Unit 4 Lesson 2

THE GILDED AGE

ESSENTIAL QUESTION:

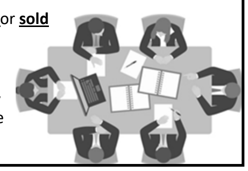
What were the benefits and disadvantages of the rise of corporations and big business in the Second Industrial Revolution?

Foundations of the Gilded Age

- Machinery & increased acreage under cultivation → American farmers were able to feed more people → meant that between 1860 and 1920 the population of the U.S. more than **tripled**
- This was in part due to a constant stream of European and Asian **immigrants**
- Population growth created conditions favorable for business growth: rising **demand** for goods and a ready **supply** of cheap labor
- The spread of railroads and innovations in communications and manufacturing helped the U.S. go from separate regional markets to a single **national** market
- New types of **retailers** emerged: department stores, chain stores (Woolworths), mail-order houses (Sears and Roebuck) and specialty shops bought items in large quantities from producers at a discount to see to consumers at a profit

Rise of the Corporation

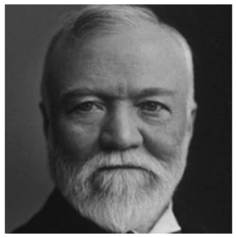
- Before the Civil War: owners were personally **liable** responsible) for the debts of their company
- After the Civil War: **corporations** became common
- Corporations issue **stocks** or shares of ownership in the corporation, to investors who become partial owners and receive a share of profits in the form of dividends
- Stockholders elect a board of directors who appoint a general manager or **CEO** to run the company
- Stocks are transferable and can be **inherited** or **sold**
- Building railroads, producing steel, refining petroleum, laying telegraph & telephone wires and building factories required enormous sums of capital investment and by issuing stocks corporations were able to raise greater sums of **money** than ever before



- Individuals were able to pool their money together by investing in a corporation which allowed the creation of a larger **businesses** → large businesses had many advantages over smaller competitors
- Giant corporations → could obtain raw materials more **cheaply,** some even acquired their own sources of supply

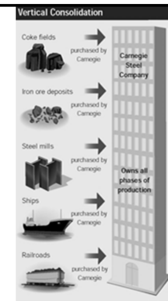
- A few companies took control over all stages of production and distribution = **vertical** integration
- The larger size allowed corporations to develop better **management**
  - Accounting, purchasing, processing, marketing, research and development and adopted the practice of **cost-accounting**
- **Entrepreneurs =** take risks by engaging in business to make a profit
- Leading entrepreneurs of America's Second Industrial Revolution considered themselves to be:
  - **Captains** of industry →adopted new technologies and corporate organization to make cheaper and better products
  - Critics called them **robber barons** → exploited workers, used dishonest tactics, and exercised their monopoly control over individual industries to overcharge the public
  - Also used their legendary personal fortunes for **philanthropic** ventures in their old age
- America's Second Industrial Revolution = **Gilded Age** → displays of great wealth that were obtained by unethical or dishonest tactics

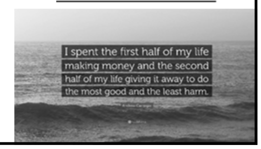
ANDREW CARNEGIE



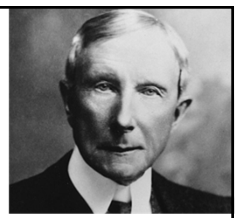
- Scottish immigrant
- Managed **Union** railroad lines during the war, started the Keystone **Bridge** Company (used iron instead of wood)
  - Built the first bridge to carry trains across the MI river → needed to build of **steel**
- Joined with Henry Clay **Frick** to gain access to his coke (carbon made by heating coal in a furnace without air)
- Hired chemists, cost-accounting, eliminated middlemen, used immigrant labor, mills operated day and night, pretended to be a friend of labor (hid in Scotland during Homestead Strike)

- Bought iron ore mines, a coke works, a limestone company, railroads, and a fleet of ore boats in the Great Lakes → **vertical integration**
- By the end of the century, Carnegie was producing **¼** of all steel made in the United States
- sold his company to J.P. Morgan in 1901 for $**225** million and spent the rest of his life giving his money away in acts of philanthropy (established public libraries, Carnegie Hall)
- He expressed his views in The **Gospel** of Wealth→ a rich man should not die with his wealth but **give** it away in his lifetime especially to institutions that promoted self-improvement



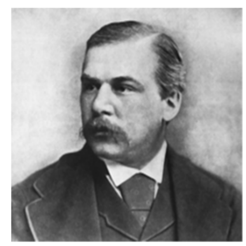


John D. **Rockefeller**



- Made profits during the civil War by investing in **oil** refineries
- 1870 formed **Standard Oil** Company
- Railroad companies gave secret **rebates**, later built his own pipelines
- 1882 formed the Standard Oil **Trust** → controlled 90% of all oil refining
- **Horizontal** integration
- Lowered price of kerosene and other oil products by 80% → ordinary people could afford it, increased demand
- Electric light bulb threatened oil→ **automobile** was invented and required gasoline
- Philanthropic in his old age & gave money to **education** and science

John Pierpont (JP) **Morgan**



- Son of banker and gifted financier
- 1892, Morgan helped Thomas Edison form the Edison Electric Company and when Edison was proved wrong about alternating current being too dangerous, he was pushed out and the company was renamed **General Electric**
- In 1895 formed the J.P. Morgan & Company, a commercial and investment **banking** institution
- 1901 he bought Carnegie's steelworks and joined them with other companies to form U.S. Steel
  - First billion-dollar company in U.S.

- The aim of these forms of business was to eliminate competition and establish a **monopoly** complete control over the production of a good or service
- Monopolies have disadvantages for the general public:

  1) less incentive to **improve** their products since they faced no competition

  2) could raise **prices** at any time to earn excessive profits and consumers had no choice but to pay because there were not alternative products