

## 4. CENTRALIZATION

### Vertical integration

(a company controls and profits from every step of the production and distribution process)

In the case of Rockefeller's Standard Oil, this might mean owning:

the land where the oil is  
the drill bit company that supplies bits for the oil wells  
the oil drilling company  
the refineries  
the barrel company  
the wholesale outlets  
the retail outlets

Integrating "backward" means going further back in the process – from refining oil, to purchasing crude oil, to drilling for oil, etc.

Integrating "forward" means going forward in the process – from refining oil, to selling the refined oil to wholesale distributors, to the wholesalers seller to the retailers, etc.

The business that is "centralizing," one might say, is in the "center" of the process and then proceeds to integrate both forward and backward.

Rockefeller's business takes off after consolidation (he has a larger market share) but he really begins to rake in profits after centralization (he is not paying a profit to anyone – he controls each step of the process.)

Rather than raising his prices to insure a large profit margin, Rockefeller takes the long view.

Reasonable prices will mean more customers and the profit will come in the aggregate – more people buying oil means more profits. If prices are too high, profits will come, but there will be fewer customers.

Also, if prices are kept reasonable, other entrepreneurs have an incentive to find new uses for Rockefeller's oil. And, in fact, this happens: gasoline, a by-product of the oil refining process becomes a fuel source for the newly invented combustible engine, thereby opening up a huge new market for Rockefeller to exploit.

By the turn of the century "Big Business" has emerged and new rules of the game have become standardized.

## WHY IS BIG BUSINESS SOMETHING NEW?

### Features of Big Business

- large pools of capital needed; makes it harder for start ups (limited liability is a must)
- huge fixed costs (overhead); more than just the costs of operating your business day to day

-- altered nature of ownership (workers have little contact with the boss)

### 3. What was the effect on people? (Who wins? Who loses?)

Small business often loses – but sometimes small businessmen sell out at a good price (Some of owners of refineries Rockefeller bought end up doing pretty well.)

Consumers generally win as prices go down (Walmart Effect)

Companies also fear government intervention for price gouging, so prices remain relatively low

Still, profits rise since more efficient production methods enable companies to make more product for the same costs

Profits, however, remain disproportionately in the hands of business owners and stockholders. Workers derive some benefit in raised wages, but the deskilling of labor leaves them in a weaker position vis a vis the factory owners.

Moreover, even though industrial workers wages' rise, working conditions are unsafe and there is no safety net if one is disabled or even temporarily injured.

Also, great inequalities of wealth develop – the president of the company makes exponentially more than the entry level worker whereas before the owner of a small shop or business didn't make that much more than his workers and apprentices.

To demonstrate the inequality, consider:

Richest 1/10 receives 34% of the nation's income

Poorest 1/10 collects 3.4 %

Middle Class does ok – can buy more luxuries cheaper; has more free time. But the social turmoil caused by industrialization concerns many middle class Americans who fear a revolution or the environmental degradation that could affect their health.

In general, Big Business wins when the business is operated effectively, but if the business is not well run after large sums of capital are invested, the losses can be catastrophic. Not all big businessmen sustain their wealth over a lifetime.

Everyone must get used to a new economy based on speculation and finance rather than production. (I am no longer the owner of a shoe business, I am a businessman → I make money, not shoes.)

Workers identity is grounded in how much they can buy with their wages (consumers) rather than in what they can produce (highly skilled craftsmen)

While Big Business emerges triumphant, other social movements are developing in which different groups are pushing back against the trend – particularly workers and farmers.

These groups are not necessarily anti-capitalist, but they insist that workers and farmers should have the chance to benefit from the capitalist system, too. They argue that they aren't getting their fair share of the nation's riches, that the "monopolists," having benefited from the capitalist economy, were taking unfair steps to keep others from benefiting.

One sees this resentment in the political cartoons of the time that portray Rockefeller as an "octopus" grabbing everything within his reach and leaving little behind for others who hope to start their own businesses.

The chart showing Rockefeller's wealth as a proportion of the entire nation's wealth supports the view that he has a disproportionate share of the nation's wealth (and thus a disproportionate amount of power over the entire economy.)