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CHAPTER I 11 pt. caps

THE ECONOMIC OUTLOOK IN 1878 11 pt. c+s.c., letter #

By 1878 the American people were feeling the full impact of the new forces which since the Civil War had been remaking their economic life. Within the memory of living man a strangely different America had taken form: an America which Lincoln would hardly have recognized and of which indeed he could scarcely have approved. To the generation which now came upon the scene fell the problem of mastering and guiding these mighty forces. The leaders of society, however, were not of one mind as to how this should be accomplished. Some saw only beneficence in a reign of untrammeled individualism with the ~~chief~~ real prizes going to the few. The major task, as they viewed it, was to press forward economic exploitation at an ever faster pace and without too nice a regard for human costs. Others were appalled at the passing of the older America with its assurance of generous opportunities for the common folk. They bent their energies to curbing concentrated capital and extending the benefits of the nation's wealth to the masses of the people.

This conflict of opinion had its unacknowledged philosophic basis in the challenge which socialism was throwing at the inherited frontier interpretations of individualism. In the twenty years ahead the conflict was to assume many forms

and to engage a variety of contending hosts: those who sought special privileges "for the good of business" and those who opposed all forms of privilege as contrary to a realization of the democratic dreams; ~~scheme;~~ those who fought governmental regulation as an interference with business and those who deemed it necessary for a healthful economic life; the ~~un~~protected manufacturers ~~farmers~~ and the unprotected farmers; ~~manufacturers;~~ organized capital and organized labor. Nor was the outcome conclusive so far as the central issue was concerned. The conflict, nevertheless, had a profound effect upon American economic life. In all fields of endeavor it forced organization on a nation-wide scale and left the country consolidated in vast economic units. Whatever this might portend for the future, the generation accomplished the Herculean task of forging a national economic order.

The wealth over which the contest was waged had grown in the twenty years before 1878 from a little over sixteen billion dollars to nearly forty-four billion.[1] This increase had come in spite of two major calamities: a Civil War which in 1865 had left prostrate eleven states of the Union; and a depression, beginning with the Panic of 1873, from which the nation was only just beginning to recover.[2] The primary

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[1] J. G. Blaine, Twenty Years of Congress (Norwich, Conn., 1884-1886), I, 617.

[2] See Allan Nevins, The Emergence of Modern America (A History of American Life, VIII), chaps. i, xi, xiii-xiv.

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sources of this rapid accumulation of wealth lay in the opening of great areas of grain-growing land in the region west and northwest of the Mississippi and in the discovery of vast mineral deposits -- gold, silver, copper, iron and 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, yielded manufactured products valued at $43,705,218.[1]

Quite as significant for the country's economic future was the demonstration that in electricity the world had a new and exhaustless source of light and power awaiting harness. Already it had been so effectively applied to 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 in the mid-seventies its uses in telephonic communication were beginning to be explored.[2] The nation's natural downy was resources were of such great extent that it was generally believed that only the first step in ~~their~~ its development had been taken.

The addition to American economic life of these new resources served as a tremendous challenge to the scientist,

[1] U. S. Compendium of the ~~Twelfth~~ Tenth Census ~~(1900), 1251.~~ (1880), pt. ii, 1253.

[2] Nevins, Emergence of Modern America, 86, 88-89.

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the engineer and the inventor. Instruction in science and technology had increased until in 1880 there were nearly four hundred and fifty colleges and schools offering courses in chemistry and physics, in metallurgy, mining and mechanical and electrical engineering. They were, for the most part, poorly endowed, the equipment generally home-made and the libraries small.[1] Yet out of the scientific departments 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. Though their initial impulse and primary instruction came from the schools, their future development was to come largely from self-directed and independent efforts.

The geographic distribution of the nation's wealth reflected the varied economic growth of the country. The five wealthiest states in the Union in 1860 were still the five wealthiest states in 1878. In order of their ranking they were New York, Pennsylvania, Ohio, Illinois and Massachusetts. The proportion of increase in each case approximately matched the national increase. Although the South had lost the place it had held in 1860, its recovery, despite its devastating economic and political experiences, was assured. If Virginia had lost to Iowa her position as the sixth richest state, Virginia was

[1] Blaine, Twenty Years of Congress, I, 642.

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reëstablishing herself. And 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~~ augmented national wealth was most striking. 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 territories believed, and believed rightly, that hardly a scratch had been made on the surface of its resources.[2]

Population had shifted with wealth -- men and families following rumors of new wheat and corn lands, new mines, new industries. The fifty million people in the land stirred restlessly under the bombardment of announcements of discoveries of natural resources, novel inventions, new ~~industrial~~ manufacturing and engineering undertakings. They made a mighty caravan moving westward and northwestward, to the cities and to the great open spaces, in whatever direction fresh sources of wealth beckoned. In the shifting masses of men and women there were two predominating types. Some went on a chance, hoping to "strike it rich," sell and move on to a new speculation. Others sought an

[1]Nevins, Emergence of Modern America, 1-30, 349-364.

[2]Blaine, Twenty Years of Congress, I, 616-618.

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opportunity to establish themselves permanently on farms, in businesses, trades or professions.

The extent of the natural wealth and of the opportunities for business ~~development~~ expansion opened the way for consolidations of brains, privilege and money which operated with the largest latitude. In no other manner 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, from men who saw more clearly than their fellows what could be done to meet the impatient demands of communities and nation. These men had not only personal ambition for wealth and power but also a genius for management on a large scale. They based their operations usually on exclusive privileges which competitors in the same field were unable to get. It had long been the practice of the government to make grants of one kind or another to encourage private economic undertakings. To this end tariff protection had been given to industrialists; large concessions of land with the mineral resources which might underlie them had been granted to builders of railroads; perpetual franchises and rights of way to builders of utilities. When the government conferred such privileges, the individuals so favored felt it their right to demand from those with whom they did business

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discriminatory treatment. Thus the big shipper demanded, and usually received, special rates on the railroads and privileged accommodations in cars, on docks and in markets.

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. In an earlier time individual savings had gone into the business or into land or farm mortgages near home, but now such forms of investment were giving way rapidly to the buying of stocks in railroads and telegraphs, in mining and industrial promotion. Money, in other words, no longer "stayed at home"; it was becoming as mobile as men, nationalizing itself. When the census of 1880 tabulated the location of property owned by inhabitants of different states, it found that citizens of New York had $1,300,000,000 invested outside of the state; residents of Pennsylvania $450,000,000. Half of the property of Nevada was owned in other states.[1]

The phenomenon of absentee landlordism was becoming more and more frequent. The resident manager of a mine or railroad or telegraph company did not necessarily represent local interests. He took orders from the great financial centers -- New York, Chicago or even London -- and these looked rather

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[1]Blaine, Twenty Years of Congress, I, 618.

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to returns on capital than to benefiting the locality. The character of management depended on whether its purpose was speculation or operation. That is, the great organizations which served the communities of the country were of the same two predominating types as the people who settled the communities.

Whatever the motives behind an enterprise, its management regarded it as a private business; and the larger it grew, the greater its wealth and power, the more solidly the owners resisted any attempt of the government to regulate its affairs. Thoughtful people recognized that the law had not kept up with the consolidation of finance and industry, and as the period opened there was a movement to reëstablish the authority of law in the field of business. To combat such tendencies the great corporations were annexing lawyers to their staffs. Where once the lawyer's chief interest outside of his profession had been office holding, now he extended his activities to embrace the strategy of Big 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. Alarmed by the growing concentration of wealth, they claimed that an equilibrium was necessary between agriculture and industry, between employer and employee, if there was to be a proper national economy.

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¶ Increasingly the beneficiaries of consolidation found themselves on the defensive. Few of them however, were articulate when it came to a philosophic or even an economic defense of their position. The readiest and the most persuasive was one of the greatest of them: Andrew Carnegie.

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 over three and a half million.[1] Scotch by birth, he had come to the United States at the age of seventeen, settling in Pittsburgh with his family in 1852. Beginning as a bobbin boy at $1.50 a week, he was eleven years later the assistant of Thomas Scott, superintendent of the western division of the Pennsylvania Railroad, at a salary of $2400 a year. More significant were the investments he had made by this time, which were netting him an income of $47,860.[2] His first venture had been ten shares of Adams Express stock which in 1863 paid him $1,440; his most successful an investment in the Columbia Oil Company, from which in 1863 he had received $17,868.

¶ He had already begun, however, to invest his savings ~~His most significant investments, however, were~~ in iron making, and in iron-bridge building, the importance of which he had learned while handling men and freight for the army. Carnegie

[1] U. S. Compendium of the Tenth Census ~~(1880)~~, pt. i, 625.

[2] B. J. Hendrick, The Life of Andrew Carnegie (Garden City, 1932), I, 120-124.

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steadily increased his iron holdings, but took no interest in steel until 1872 when he saw a Bessemer 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 Braddock's Field on the Monongahela River, calling it the Edgar Thomson Steel Works. Profits ~~were~~ soon became phenomenal. In 1877 the company earned forty-two per cent, paid partly in stock, partly in cash; and this 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 plus the brilliant showing of the census of 1880 led Carnegie to give the world his considered views of the economic and social progress of the United States. To him it was an attestation of triumphant democracy, and that title he gave to his analysis of the country's achievements. "The old nations of the earth creep on at a snail's pace;" he wrote, "the Republic thunders past with the rush of the express."[2] As a graphic foreword to the volume he printed a table prepared by Edward Atkinson, a statistical authority, demonstrating America's vast superiority in acreage over any and all countries of Europe. He exulted at the growing number of occupations,

[1] H. N. Casson, The Romance of Steel (N. Y., 1907), 91; J. H. Bridge, The Inside History of the Carnegie Steel Company (N. Y., 1903), chap. vi.

[2] Andrew Carnegie, Triumphant Democracy (N. Y., 1886), 1.

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the multiplication of schools, churches and libraries, the fact that while the United Kingdom had thirty-three paupers to every thousand persons, Italy forty-eight and Prussia fifty, the United States had but five, of whom more than a third were foreigners.[1]

Carnegie waxed most eloquent, however, in chronicling the country's industrial triumphs.
~~It was regarding the world of manufacturing that Carnegie naturally waxed most eloquent~~. There was no contesting the comparisons he drew between the United States and European nations. It was a splendid story of material progress which he unfolded, and in his mind it came from the superiority of democracy over monarchical forms of government. ~~in giving free opportunity to the individual over countries in which existed.~~ "Never will the British artisan rival the American until from his system are expelled the remains of serfdom and into his veins is instilled the pure blood of exalted manhood."[2] The consolidation of capital in the hands of a few strong men 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. The results were not only beneficial for the race but essential to its progress. Business on a grand scale required special talent for organization and management, and that talent was rare. He pointed out that

[1]Carnegie, Triumphant Democracy, 168-169.

[2]Carnegie, Triumphant Democracy, 238.

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business leaders were more concerned about securing the right men for high executive posts than in securing new capital. If the right men were obtained, they soon created capital; otherwise capital soon took wings.[1]

This was the philosophy which guided the efforts of the great captains of industry and finance. Though challenged with increasing frequency and vigor, it continued to be the dominant philosophy throughout the score of years. Some of these men were unscrupulous and corrupt, but most of them were sincere and, according to their ~~own~~ lights, upright and patriotic. They regarded themselves as pioneers in a new stage of America's ~~development~~ growth, carrying forward more effectively the old work of developing the country's natural resources, finding fresh avenues of power and achievement and enlarging the theater of the nation's activities.

1 Andrew Carnegie, "Wealth," North Am. Rev., CXLVIII (1889), 653-664.

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