The Rise of Big Business

Between the Civil War and World War I, the modern American economy emerged. A national transportation and communication network was created, the **corporation** became the dominant form of business organization, and a managerial revolution transformed business operations. A corporation is a business owned by investors. A corporation sells stock or shares of the company to investors, who are known as stockholders. The corporation can use the money invested by stockholders to build a new factory or buy new machines. In return for their investment, stockholders hope to receive dividends or part of the corporation’s profits. To protect their investment, stockholders elect a board of directors to run the corporation. Stockholders face fewer risks than owners of private businesses do. If a private business goes bankrupt, the owner must pay all the debts of the business. By law, stockholders cannot be held responsible for a corporation's debts.

Why form corporations? How does being a corporation make the business bigger?

The era of Big Business began when entrepreneurs in search of profits consolidated their businesses into massive corporations, which were so large that they could force out competition and gain control of a market. Powerful tycoons formed giant **trusts** to **monopolize** the production of goods that were in high demand. Control of a market allowed a corporation to set prices for a product at whatever level it wanted. These corporations, and the businessmen who ran them, became exceedingly wealthy and powerful, often at the expense of many poor workers. Some of the most powerful corporations were John D. Rockefeller’s Standard Oil Company, Andrew Carnegie’s Carnegie Steel, Cornelius Vanderbilt’s New York Central Railroad System, and J.P. Morgan’s banking house. These corporations dominated almost all aspects of their respective industries: by 1879, for example, Rockefeller controlled 90 percent of the country’s oil refining capacity.

Why form a Trust or Monopoly? How did that make companies bigger?

There were two main tactics to gain control of a market. Andrew Carnegie built a giant steel empire using **vertical integration**, a business tactic that increased profits by eliminating middlemen from the production line. While Rockefeller gained control of the oil business through **horizontal integration**, a business tactic where one company controls all of the production of one specific product. Though industrialization caused many long-term positives, it did cause problems in the short-term. Rich business men who could afford new machinery grew even richer, while the poor were forced to move into urban areas as they could no longer compete.

What was the purpose of vertical and horizontal integration? How did it make companies big?