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## CHAPTER I

## THE ECONOMIC OUTLOOK IN 1878

The economic life of the United States at the opening of the period reviewed in this volume - 1878-1898 - was torn by a variety of conflicts over the development, distribution and the use of the wealth of the nation. These conflicts had their philosophic basis in the challenge socialism was throwing at the accepted American interpretations of individualism. They had broken out in various quarters:- between those who sought special privileges "for the good of the business" and those who opposed privilege in all forms as contrary to a realization of the democratic scheme; between those who fought federal regulation as an interference with business and those who saw it necessary to give opportunities for business; between the unprotected farmers and the protected manufacturers; between consolidated capital and consolidated labor.

The wealth over which they struggled had grown in the twenty years before 1878 from a little over sixteen billions of dollars to close to forty four billion.(1) This increase had come in spite of two major calamities - a Civil War which in 1865 had left/eleven of the forty/eight states in the Union, prostrate ~~prostrate~~ their economic machinery practically

1) Blaine, J. G. Twenty Years in Congress, Vol. I P. 617

demolished, and a depression beginning with a Panic in 1873 from which the nation was only just beginning to recover.

The primary sources of this rapid accumulation of wealth lay in the opening of great areas of grain-growing land in the territory West and Northwest of the Mississippi and in the discovery of vast mineral deposits - gold, silver, copper, iron ore, coal. To these world-old wealth producers had been added a new substance - rock-oil or petroleum unknown to the census of 1860 but which in the year ending May 31, 1880 had yielded manufactured products valued at $43,705,218. (1)

The resources opened were of such extent that it was generally believed that only the first step in their development had been taken. Moreover, there was evidence that farther discoveries of equal or even greater importance waited the prospector.

Quite as important to the country's economic future as the resources uncovered was the demonstration now generally accepted that in electricity the world had a new and exhaustless source of light and power awaiting harness. Already it had been so applied in the telegraph that rapid communication between the Atlantic and Pacific coasts and between the United States and Europe was accepted as a matter of course and at the opening of our period it had been satisfactorily demonstrated that to the existing system of rapid communication the telephone had given human diction "ears." (2)

1) Compendium of the Twelfth Census, Page 1251

2) Nevins, Allan. The Emergence of Modern America, A History of American Life X. Pages 86, 88-89

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The addition to the economic life of these new resources had served as a tremendous challenge to the scientist, the engineer, the inventor. Schools of science had multiplied until in 1880 there were some four hundred fifty colleges and schools offering courses in chemistry and physics, in metallurgy, mining, mechanical and electrical engineering. They were still for the most part poorly endowed, the equipment generally home-made, the libraries small - 2,769,203 volumes for all colleges. (1)

But out of the scientific department of high schools and fresh water colleges were to come some of the great inventors and engineers of the next twenty years, the men who were to unfold and make practical further possibilities of ore and oil and electricity. While their initial impulse and primary direction and instruction came from the schools, their future development was to come largely from self-directed and independent efforts.

The distribution of this wealth over the country was on the whole healthy. It had not disturbed the stability of the Eastern and Western Middle states. The five wealthiest states in the Union in 1860 were still the five wealthiest states. In order of their ranking they stood - New York, Pennsylvania, Ohio, Illinois, Massachusetts. The proportion of increase in each case approximately matched the national increase.

Although the South had lost the place it held in

1) Blaine, James G. Twenty Years of Congress. Vol. I Page 642. Digest from census of 1880

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1860 its recovery, considering its devasting economic and social and political experiences, was assured. If Virginia had lost to Iowa the place it held in 1860 as the sixth richest state in the Union Virginia was re-establishing herself. Already the value of her property was within $86,000,000 of what it had been before the war. A Herculean achievement. The majority of the southern states were following her example. (1)

It was in the states west of the Mississippi that the effect of the increased national wealth was most pronounced. Kansas credited with less than $32,000,000 in 1860 now boasted $760,000,000; Nebraska's record was even greater in proportion; Colorado not even noticed among wealth producers in the census of 1860 now was worth $240,000,000; California had an increase of six hundred per cent and each of these states and neighboring territory believed and believed rightly that hardly a scratch had been made on the surface of their resources.' (2)

Population had shifted with wealth - men and families following rumors of new wheat and corn lands, new mines, new industries. The 50,155,783 people in the land were mobile, restless under the continuous stream of announcements of new discoveries of natural resources, new inventions, new industrial and engineering undertakings. They made a mighty caravan moving westward and northwestward in whatever

1) Nevins, Allan. Emergence of Modern America. See Index Reconstruction, also states by name.

2) Blaine, J. G. Twenty Years in Congress. Vol. I. Page 616 et sq Table exhibiting the total valuation of real and personal estate in the United States according to the census returns of 1850,1860,1870,1880.

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direction the new sources of wealth opened. At the same time they sought openings in the rapidly growing laboratories and industries which sprung to life to develop, apply, turn to practical uses what was discovered.

This moving multitude was swollen by immigration. In the five years before 1880, 855,000 persons had entered the country; in the next five years over 5,000,000 were to come. These additions to the population quickened the natural mobility, speeded up the Westward movement, added to the population of new industrial centers and the movement from country to city. (1)

In the shifting masses of men and women there were two predominating types, those who went out on a chance, hoping to "strike it rich", sell, and move on to a new speculation, and those who sought opportunity to establish themselves permanently on farms, in businesses or trades or professions, grow up with the country.

In the days before the Civil War men like these opening and settling new territory, had met their problems of transportation, manufacturing, marketing by local or sectional collective arrangements. With the spreading and interlocking of these settlements the arrangements had been extended, become state-wide in scope, but by 1880 settlers and prospectors looked generally ~~to~~ outside of state boundaries for capital and organization to handle these

1) Schlesinger, Arthur M. The Rise of a City, 1878-1898 Chapters II & III

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problems. They claimed that if they were to pioneer for the nation the nation must supply the tools. The nation recognizing that this prospector, this wild-catter, with nothing but a pickaxe or a drill on his shoulders, this farmer with little but a family and his hands were basic in the national economic ambition as then conceived was doing its utmost to answer their demands.

Their answer came through consolidations of brains, money and privilege allowed to operate with the largest latitude since in no other way could the swift development which the ambition and the temperament of the nation demanded be insured.

The brains for these consolidations came most frequently from the bottom rank, men who saw more clearly than their fellows what was necessary to meet the impatient call of communities and nation for quick answers to their needs, who had not only personal ambition for wealth and power but a genius for management on a large scale, a passion for orderly operation of affairs. These men based their operations usually on exclusive privileges which competitors in the same field were unable to get. The national government had from the beginning made grants of one kind or another to those who were willing to undertake large scale developments.

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Thus large concessions of land with the mineral resources which might underlie them were given to builders of railroads, perpetual franchises, rights of way to builders of utilities, protective tariff to manufacturers.

When the government gave such privileges it followed that those favored felt it their right to demand from those who served them in any way very special treatment. Thus the big shipper demanded and usually received favored rates on the railroads, accommodations in cars, on docks, in markets which the small shipper was not allowed.

It was not difficult for men armed with these advantages to draw the money they needed from the country by organizing stock companies and marketing their securities. This type of investment was looked upon with suspicion by many successful men of the day who had built up businesses of gigantic proportions by what had always been considered the true American way of getting rich - you saved out of your earnings and "put it into the business." This was what the great Carnegie - the Standard Oil group had done. "We lived in rented houses and saved money to buy stock in the company" was the explanation Henry H. Rogers one of the Standard Oil Company's strong men gave of his wealth. (1)

1) Interview with author.

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To understand the strength of the explanation it should be remembered that living in a rented house was still in the '70's a sign of failure or irresponsibility. "Owning your own home," was like putting money back into the business - a cardinal economic principle of the individualist.

Savings went into the business or into land or farm mortgages near home, but these early forms of investment were giving away rapidly to the buying of stocks in railroads and telegraphs, in mining, irrigation industrial promotions. The money came largely from those who had made fortunes in the years of and since the Civil War. That is money no longer "stayed at home" -"belonged to the business." It was spreading, becoming as mobile as men, nationalizing itself. When the census of 1880 tabulated the location of property owned by residents of different states it found that citizens of New York State had $1,300,000,000 invested outside of the state; residents of Pennsylvania $450,000,000. Half of the property of Nevada was owned outside of the state. (1)

Management of enterprises financed by outside money became increasingly foreign. The phenomenon of absentee landlordism was more and more frequent. The local representative of mine or railroad or telegraph office did not necessarily serve local interests. He took orders from financial centers - New York, Chicago, even London - and these looked rather to returns on capital

1) Blaine, James G. Twenty Years of Congress. Vol. I. Page 618

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then to strengthening national relations. The nature of management depended on whether its ambition was speculation or operation. That is, the great organizations which served the new communities of the country were of the same two predominating types as those who settled the communities.

Whatever the motive behind the enterprise its management regarded it as a private business and the larger it grew, the greater its wealth and power the more solidly it resisted any attempt of government to regulate its affairs. It was generally recognized that the law had not kept up with the consolidation of business, finances, industry and at the opening of the period there was a movement to reestablish its power in the field of big business. To look after their interests all the great corporations were annexing lawyers to their staffs. Where once the lawyers chief field for activity outside of his profession was politics now it was becoming business.

The drive behind the demand for regulation came chiefly from two of the essential factors in producing the nation's wealth - the farmer and the laborer, they claimed an equilibrium was necessary between agriculture and industry, between employer and employee if there was to be a healthy national economy which was alarmed by the growing consolidation of wealth, the growing concentration of power over their tools in a few hands.

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The beneficiaries of consolidation found themselves on the defensive. Few of them were articulate when it came to the philosophic or even economic defense of their position. The readiest and the most persuasive was one of the greatest of them - Mr. Andrew Carnegie.

Mr. Carnegie belonged to that section of the population called by the census taker "foreign born white males" of whom there were in the United States in 1880, 3,521,635. (1) Scotch by birth he had come to the United States with his family in 1852, settling in Pittsburgh. Here he began his career as a bobbin boy at $1.50 a week. Eleven years later, 1863, he was the assistant of Thomas Scott, Superintendent of the Western Division of the Pennsylvania railroad at a salary of $2400 a year. But more significant were the investments he had made by this time. They had been amazingly successful as his income tax return for 1863 shows - small original investments made from money he had saved - money he had borrowed was netting him, an income of $47,860.67. (2) His first investment had been ten shares of Adams Express stock which in 1863 netted him $1,440,00; his most successful the Columbia Oil Company from which in '63 he received $16,868.67. His most significant were in iron making, a member of the firm being Mr. Henry Phipps and in iron bridge building the importance of which he had learned in handling men and freight for the army.

1) Compendium of Tenth Census. Page 625.

2) Hendricks, Burton J. The Life of Andrew Carnegie. Vol. I Pages 120 et sq.

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Carnegie steadily increased his iron holdings but took no interest in steel until 1872 ~~when~~ he saw a Bessamer converter in blast and awoke to the fact that, as he said, "The day of iron has passed." He at once set about building a steel mill at the Braddock Battlefield on the Monongahela River - the Edgar Thompson Steel Works it was named.

Profits were soon phenomenal. In 1877 the Carnegie Company made forty two percent, paid partly in stock, partly in cash, and it was, as Carnegie himself believed, only the beginning. By 1880 the steel works netted the group $1,625,000; the furnaces and iron mills, $446,600 - a total of $2,071,600. (1)

His own astonishing success the brilliant showing of the census of 1880 led Mr. Carnegie to tell the world how he saw the economic and social life of the United States. To him it was a Triumph of Democracy and that title he gave to an analysis of the country's condition ~~told in the Tenth (1880 Census~~. As a graphic foreword to this volume he printed a table prepared by Mr. Edward Atkinson, an excellent statistical authority of the period, demonstrating our superiority in acreage over all the countries of Europe. Mr. Carnegie excelled over the growing number of occupations, the multiplications of schools, churches, libraries, the fact that while the United Kingdom had thirty three paupers to every thousand of population, Italy forty eight, the low countries one hundred and five, the United States had but five and that more than a third of these were foreigners. (2)

1) Casson, Herbert. Romance of Steel. Page 91

2) Carnegie, Andrew. Triumphant Democracy. Based on Census of 1880 (New York, 1886) Page 168,169

Digital Image, 2011, The Ida M. Tarbell Collection, 1890-1944, Allegheny College Pelletier Library.

It was of the world to which he belonged, that of the manufacturer, that Mr. Carnegie naturally was most eloquent. There was no contesting his figures, there was no contesting the comparisons he made between the United States and European nations, between the United States of 1880 and that of 1830. It was a splendid story of material progress and in Mr. Carnegie's mind it came from the superiority of Democracy giving free opportunity to the individual over countries in which monarchical forms of government existed. That is, it was the "Man" given his head who did it.

The consolidation of capital in the hands of a few under the leadership of his strong Man was, he claimed, the price society had to pay for cheap comforts and luxuries. These could only come through competition, and the competition to be effective must be carried on by giants, not pygmies. This was not only beneficial for the race but essential to its progress. Business on a grand scale took special talent for organization and management and that talent is rare. Mr. Carnegie pointed out that the experienced in affairs always rated the MAN whose services could be obtained as a partner as the first consideration; the question of his capital was scarcely worth considering. Such men soon created capital; while, without the special talent required, capital soon took wings. Such men became interested in firms or corporations using millions; and, estimating only simple interest to be made upon the capital invested, it was inevitable that their

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income must exceed their expenditures, and that they must accumulate wealth. (1)

"The great inequality of environment" which Mr. Carnegie accepted as inevitable and to the best interests of the country was challenged at the opening of our period by a study of the exhibits of our economic life which was to prove one of its most effective influences - a challenge of the prevailing methods of handling the national territory. These methods, so the author Henry George claimed, explained the widespread poverty which went along with the progress.

George at the opening of our period was thirty nine years old. Born in Philadelphia he had shirked the conventional education which his father desired to give him and at seventeen went to sea. After a voyage which lasted some fourteen months and took him to Melbourne and Calcutta he returned to Philadelphia where he set out to learn the printers' trade. But the call of the sea was too strong and he was soon sailing around South America on his way to San Francisco. Here for several years he led an erratic, uncertain, but always sincere observant and meditative life. Probably if Henry George had been able to establish himself either as a printer, newspaper editor, a filibuster, gold digger - all of which he tried, that is, if he had not failed in whatever he undertook his mind would not have set itself so tenaciously on the problem of the uneven distribution of wealth, the anomaly of periodical depressions that he finally

1) North American Review. Vol. 148: 653 ff

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gave himself up to thinking it out. The result of his concentration was a book which he called, "Progress and Poverty" carrying the long sub-title - "An inquiry into the cause of Industrial Depressions and of increase of want with increase of wealth; The Remedy." "Progress and Poverty" appeared late in 1879. It had a remarkable press, a press which was an indication of the restless mind of the day, its grateful satisfaction for sound thinking. There was almost universal praise for the clarity and solidity of the reasoning which led George up to his Remedy, but almost universal damming of the Remedy itself.

The road by which he reached his remedy was bold, arresting, for here George challenged the generally accepted notion that capital was the basic factor in creating wealth. By analysis he tore down the structure. Where did capital come from? You say it is the wealth piled up each year over and above what is needed to keep the country going. But where does wealth come from? What is it but the fruit of labor applied to the land. God gave man the land, but man has to use his hand and brain in its cultivation before he can feed and clothe and shelter himself. It is the partnership of the two - land and labor - which produces wealth. If there is a surplus we call it capital and this capital is used by labor to increase wealth. Instead of capital being necessary to labor it is labor which creates capital which keeps it alive. Capital is a dead weight without labor.

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How had it come about that capital now holds itself superior to labor? Is not the chief reason that capital seeing that land is necessary to labor has corralled the land until we have great territories opened by the struggle of labor gathered up by capital, closed to labor? Capital holds these lands undeveloped for a rise in value. Labor opening adjacent territory gives them continually increasing value for which capital is waiting. When finally the lands are opened to development capital reaps a profit out of all proportion to its contribution. This George called and "unearned increment."

This type of economic strategy, that is the capture of the land by capital had made labor dependent on capital. But God gave the land to all. It could not justly be alienated any more than air or sunshine. Free the land, return it to the people as a whole. Men should be allowed to use it in any amount they could properly, but never hold it after they ceased to use it. For this use they should pay its full worth as they do now, but this rent should go to the community to be used for the expense of government. There would be enough of it to care abundantly for the needs of the people; its rent would wipe out all other forms of taxes, on imports, personal property, inheritance, incomes. It would be the one and only tax - the Single Tax.

The organized opposition of farmer and laborer to organized capital well developed in the '70's (1) was strengthened

1) Nevins, Allan. Emergence of Modern America. Pages 169-177, 380-402

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by George's discussion. Both accepted his contention that the developing of the land and its resources by individuals or corporations was fundamental reason for their respective troubles but neither in great numbers accepted his way out.

These conflicts in thinking and practice rather stimulated than arrested the consolidation of interests under strong centralized management which was the dominating trend of our economic life in 1878. In no other way Mr. Carnegie's Man, ~~the farmer and the laborer,~~ argued and the majority accepted could the peopling of the Nation be quickly accomplished and upon this peopling depended the development of resources, the continued growth in wealth which at the opening of our period so dazzled not only the United States but the world.

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