Incredible Economic Expansion 1860-1900

$3 billion in manufactures (1869) -- > $13 billion (1900)

Iron ore production quadruples

GNP triples

BIG BUSINESS emerges

Three major questions:

1. What Caused/Helped It?

2. How Did the Process Happen? (The 4 c’s)


1. What Caused/Helped It?

A. Abundance of natural resources (oil, timber, iron, gold, cattle, copper)

B. Foreign investment – particularly from Great Britain
C. **Tariffs** provide government with money, but also help protect developing American industries

D. Processes for manufacturing

1- economies of scale – by doing something bigger, one could do it cheaper;

2- economies of scope – broader market for products

3- division of labor – break down a process into various component parts

4- continuous flow – keep the machines running all the time (Carnegie steel plants)

E. New methods of *financing* companies and *administrating* them

1- limited liability

2- more sophisticated accounting methods

3- rudimentary management information systems (allow you to make more informed decisions on inventory, purchasing, etc. at a moment’s notice)

F. The Railroad nurtures Economic Expansion

Unprecedented, Capital intensive endeavor

Cronon points out →
Previous transportation companies paid for the means of transport (vehicles – boats on canals) or the method of transport (right of way – they maintained the canal) not both

- consumes resources: steel, timber, coal, iron, locomotives

  (the railroads create a guaranteed market for these goods)

- links raw materials to processing centers

  (coal and iron ore to steel mills; cattle to slaughterhouses; copper to manufacturers; trees to lumber yards)

- links agricultural products to urban consumers

  (people eat better and cheaper)

- speed the development and population of the West

  (moves people to where there were no people)

- creates markets for newly mechanized agriculture

  (farmers grow more crops with aid of machines – railroads enable them to access a larger market in which to sell their crops)

- more food sustains cities where industrial production takes off due to increased population
more jobs draws more people (immigrants); railroads help them settle in the West where they create demand for manufactured goods from eastern industrial cities

demand for manufactured goods goes up in the west because RR brought people west; railroads now transport goods west

shows how big business is managed: integrating operations, managing goods, people, and money

1. even creates time zones!

2. How did the Process Happen?

“THE 4 C’s”

1. COMPETITION

Drives down prices so no one makes a good profit

Not efficient

2. COOPERATION

Companies form pools, but always seems like someone “cheats” by lowering prices

Not effective and raises suspicions of illegal price fixing – threat of government intervention

3. CONSOLIDATION
Horizontal Integration
(one oil company buys the other smaller oil companies)

Concentrate resources and take advantage of economies of scale

(This doesn’t work in low-tech/low-capital intensive industries such as salt and cord because it is easy to start up a new salt company or cord company – not much start-up capital needed)

4. CENTRALIZATION

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

By the turn of the century “Big Business” has emerged

WHY IS BIG BUSINESS SOMETHING NEW?

Features of Big Business

-- large pools of capital needed; makes it harder for start ups

-- huge fixed costs (overhead); more than operating costs

-- 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

Consumers generally win (Walmart Effect)
    Prices drop

Companies 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

Middle Class does ok – can buy more luxuries cheaper; have more free time

Industrial workers wages’ rise but conditions are unsafe and there is no safety net; great inequalities of wealth

200 a year die in Pittsburgh’s steel mills

1900 – avg work week is still just under 60 hours

1900 – factory workers annual wages are around $400-$500

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

Poorest 1/10 collects 3.4 %

Big Business wins when the business is operated effectively

    Everyone must get used to a new economy based on speculation rather than production.
Workers identity is grounded in how much they can buy with their wages (consumers) rather than in what they can produce (highly skilled craftsmen)