Lesson 26
The Growing Economic Crisis of the Late Nineteenth Century

Objective
- To understand progressive steps taken by big business to bring order and stability to chaotic businesses of the late nineteenth century

Notes
Social Darwinism soon proved to be a philosophy for economic chaos. In the laissez-faire climate of the time, suppliers had to seek a monopoly to avoid being wrecked by competition. In their view, the government should protect individuals, businesses, and their property and promote the economic interests of business when they ask for help, particularly in raising tariffs. As large scale businesses evolved in the post-Civil War years, various strategies were used to minimize ruinous competition, among them agreements, pools, interlocking directorates, and trusts. When agreements and pools did not work, interlocking directorates proved cumbersome, and legislation made trusts illegal. J.P. Morgan introduced the holding company in an effort to stabilize whole industries.

In this lesson, students interpret a series of documents to learn how late nineteenth-century businessmen tried to bring order and stability to the economy. Then, they write a thesis statement to suggest why the businessmen's approach to organizing the economy has not been accepted in the twentieth century.
At the beginning of the twentieth century, financier J.P. Morgan sought a way to bring order and stability to what he considered the chaotic condition of American business. He summarized three major problems of American businessmen: (1) business had to be saved from ruinous competition; (2) the rise and fall of prices had to be minimized and the disastrous effects of the business cycle padded; and (3) the rising power of labor had to be blocked at all costs, or capitalism would eventually give way to socialism. Morgan sought to organize holding companies in nearly every major industry as a way of helping entrepreneurs make savings in buying and manufacturing, control prices, and raise profits.

Study the documents in each section for information to answer the related questions at the end.

**Part A.**

**Document A**

The story of the early history of the oil trade is too well known to bear repeating in detail. The cleansing of crude petroleum was a simple and easy process, and at first the profits were very large. Naturally, all sorts of people went into it; the butcher, the baker, and the candlestick maker began to refine oil and it was only a short time before more of the finished product was put on the market than could possibly be consumed. The price went down and down until the trade was threatened with ruin . . .

... this great depression led to consultations with our neighbors and friends in the business in the effort to bring some order out of what was rapidly becoming a state of chaos . . . we proceeded to buy the largest and best refining concerns and centralize the administration of them with a view to securing greater economy and efficiency . . .

This enterprise, conducted by men of application and ability working hard together, soon built up unusual facilities in manufacture, in transportation, in finance, and in extending markets . . .


**Document B**

The first and least formal method attempted was the agreement. By this each competitor agreed to certain standardized prices and policies; usually they were promptly broken when someone saw a chance to undersell his rivals. The next step, the pool, was a division of marketing areas, freight, or earnings: it also fell through when one member saw a chance to grab off a large order or to pre-empt a certain field, but it by no means was discarded and, indeed, the modern trade associations bear some resemblance to it.

The search for uniformity was next sought . . . by interlocking directorates. That is, the directors of any corporation sat upon the boards of allied corporations and strove to reconcile policies and minimize competitive clashes. The method was more successful than the others (and is still used), but it was cumbersome.

Document C

It is too late to argue about advantages of industrial combinations. They are a necessity. . . . Their chief advantages are:

(1) Command of necessary capital.
(2) Extension of limits of business.
(3) Increase of number of persons interested in the business.
(4) Economy in the business.
(5) Improvements and economies which are derived from knowledge of many interested persons of wide experience.
(6) Power to give the public improved products at less prices and still make profit for stockholders.
(7) Permanent work and good wages for laborers.


1. What did John D. Rockefeller believe was the key to stabilizing the oil industry?

2. What were the weaknesses of each of the following methods of stabilizing industry?
   a. agreement
   b. pool
   c. interlocking directorate

3. Why did Rockefeller perceive a trust to be a solution to the weaknesses of less formal attempts at business organization?
Part B.

**Document D**


**Document E**

Average Daily Earnings of Nonfarm Employees: 1870–1880

<table>
<thead>
<tr>
<th>Year</th>
<th>1870</th>
<th>1871</th>
<th>1873</th>
<th>1876</th>
<th>1879</th>
<th>1880</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1.47</td>
<td>1.45</td>
<td>1.40</td>
<td>1.21</td>
<td>1.12</td>
<td>1.16</td>
</tr>
</tbody>
</table>


**Document F**

Wholesale Prices of Selected Commodities, 1871–1879

<table>
<thead>
<tr>
<th>Year</th>
<th>Coal (anthracite)</th>
<th>Steel Rails</th>
<th>Copper</th>
</tr>
</thead>
<tbody>
<tr>
<td>1871</td>
<td>$4.46</td>
<td>$102.52</td>
<td>$.241</td>
</tr>
<tr>
<td>1872</td>
<td>3.74</td>
<td>111.94</td>
<td>.356</td>
</tr>
<tr>
<td>1876</td>
<td>3.87</td>
<td>59.25</td>
<td>.210</td>
</tr>
<tr>
<td>1879</td>
<td>2.70</td>
<td>48.21</td>
<td>.186</td>
</tr>
</tbody>
</table>


4. Explain why economists use the phrase "business cycle" to describe the economic activity shown in Document D.

5. Explain how daily wages in 1873 and 1879 relate to points on the graph of the business cycle.

6. Explain how prices of coal, steel rails, and copper in 1871, 1876, and 1879 relate to points on the graph of the business cycle.

7. From the documents, what inferences can you make about the "disastrous effects of the business cycle" for each group below:
   a. corporations
   b. workers
Document G

<table>
<thead>
<tr>
<th>Year</th>
<th>Average annual union membership</th>
<th>Number of workers, ten years and over, excluding agricultural workers</th>
<th>Union membership as a percentage of the total number of workers outside agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>1870</td>
<td>300,000*</td>
<td>6,075,000</td>
<td>4.9%</td>
</tr>
<tr>
<td>1880</td>
<td>200,000*</td>
<td>8,807,000</td>
<td>2.3%</td>
</tr>
<tr>
<td>1890</td>
<td>372,000*</td>
<td>13,380,000</td>
<td>2.7%</td>
</tr>
<tr>
<td>1900</td>
<td>868,000</td>
<td>18,161,000</td>
<td>4.8%</td>
</tr>
<tr>
<td>1910</td>
<td>2,140,000</td>
<td>25,779,000</td>
<td>8.3%</td>
</tr>
<tr>
<td>1920</td>
<td>5,048,000</td>
<td>30,985,000</td>
<td>16.3%</td>
</tr>
<tr>
<td>1930</td>
<td>3,393,000</td>
<td>38,358,000</td>
<td>8.8%</td>
</tr>
</tbody>
</table>

*Figures for 1870, 1880, and 1890 are estimates.


Document H

... a system (should be) adopted which will secure to the laborer the fruits of his toil; and as this much-desired object can only be accomplished by the thorough unification of labor, and the united efforts of those who obey the divine injunction that "In the sweat of thy brow shalt thou eat bread," we have formed the Knights of Labor with a view of securing the organization and direction, by cooperative effort, of the power of the industrial classes; and we submit to the world the objects sought to be accomplished by our organization, calling upon all who believe in securing "the greatest good to the greatest number" to aid and assist us:—

I. To bring within the folds of organization every department of productive industry, making knowledge a stand-point for action, and industrial and moral worth, not wealth, the true standard of individual and national greatness.

II. To secure to the toilers a proper share of the wealth that they create; more of the leisure that rightfully belongs to them; more societary advantages; more of the benefits, privileges, and emoluments of the world; in a word, all those rights and privileges necessary to make them capable of enjoying, appreciating, defending and perpetuating the blessings of good government. . . .

IV. The establishment of cooperative institutions, productive and distributive.

Terence Powderly, president of the Knights of Labor


8. In what way do the above documents on labor union membership and the Knights of Labor philosophy reflect concerns of J.P. Morgan?
Part D.

Document I

[Graph showing Profitability and Capital Goods]

Profitability and Capital Goods


Document J

More likely than not, the average railroad president in the 1870s had a background in politics—over half held some political job before or during their careers as railroad presidents. Surely the ogre of government intervention could not have appeared too formidable to men with important political connections themselves and familiar with the intricacies and possibilities of politics.


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Document K

Board of Trustees
Controls all member companies by vote; does not own stock

Company A
Owns stock; gives vote, or control, to board of trustees

Company B
Owns stock; gives vote, or control, to board of trustees

Company C
Owns stock; gives vote, or control, to board of trustees

Company D
Owns stock; gives vote, or control, to board of trustees


Document L

Company A
Holds majority of stock in corporations B and C; controls policy

Company B
Holds majority of stock in corporations D and E

Company C
Holds majority of stock in corporations F and G

Company D

Company E

Company F

Company G

King, *United States History*, 110.
9. Even though Congress passed antitrust legislation, why did corporate leaders try to retain the concept of the trust?

10. How did corporate leaders hope to maintain the essence of trusts?

11. How does the relationship of a Board of Trustees to a trust (document K) differ from the relationship of a Board of Directors to a holding company (document L)?

12. Research why the Fourteenth Amendment was used to protect a holding company but not a trust.

Part E.

13. In what respect has the government adopted a broader perspective of economic problems than did J.P. Morgan?

14. How much economic freedom should society give to an individual to seek his or her own ends to the detriment of others?

15. In what respect do the actions of the government in the twentieth century reflect the failure of J.P. Morgan’s philosophy of holding companies?

16. To conclude this lesson, write a thesis statement that explains why Morgan’s approach to organizing the economy has not been accepted in the twentieth century.