SECTION 3

Big Business and Labor

MAIN IDEA

The expansion of industry resulted in the growth of big business and prompted laborers to form unions to better their lives.

WHY IT MATTERS NOW

Many of the strategies used today in industry and in the labor movement, such as consolidation and the strike, have their origins in the late 19th century.

Terms & Names

- Andrew Carnegie
- vertical and horizontal integration
- Social Darwinism
- John D. Rockefeller
- Sherman Antitrust Act
- Samuel Gompers
- American Federation of Labor (AFL)
- Eugene V. Debs
- Industrial Workers of the World (IWW)
- Mary Harris Jones

One American's Story

Born in Scotland to penniless parents, **Andrew Carnegie** came to this country in 1848, at age 12. Six years later, he worked his way up to become private secretary to the local superintendent of the Pennsylvania Railroad. One morning, Carnegie single-handedly relayed messages that unsnarled a tangle of freight and passenger trains. His boss, Thomas A. Scott, rewarded Carnegie by giving him a chance to buy stock. Carnegie's mother mortgaged the family home to make the purchase possible. Soon Carnegie received his first dividend.

▲ Nineteenth-century industrialist Andrew Carnegie gave money to build public libraries, hoping to help others write their own rags-to-riches stories.

A Personal Voice ANDREW CARNEGIE

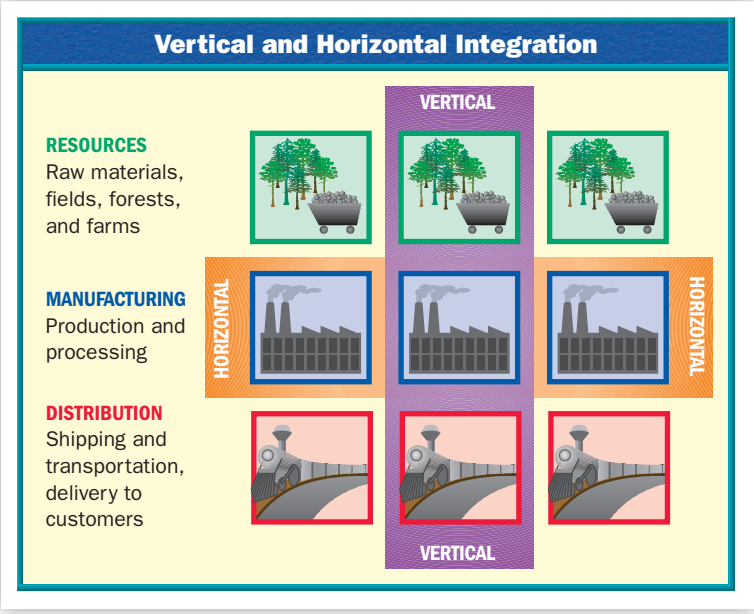
"One morning a white envelope was lying upon my desk, addressed in a big John Hancock hand, to 'Andrew Carnegie, Esquire.' . . . All it contained was a check for ten dollars upon the Gold Exchange Bank of New York. I shall remember that check as long as I live. . . . It gave me the first penny of revenue from capital—something that I had not worked for with the sweat of my brow. 'Eureka!' I cried. 'Here's the goose that lays the golden eggs.'"

—Autobiography of Andrew Carnegie

Andrew Carnegie was one of the first industrial moguls to make his own fortune. His rise from rags to riches, along with his passion for supporting charities, made him a model of the American success story.

Carnegie's Innovations

By 1865, Carnegie was so busy managing the money he had earned in dividends that he happily left his job at the Pennsylvania Railroad. He entered the steel business in 1873 after touring a British steel mill and witnessing the awesome spectacle of the Bessemer process in action. By 1899, the Carnegie Steel Company



manufactured more steel than all the factories in Great Britain.

NEW BUSINESS STRATEGIES Carnegie's success was due in part to management practices that he initiated and that soon became widespread. First, he continually searched for ways to make better products more cheaply. He incorporated new machinery and techniques, such as accounting systems that enabled him to track precise costs. Second, he attracted talented people by offering them stock in the company, and he encouraged competition among his assistants.

In addition to improving his own manufacturing operation, Carnegie attempted to control as much of the steel industry as he could. He did this mainly by **vertical integration,** a process in which he bought out his suppliers—coal fields and iron mines, ore freighters, and railroad lines—in order to control the raw materials and transportation systems. Carnegie also attempted to buy out competing steel producers. In this process, known as **horizontal integration,** companies producing similar products merge. Having gained control over his suppliers and having limited his competition, Carnegie controlled almost the entire steel industry. By the time he sold his business in 1901, Carnegie's companies produced by far the largest portion of the nation's steel. A

MAIN IDEA
Summarizing
A What were Andrew Carnegie's management and business strategies?

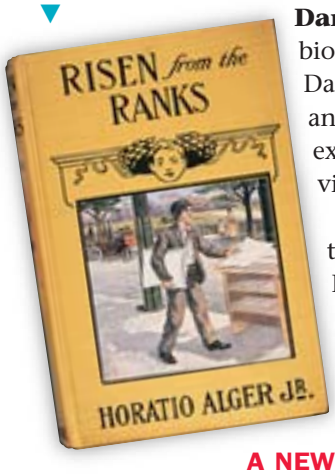
Social Darwinism and Business

Andrew Carnegie explained his extraordinary success by pointing to his hard work, shrewd investments, and innovative business practices. Late-19th-century social philosophers thought that Carnegie's achievement could be explained scientifically by a new theory—Social Darwinism.

PRINCIPLES OF SOCIAL DARWINISM The philosophy called **Social Darwinism** grew out of the English naturalist Charles Darwin's theory of biological evolution. In his book *On the Origin of Species*, published in 1859, Darwin described his observations that some individuals of a species flourish and pass their traits along to the next generation, while others do not. He explained that a process of "natural selection" weeded out less-suited individuals and enabled the best-adapted to survive.

The English philosopher Herbert Spencer used Darwin's biological theories to explain the evolution of human society. Soon, economists found in Social Darwinism a way to justify the doctrine of laissez faire (a French term meaning "allow to do"). According to this doctrine, the marketplace should not be regulated. William G. Sumner, a political science professor at Yale University, promoted the theory that success and failure in business were governed by natural law and that no one had the right to intervene.

Popular literature promoted the possibility of rags-to-riches success for anyone who was virtuous and hard-working.



A NEW DEFINITION OF SUCCESS The premise of the survival and success of the most capable naturally made sense to the 4,000 millionaires who had emerged since the Civil War. Because the theory supported the notion of individual responsibility and blame, it also appealed to the Protestant work ethic of

many Americans. According to Social Darwinism, riches were a sign of God's favor, and therefore the poor must be lazy or inferior people who deserved their lot in life.

Fewer Control More

Although some business owners endorsed the "natural law" in theory, in practice most entrepreneurs did everything they could to control the competition that threatened the growth of their business empires.

GROWTH AND CONSOLIDATION Many industrialists took the approach "If you can't beat 'em, join 'em." They often pursued horizontal integration in the form of mergers. A merger usually occurred when one corporation bought out the stock of another. A firm that bought out all its competitors could achieve a monopoly, or complete control over its industry's production, wages, and prices.

Background
See *monopoly* on page R43 in the Economics Handbook.

One way to create a monopoly was to set up a holding company, a corporation that did nothing but buy out the stock of other companies. Headed by banker J. P. Morgan, United States Steel was one of the most successful holding companies. In 1901, when it bought the largest manufacturer, Carnegie Steel, it became the world's largest business.

Corporations such as the Standard Oil Company, established by **John D. Rockefeller,** took a different approach to mergers: they joined with competing companies in trust agreements. Participants in a trust turned their stock over to a group of trustees—people who ran the separate companies as one large corporation. In return, the companies were entitled to dividends on profits earned by the trust. Trusts were not legal mergers, however. Rockefeller used a trust to gain total control of the oil industry in America. B

MAIN IDEA
Summarizing
B What strategies enabled big businesses to eliminate competition?

ROCKEFELLER AND THE "ROBBER BARONS" In 1870, Rockefeller's Standard Oil Company of Ohio processed two or three percent of the country's crude oil. Within a decade, it controlled 90 percent of the refining business. Rockefeller reaped huge profits by paying his employees extremely low wages and driving his competitors out of business by selling his oil at a lower price than it cost to produce it. Then, when he controlled the market, he hiked prices far above original levels.

Alarmed at the tactics of industrialists, critics began to call them robber barons. But industrialists were also philanthropists. Although Rockefeller kept most of his assets, he still gave away over $500 million, establishing the Rockefeller Foundation, providing funds to found the University of Chicago, and creating a medical institute that helped find a cure for yellow fever.

KEY PLAYER

JOHN D. ROCKEFELLER
1839–1937

At the height of John Davison Rockefeller's power, an associate noted that he "always sees a little farther than the rest of us—and then he sees around the corner."

Rockefeller's father was a flashy peddler of phony cancer cures with a unique approach to raising children. "I cheat my boys every chance I get. . . . I want to make 'em sharp," he boasted.

It seems that this approach succeeded with the oldest son, John D., who was sharp enough to land a job as an assistant bookkeeper at the age of 16. Rockefeller was very proud of his own son, who succeeded him in the family business. At the end of his life, Rockefeller referred not to his millions but to John D., Jr., as "my greatest fortune."

This 1900 cartoon, captioned "What a funny little government!" is a commentary on the power of the Standard Oil empire. John D. Rockefeller holds the White House in his hand.

Andrew Carnegie donated about 90 percent of the wealth he accumulated during his lifetime; his fortune still supports the arts and learning today. "It will be a great mistake for the community to shoot the millionaires," he said, "for they are the bees that make the most honey, and contribute most to the hive even after they have gorged themselves full." C

MAIN IDEA
Evaluating
C Do you agree with Carnegie's defense of millionaires? Why or why not?

SHERMAN ANTITRUST ACT Despite Carnegie's defense of millionaires, the government was concerned that expanding corporations would stifle free competition. In 1890, the **Sherman Antitrust Act** made it illegal to form a trust that interfered with free trade between states or with other countries.

Prosecuting companies under the Sherman act was not easy, however, because the act didn't clearly define terms such as *trust*. In addition, if firms such as Standard Oil felt pressure from the government, they simply reorganized into single corporations. The Supreme Court threw out seven of the eight cases the federal government brought against trusts. Eventually, the government stopped trying to enforce the Sherman act, and the consolidation of businesses continued.

BUSINESS BOOM BYPASSES THE SOUTH Industrial growth concentrated in the North, where natural and urban resources were plentiful. The South was still trying to recover from the Civil War, hindered by a lack of capital—money for investment. After the war, people were unwilling to invest in risky ventures. Northern businesses already owned 90 percent of the stock in the most profitable Southern enterprise, the railroads, thereby keeping the South in a stranglehold. The South remained mostly agricultural, with farmers at the mercy of railroad rates. Entrepreneurs suffered not only from excessive transportation costs, but also from high tariffs on raw materials and imported goods, and from a lack of skilled workers. The post-Reconstruction South seemed to have no way out of economic stagnation. However, growth in forestry and mining, and in the tobacco, furniture, and textile industries, offered hope. D

MAIN IDEA
Synthesizing
D How did economic factors limit industrialization in the South?

In this photograph, taken by Lewis Hine in 1912, a young sweatshop laborer in New York City carries piecework home.

Labor Unions Emerge

As business leaders merged and consolidated their forces, it seemed necessary for workers to do the same. Although Northern wages were generally higher than Southern wages, exploitation and unsafe working conditions drew workers together across regions in a nationwide labor movement. Laborers—skilled and unskilled, female and male, black and white—joined together in unions to try to improve their lot.

LONG HOURS AND DANGER One of the largest employers, the steel mills, often demanded a seven-day workweek. Seamstresses, like factory workers in most industries, worked 12 or more hours a day, six days a week. Employees were not entitled to vacation, sick leave, unemployment compensation, or reimbursement for injuries suffered on the job.

Yet injuries were common. In dirty, poorly ventilated factories, workers had to perform repetitive, mind-dulling tasks, sometimes with dangerous or faulty equipment. In 1882, an average of 675 laborers were killed in work-related accidents each week. In addition, wages were so low that most families could not survive unless everyone held a job. Between 1890 and 1910, for example, the number of women working for wages

doubled, from 4 million to more than 8 million. Twenty percent of the boys and 10 percent of the girls under age 15—some as young as five years old—also held full-time jobs. With little time or energy left for school, child laborers forfeited their futures to help their families make ends meet.

In sweatshops, or workshops in tenements rather than in factories, workers had little choice but to put up with the conditions. Sweatshop employment, which was tedious and required few skills, was often the only avenue open to women and children. Jacob Riis described the conditions faced by "sweaters."

A PERSONAL VOICE JACOB RIIS

"The bulk of the sweater's work is done in the tenements, which the law that regulates factory labor does not reach. . . . In [them] the child works unchallenged from the day he is old enough to pull a thread. There is no such thing as a dinner hour; men and women eat while they work, and the 'day' is lengthened at both ends far into the night."

—How the Other Half Lives

Not surprisingly, sweatshop jobs paid the lowest wages—often as little as 27 cents for a child's 14-hour day. In 1899, women earned an average of $267 a year, nearly half of men's average pay of $498. The very next year Andrew Carnegie made $23 million—with no income tax.

EARLY LABOR ORGANIZING Skilled workers had formed small, local unions since the late 1700s. The first large-scale national organization of laborers, the National Labor Union (NLU), was formed in 1866 by ironworker William H. Sylvis. The refusal of some NLU local chapters to admit African Americans led to the creation of the Colored National Labor Union (CNLU). Nevertheless, NLU membership grew to 640,000. In 1868, the NLU persuaded Congress to legalize an eight-hour day for government workers. E

NLU organizers concentrated on linking existing local unions. In 1869, Uriah Stephens focused his attention on individual workers and organized the Noble Order of the Knights of Labor. Its motto was "An injury to one is the concern of all." Membership in the Knights of Labor was officially open to all workers, regardless of race, gender, or degree of skill. Like the NLU, the Knights supported an eight-hour workday and advocated "equal pay for equal work" by men and women. They saw strikes, or refusals to work, as a last resort and instead advocated arbitration. At its height in 1886, the Knights of Labor had about 700,000 members. Although the Knights declined after the failure of a series of strikes, other unions continued to organize.

MAIN IDEA

Analyzing Issues

E How did industrial working conditions contribute to the growth of the labor movement?

Vocabulary

arbitration: a method of settling disputes in which both sides submit their differences to a mutually approved judge

Union Movements Diverge

As labor activism spread, it diversified. Two major types of unions made great gains under forceful leaders.

CRAFT UNIONISM One approach to the organization of labor was craft unionism, which included skilled workers from one or more trades. **Samuel Gompers** led the Cigar Makers' International Union to join with other craft unions in 1886. The **American Federation of Labor (AFL),**

HISTORICAL SPOTLIGHT

AFRICAN AMERICANS AND THE LABOR MOVEMENT

Angered by their exclusion from the NLU, African American laborers formed the Colored National Labor Union (CNLU) in 1869. Led by Isaac Meyers, a caulker from Baltimore, the CNLU emphasized cooperation between management and labor and the importance of political reform.

The CNLU disbanded in the early 1870s, but many African-American laborers found a home in the Knights of Labor, the first union to welcome blacks and whites alike. The Great Strike of 1877 brought whites and African Americans together, but the labor movement remained largely divided along racial lines.

Management often hired African Americans as strikebreakers, which intensified white unions' resistance to accepting blacks. African Americans continued to organize on their own, but discrimination and their small numbers relative to white unions hurt black unions' effectiveness.

In New York City's Union Square in 1914, IWW members protest violence against striking coal miners in Colorado.

with Gompers as its president, focused on collective bargaining, or negotiation between representatives of labor and management, to reach written agreements on wages, hours, and working conditions. Unlike the Knights of Labor, the AFL used strikes as a major tactic. Successful strikes helped the AFL win higher wages and shorter workweeks. Between 1890 and 1915, the average weekly wages in unionized industries rose from $17.50 to $24, and the average workweek fell from almost 54.5 hours to just under 49 hours.

INDUSTRIAL UNIONISM Some labor leaders felt that unions should include all laborers—skilled and unskilled—in a specific industry. This concept captured the imagination of **Eugene V. Debs,** who made the first major attempt to form such an industrial union—the American Railway Union (ARU). Most of the new union's members were unskilled and semiskilled laborers, but skilled engineers and firemen joined too. In 1894, the new union won a strike for higher wages. Within two months, its membership climbed to 150,000, dwarfing the 90,000 enrolled in the four skilled railroad brotherhoods. Though the ARU, like the Knights of Labor, never recovered after the failure of a major strike, it added to the momentum of union organizing. F

"The strike is the weapon of the oppressed."
EUGENE V. DEBS

MAIN IDEA

Contrasting
F How did craft unions and industrial unions differ?

Background
See *socialism* on page R44 in the Economics Handbook.

SOCIALISM AND THE IWW In an attempt to solve the problems faced by workers, Eugene Debs and some other labor activists eventually turned to socialism, an economic and political system based on government control of business and property and equal distribution of wealth. Socialism, carried to its extreme form—communism, as advocated by the German philosopher Karl Marx—would result in the overthrow of the capitalist system. Most socialists in late-19th-century America drew back from this goal, however, and worked within the labor movement to achieve better conditions for workers. In 1905, a group of radical unionists and socialists in Chicago organized the **Industrial Workers of the World (IWW),** or the Wobblies. Headed by William "Big Bill" Haywood, the Wobblies included miners, lumberers, and cannery and dock workers. Unlike the ARU, the IWW welcomed African Americans, but membership never topped 100,000. Its only major strike victory occurred in 1912. Yet the Wobblies, like other industrial unions, gave dignity and a sense of solidarity to unskilled workers.

OTHER LABOR ACTIVISM IN THE WEST In April 1903, about 1,000 Japanese and Mexican workers organized a successful strike in the sugar-beet fields of Ventura County, California. They formed the Sugar Beet and Farm Laborers' Union of Oxnard. In Wyoming, the State Federation of Labor supported a union of Chinese and Japanese miners who sought the same wages and treatment as other union miners. These small, independent unions increased both the overall strength of the labor movement and the tension between labor and management.

Strikes Turn Violent

Industry and government responded forcefully to union activity, which they saw as a threat to the entire capitalist system.

THE GREAT STRIKE OF 1877 In July 1877, workers for the Baltimore and Ohio Railroad (B&O) struck to protest their second wage cut in two months. The work stoppage spread to other lines. Most freight and even some passenger traffic, covering over 50,000 miles, was stopped for more than a week. After several state governors asked President Rutherford B. Hayes to intervene, saying that the strikers were impeding interstate commerce, federal troops ended the strike.

THE HAYMARKET AFFAIR Encouraged by the impact of the 1877 strike, labor leaders continued to press for change. On the evening of May 4, 1886, 3,000 people gathered at Chicago's Haymarket Square to protest police brutality—a striker had been killed and several had been wounded at the McCormick Harvester plant the day before. Rain began to fall at about 10 o'clock, and the crowd was dispersing when police arrived. Then someone tossed a bomb into the police line. Police fired on the workers; seven police officers and several workers died in the chaos that followed. No one ever learned who threw the bomb, but the three speakers at the demonstration and five other radicals were charged with inciting a riot. All eight were convicted; four were hanged and one committed suicide in prison. After Haymarket, the public began to turn against the labor movement. G

MAIN IDEA

Analyzing Causes

G How did the 1877 strike and Haymarket cause the public to resent the labor movement?

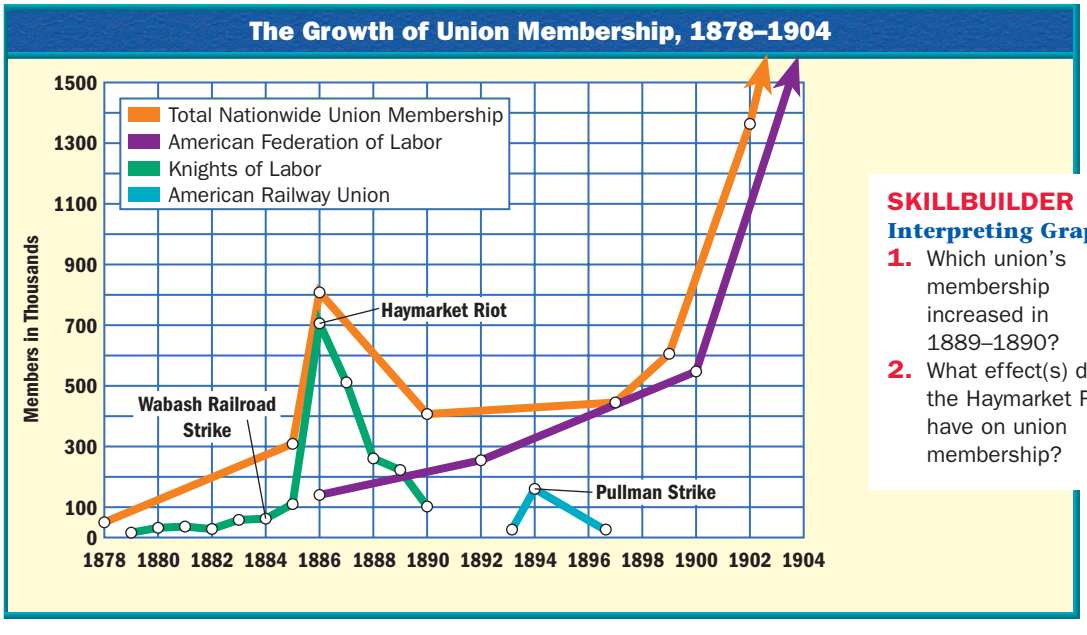
THE HOMESTEAD STRIKE Despite the violence and rising public anger, workers continued to strike. The writer Hamlin Garland described conditions at the Carnegie Steel Company's Homestead plant in Pennsylvania.

A PERSONAL VOICE HAMLIN GARLAND

"Everywhere . . . groups of pale, lean men slouched in faded garments, grimy with the soot and grease of the mills. . . . A roar as of a hundred lions, a thunder as of cannons, . . . jarring clang of falling iron. . . !"

—quoted in *McClure's Magazine*

The steelworkers finally called a strike on June 29, 1892, after the company president, Henry Clay Frick, announced his plan to cut wages. Frick hired armed



SKILLBUILDER

Interpreting Graphs

1. Which union's membership increased in 1889–1890?
2. What effect(s) did the Haymarket Riot have on union membership?

guards from the Pinkerton Detective Agency to protect the plant so that he could hire scabs, or strikebreakers, to keep it operating. In a pitched battle that left at least three detectives and nine workers dead, the steelworkers forced out the Pinkertons and kept the plant closed until the Pennsylvania National Guard arrived on July 12. The strike continued until November, but by then the union had lost much of its support and gave in to the company. It would take 45 years for steelworkers to mobilize once again.

THE PULLMAN COMPANY STRIKE Strikes continued in other industries, however. During the panic of 1893 and the economic depression that followed, the Pullman company laid off more than 3,000 of its 5,800 employees and cut the wages of the rest by 25 to 50 percent, without cutting the cost of its employee housing. After paying their rent, many workers took home less than $6 a week. A strike was called in the spring of 1894, when the economy improved and the Pullman company failed to restore wages or decrease rents. Eugene Debs asked for arbitration, but Pullman refused to negotiate with the strikers. So the ARU began boycotting Pullman trains.

After Pullman hired strikebreakers, the strike turned violent, and President Grover Cleveland sent in federal troops. In the bitter aftermath, Debs was jailed. Pullman fired most of the strikers, and the railroads blacklisted many others, so they could never again get railroad jobs.

KEY PLAYERS

EUGENE V. DEBS
1855–1926

Born in Indiana, Eugene V. Debs left home at the age of 14 to work for the railroads. In 1875 he helped organize a local lodge of the Brotherhood of Locomotive Firemen, and after attempts to unite the local railroad brotherhoods failed, Debs organized the American Railway Union.

While in prison following the Pullman strike in 1894, Debs read the works of Karl Marx and became increasingly disillusioned with capitalism. He became a spokesperson for the Socialist Party of America and was its candidate for president five times. In 1912, he won about 900,000 votes—an amazing 6 percent of the total.

MOTHER JONES
1830–1930

Mary Harris "Mother" Jones was a native of Ireland who immigrated to North America as a child. She became involved in the American labor movement after receiving assistance from the Knights of Labor. According to a reporter who followed "the mother of the laboring class" on her children's march in 1903, "She fights their battles with a Mother's Love." Jones continued fighting until her death at age 100.

Jones was definitely not the kind of woman admired by industrialists. "God almighty made women," she declared, "and the Rockefeller gang of thieves made ladies."

WOMEN ORGANIZE Although women were barred from many unions, they united behind powerful leaders to demand better working conditions, equal pay for equal work, and an end to child labor. Perhaps the most prominent organizer in the women's labor movement was **Mary Harris Jones.** Jones supported the Great Strike of 1877 and later organized for the United Mine Workers of America (UMW). She endured death threats and jail with the coal miners, who gave her the nickname Mother Jones. In 1903, to expose the cruelties of child labor, she led 80 mill children—many with hideous injuries—on a march to the home of President Theodore Roosevelt. Their crusade influenced the passage of child labor laws.

Other organizers also achieved significant gains for women. In 1909, Pauline Newman, just 16 years old, became the first female organizer of the International Ladies' Garment Workers' Union (ILGWU). A garment worker from the age of eight, Newman also supported

the "Uprising of the 20,000," a 1909 seamstresses' strike that won labor agreements and improved working conditions for some strikers.

The public could no longer ignore conditions in garment factories after a fire broke out at the Triangle Shirtwaist factory in New York City on March 25, 1911. The fire spread swiftly through the oil-soaked machines and piles of cloth, engulfing the eighth, ninth, and tenth floors. As workers attempted to flee, they discovered that the company had locked all but one of the exit doors to prevent theft. The unlocked door was blocked by fire. The factory had no sprinkler system, and the single fire escape collapsed almost immediately. In all, 146 women died; some were found huddled with their faces raised to a small window. Public outrage flared after a jury acquitted the factory owners of manslaughter. In response, the state of New York set up a task force to study factory working conditions. H

MAIN IDEA

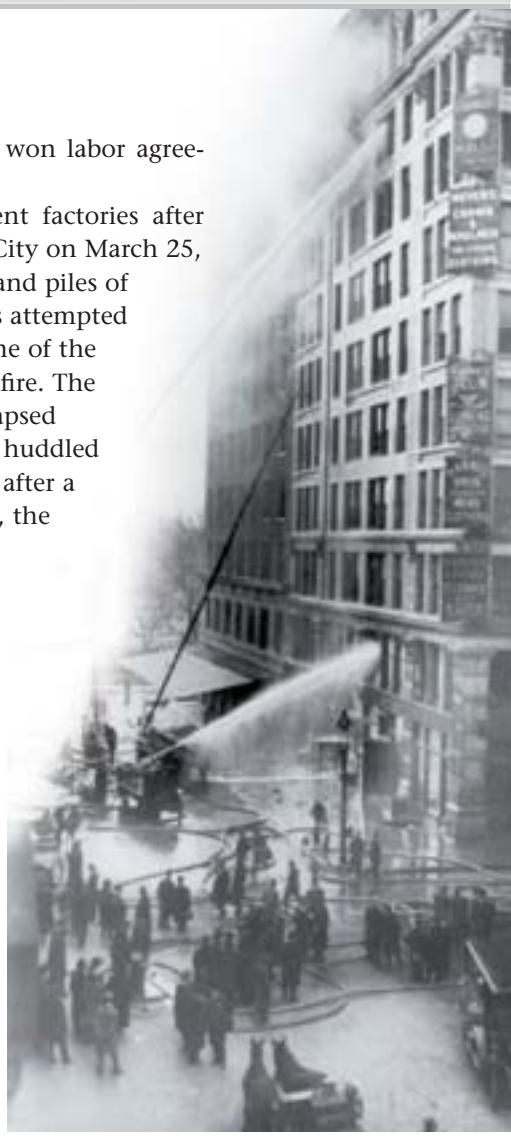
Summarizing

H What factors made the Triangle Shirtwaist fire so lethal?

MANAGEMENT AND GOVERNMENT PRESSURE UNIONS

The more powerful the unions became, the more employers came to fear them. Management refused to recognize unions as representatives of the workers. Many employers forbade union meetings, fired union members, and forced new employees to sign "yellow-dog contracts," swearing that they would not join a union.

Finally, industrial leaders, with the help of the courts, turned the Sherman Antitrust Act against labor. All a company had to do was say that a strike, picket line, or boycott would hurt interstate trade, and the state or federal government would issue an injunction against the labor action. Legal limitations made it more and more difficult for unions to be effective. Despite these pressures, workers—especially those in skilled jobs—continued to view unions as a powerful tool. By 1904, the AFL had about 1,700,000 members in its affiliated unions; by the eve of World War I, AFL membership would climb to over 2 million.



The fire department's ladders reached only to the sixth floor, two floors below the burning Triangle Shirtwaist Company.

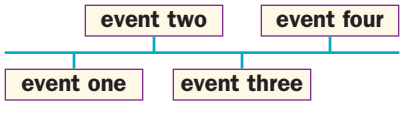
SECTION 3 ASSESSMENT

1. TERMS & NAMES For each term or name, write a sentence explaining its significance.

- Andrew Carnegie
- vertical and horizontal integration
- Social Darwinism
- John D. Rockefeller
- Sherman Antitrust Act
- Samuel Gompers
- American Federation of Labor (AFL)
- Eugene V. Debs
- Industrial Workers of the World (IWW)
- Mary Harris Jones

MAIN IDEA

2. TAKING NOTES
Make a time line of the notable achievements and setbacks of the labor movement between 1876 and 1911.



In what ways did strikes threaten industry?

CRITICAL THINKING

3. EVALUATING LEADERSHIP
Do you think that the tycoons of the late 19th century are best described as ruthless robber barons or as effective captains of industry?
Think About:
- their management tactics and business strategies
- their contributions to the economy
- their attitude toward competition

4. DRAWING CONCLUSIONS
Does the life of Andrew Carnegie support or counter the philosophy of Social Darwinism? Explain.

5. HYPOTHESIZING
If the government had supported unions instead of management in the late 19th century, how might the lives of workers have been different?