
- Sale of public lands also helped fund colleges (Morrill Land Grant Act) and funded water infrastructure projects
- Morrill Tariff – protected industry
- Eminent domain law > railroads penalized less for damages
- Use of army to remove Native Americans from the West
Map of federal lands granted to the railroads
What were the benefits of railroads?

- Increased property values
- More access to consumer goods
- Investing in railroad companies often returned profits
- Now there are shipments during winter and nighttime
- A significant stimulus to the rest of the economy
  - Especially the coal and steel industry
  - Building railroads contributes to further development
- A more unified nation
  - Urban and rural areas more connected
  - Access to cash economy (better than barter or gold)
- Faster, more convenient, and consistent shipping
How long does it take to go from New York to Chicago?
Now add the railroad
Now add a *better* railroad

It takes about 2-3 days to traverse the entire country by rail
But there were also drawbacks

- Immense power, widespread corruption, and tremendous concentrations of wealth!
- Railroad companies took great risks that imperiled the economy, helped cause Panics of 1873 and 1893
  - Railroad companies were not financial successes – many went bankrupt or didn’t finish
  - Despite this, they were bailed out by the taxpayer
- Accelerated development of the West
  - This came with environmental costs and the displacement of Native Americans
- This was an era of violent labor strikes, mass unemployment, and millions of disaffected workers
Railroads as the first “Big Business”

- They amassed a level of wealth and power that the Founding Fathers could not have predicted
- Corporate lobbying

Right: Political Cartoon, “Justice in the Web,” depicts railroad magnate Jay Gould as a spider

_Puck Magazine_, July 1885

**Supreme Court Justice Stephen J. Field** – the inventor of “corporate personhood” – was friends with Collis P. Huntington and other tycoons

Are we in a new “Gilded Age”? Should we call them Robber Barons or Titans of Industry?
Evidence for the “New Gilded Age”

- High pay for CEOs – the “robber barons” of today
  - 30 to 1 (1970s) versus 300 to 1 (today)
  - AP study found that typical CEO made $9.6 m. in 2011
- Monopoly – mergers, acquisitions, and consolidation
  - Cable companies, banks that are “too big to fail”
  - Doesn’t this contradict freedom of choice?
  - Monopoly tends to be bad for the consumer
- Wealth and income inequality
  - Is education still a route to a stable career?
  - Social advancement is now more difficult
  - See statistics on next slide
Increasing inequality is a **worldwide** phenomenon

Given the scale of rising wealth concentrations, opportunity capture and unequal political representation are a serious and worrying trend. For instance:

- Almost half of the world’s wealth is now owned by just one percent of the population.\(^2\)
- The wealth of the one percent richest people in the world amounts to $110 trillion. That’s 65 times the total wealth of the bottom half of the world’s population.\(^3\)
- The bottom half of the world’s population owns the same as the richest 85 people in the world.\(^4\)
- Seven out of ten people live in countries where economic inequality has increased in the last 30 years.\(^5\)
- The richest one percent increased their share of income in 24 out of 26 countries for which we have data between 1980 and 2012.\(^6\)
- In the US, the wealthiest one percent captured 95 percent of post-financial crisis growth since 2009, while the bottom 90 percent became poorer.\(^7\)

The world today is significantly more unequal than that of your parents.