The Industrialization of America: 1865-1900
Learning Objectives

• Explain how the transcontinental railroad network provided the basis for the great post-Civil War industrial transformation.
• Identify the abuses in the railroad industry and discuss how these led to the first efforts at industrial regulation by the federal government.
• Describe how the economy came to be dominated by giant ‘trusts.’
Characteristics of American Industrialization

• **Industrialization created a National Market**
  - East coast to West coast, less developed in the South

• **America possessed abundant available Natural Resources**
  - Coal, iron ore, timber, petroleum, metals

• **Large pool of Unskilled Labor**
  - Returning vets, immigrants, women/children
• Advances in Transportation
  • Railroads were the dominant form of transportation from 1865-1950.
  • Interconnecting rail networks developed, bringing raw materials to factories and taking finished goods to consumers.
  • New inventions improved the rail transportation network, such as steel rails, air brakes, refrigerated rail cars, Pullman Cars.
• American ingenuity and inventiveness fostered the growth of industrialization.
  • Industrialization and the development of American society was a symbiotic relationship.
  • New inventions enabled business to produce goods more cheaply and in ever-increasing quantities.
  • This, in turn, spurred more invention and business activity in search of profits.
The widespread use of Corporate organization in big business facilitated growth and industrialization.

- This gave businesses unlimited life and businessmen limited liability.
- By selling stocks and bonds, corporations could raise very large sums of capital to fund their industrial expansion.
Basic Premises of American Business

• **Laissez Faire**: government must not interfere with private enterprise.
  - Free enterprise capitalism: an economic system that permits unrestricted entrepreneurial business activity.
• This led to a belief in **Social Darwinism**
  - Businessmen rationalized their incredible economic success by proclaiming that God had granted power and wealth to those that most deserved it.
  - Wealthy businessmen proved themselves to be the fittest. The unfit would fail.
The Methods and Types of Monopoly

• Why were Monopolies necessary?
  • Businesses sought to secure dominant positions in their markets.
  • Monopolies would correct the evils of ruinous competition (lower prices & lower profits)

• Two methods of monopoly were used
  • Vertical integration
  • Horizontal integration

• Businesses used three types of monopoly
  • Pools, trusts, and holding companies
Horizontal Integration

- A horizontal merger was a combination of two or more businesses that produced the same kind of product.
  - By combining together, businesses reduced costs and overhead and became more profitable to stockholders.
  - Standard Oil used horizontal integration of the oil industry in the early 1870s to control many other oil producing companies.
Vertical Integration

• A vertical merger is a combination of firms involved in different steps of manufacturing or marketing.
  • Standard Oil also achieved vertical integration when the company not only moved to control production but also the marketing and distribution of the finished product.
  • Andrew Carnegie’s steel operation is often cited as the best example of vertical integration in this era.
Types of Monopolies

• Pools: In business, a pool was an agreement to divide a given market in order to avoid competition.
  • Used by the early railroads; pools established rail rates, and were used to regulate output in an industry.
  • Pools were an attempt by business to eliminate over-supply, and thereby keep consumer prices high.
Trusts

• A Trust was a combination of companies, usually in the same industry, in which each company’s stockholders traded their stock to a central board of directors in exchange for trust certificates.
  - It allowed owners of one company to own stock in other companies in the same industry.
  - The trust certificates entitled owners to a proportional share of the dividends & profits from the earnings of the trust.

• Trusts decreased competition among corporations and increased prices for consumer products.
A holding company existed to gain monopolistic control over an industry by buying large numbers of shares of stock in as many companies as possible in an industry, thereby controlling its board of directors.

- A new corporation bought enough shares of stock to control one or more subsidiaries.
- Holding companies, using interlocking directories, could control many types of businesses.
The Development of American Railroads
Significance

• Railroads united all sections of the U.S.

✴ Railroads brought raw materials and food to urban / industrial centers.

• Railroads carried finished goods to domestic markets and to ports for export.

• American railroads were the greatest single factor to spur U.S. industrialization.
Consolidation in the Eastern U.S.  

• The development of new inventions and equipment spurred the expansion of the railroads.
  • Steel rails, standard gauge tracks, Westinghouse air brake, double tracking, the block signal, refrigerated boxcars.
• Great rail systems became established and service expanded.
• Dominant rail lines emerged
  ● Cornelius Vanderbilt / New York Central
Transcontinental Railroads

• Construction of the 1st transcontinental railroad was finished in May, 1869.
  • The Union Pacific constructed E to W (1,086 mi) and the Central Pacific W to E (689 mi)
  • Connected the West Coast to the Union and facilitated increased trade with Asian markets.

• By 1893, five transcontinental railroads crossed the U.S.
• Construction of transcontinental railroads was very expensive and required government financing. (both federal and state)
  • Was very risky
    * Entrepreneurs were unwilling to suffer financial losses.
• Government gave railroads public land grants along the railroad right of way.
  • Railroads sold alternating sections of land to finance their construction.
  • Much financial abuse occurred (Credit Mobilier, stock watering)
• Railroads received loans from Federal and state governments as well as private investment by American & European capitalists.
Effects of the Railroads

• They created a national market
  • Stimulated mass production and lowered costs for consumers.
  • Stimulated trade, both exports & imports
• Stimulated migration into the Trans-Mississippi West
  • RRs sold land to cattle ranchers, shepherders, farmers
  • Labor demands brought large numbers of European/Asian laborers to the West.
• The railroads were responsible for the establishment of time zones (1883)
  • Most communities quickly adopted railroad “standard” time.
  • Time zones significantly altered our conception of time.
• Political influences
  • People moved west into the territories.
  • Territories formed governments and wrote constitutions
  • New states were admitted to the Union.
  • Rising political revolt of the West against eastern business interests and political domination.
Abuses of the Railroads

- All railroads sought to make a profit and engaged in speculative promotion.
  - They advertised heavily in both the US and Europe to attract people to buy land in the West.
- Political abuses: RRs sought to maintain and enhance their political power
  - Lobbyists influenced Congress and state legislatures for money & privileges.
  - RRs provided political contributions and free passes to politicians, and engaged in outright bribery to gain protection (Credit Mobilier).
Financial Abuses

- RRs sold fraudulent securities to finance construction.
- Promoters, like Drew, Fisk, Gould, manipulated the market in RR stocks, earning vast profits and bankrupting investors.
  - RRs engaged in “stock watering,” where they would inflate claims about a line’s assets and profitability
  - They sold stocks & bonds far in excess of the railroads actual value.
Unfair Rate Making

• RRs engaged in pooling agreements
  • A pool was an agreement to divide the business in a given area and share the profits.
  • Pools eliminated competition and kept rates high for consumers.
• They gave rebates to large shippers, reducing their expenses and giving them a competitive advantage.
• RRs discriminated in their shipping rates, charging more for a short haul than a long one over the same line (Long haul/short haul)
Attempts to Control the Railroads
Attempts at regulating railroads were largely due to pressure from the agricultural West (The Grange)

- Individual state commissions regulated railroad practices within respective states.
  - This regulation was largely ineffective.

In 1886, the U.S. Supreme Court ruled in the Wabash Rate Case that individual states had no power to regulate interstate commerce.

- Only Congress could regulate interstate commerce.
• In 1887, Congress passed, and President Cleveland signed the Interstate Commerce Act.
  • It prohibited rebates and pools
  • It required RRs to publish their rates openly.
  • It forbade unfair discrimination against shippers and outlawed long haul / short haul rate discrimination.
• The act set up the Interstate Commerce Commission to administer and enforce the new legislation.
Labor and Management in the Late 19th Century
Learning Objectives

• Discuss the economic conflicts between management and labor.
• Discuss the growing class conflict caused by industrial growth and combination and the early efforts to alleviate it.
• Explain the failures of the Knights of Labor and the modest success of the American Federation of Labor.
Management: aims & tactics

- The late 19th Century was a time of great turmoil between management and labor.
- Management aims included
  - To achieve the greatest profit possible for the corporation’s stockholders.
  - To increase production through the most efficient use of materials and labor.
• **Tactics used included**
  - Workers were forced to sign “**Yellow dog**” contracts: in return for a job, a worker agreed to NOT join a union.
  - The **blacklist**; if a worker’s name was on the list, he could not get a job in that industry.
  - Use of the court **injunction** against strikes: courts usually sided with management and forced workers to return to work.
• the “Open shop”: employment was not determined by union membership.
• Corporations used company police (Pinkerton’s), & company spies in labor unions.
• During labor strikes, companies used strikebreakers (scabs)
Labor Unions

- **Aims**
  - Higher *wages*
  - Shorter working *hours*
  - Safe and sanitary working conditions

- **Tactics used**
  - The *strike*
  - Picketing
  - The *boycott*
  - The “closed shop”: demanding that *only* union members be hired in an industry.
Problems facing the Labor Movement

- Many Blacks and women joined the workforce, increasing supply.
- Immigration increased the unskilled labor force, increasing supply.
  - Immigrants faced problems of assimilation into American society.
- The activities of radicals and labor agitators, many foreign born.
  - Wanted to reorganize the social order.
  - Had little regard for the pragmatic difficulties of their beliefs.
Labor Unions and Major Labor Confrontations: 1865-1900
National Labor Union

• Established in 1866 by William Sylvis
• Their demands included
  • Elimination of monopoly
  • The 8 hour working day
  • Abolish contract labor
• This union declined rapidly after the 1872 presidential election and the Panic of 1873.
The Knights of Labor

- Founded in 1868 by Uriah S. Stephens
- Objectives included
  - Industrial unionism (all workers in an industry)
  - Inclusion of skilled and unskilled workers in one labor organization
  - The 8 hour workday
  - Equal pay for men and women
• Objectives continued
  • Abolition of child labor (under 14 yrs. Old)
  • Support for safety and sanitary codes for industry.
  • Wanted to compel owners to pay wages weekly.
  • They supported arbitration of all labor disputes.
• The union peaked in membership in 1886 under Terrence Powderly and declined after the Haymarket Riot.
Reasons the Knights of Labor Failed

• The public perception was that the union favored **violent** means to achieve its goals.

• There was great hostility by **skilled** workers toward unskilled workers.
  • Hostility was rooted in wages

• The Knights of Labor leadership had unclear **goals** of what they wanted to achieve.
The American Federation of Labor

- The union was formed in 1881 and headed by Samuel Gompers.
- Was a league of semi-autonomous CRAFT UNIONS: skilled workers
- Concentrated their efforts on major labor issues
  - Higher wages, shorter working hours
  - Safe & sanitary work place
  - Restriction of immigration: reduce job competition.
• Used the strike, the boycott, and collective bargaining to achieve their goals.
• The AF of L was the strongest and most stable of the 19th century labor unions.
  ◆ claimed 500,000 members by 1900.
Major Labor Confrontations

• **1877 Railroad Strike** (Hayes’ Administration)
  - National Railway Union struck the B & O railroad over 10% reduction in hourly wages.
  - The strike **spread** to most RRs east of the Mississippi River.
  - Strikers burned trains and destroyed railroad **property**.
  - President Hayes mobilized **Federal** troops to restore order and put down the strike.
    - Strikers returned to work at wages set by the railroads.
1886 Haymarket Riot

• Started as a rally in Haymarket Square (Chicago) in support of a strike against the McCormick Harvester Co.
• This event followed a nationwide strike for an 8-hour day, sponsored by the AF of L and local units of the Knights of Labor.
• Sympathetic anarchists addressed the strikers
  • A bomb was thrown at police; seven died and many wounded.
  • Eight anarchists were convicted of murder
• Significance: Haymarket injured the labor movement throughout the nation.
The 1892 Homestead Strike

• One of the most violent strikes in America occurred when the Carnegie Steel Co. announced pay cuts.
• 300 Pinkerton detectives were brought to the plant so strikebreakers could be hired.
  • Pitched battle occurred between the Pinkertons and the strikers.
• Plant manager Henry C. Frick requested militia protection.
• Pennsylvania’s governor sent 8,000 National Guard troops to restore order and protect strikebreakers.
• A few months after the strike began, the union finally surrendered.
  • As a result of the strike, the union’s membership decreased from 24,000 in 1891 to 7,000 in 1900.
The Pullman Strike: 1894

• A strike by Pullman Palace Car Company workers in protest at a 25% reduction in wages and over policies in the company town near Chicago.

• The American Railway Union, led by Eugene Debs, supported the Pullman workers.
  • Aided strikers by refusing to handle any trains with Pullman cars
  • Strike spread to 27 states from Chicago to the Pacific coast.
• Pres. Cleveland sent 2,000 federal troops to restore order and protect the U.S. mails.

• Management obtained a court injunction
  • Claimed the strike interfered with interstate commerce and federal mail delivery.
  • Injunction forbade Debs & associates to continue strike. Injunction ignored, Debs was jailed.
  • With the union leaders in jail, the strike ended.
• Significance
  • After the strike, the injunction became a powerful weapon for employers to use against workers and labor unions.