Big Business

Key Terms and People

laissez-faire Capitalism that allows companies to conduct business without government intervention

Social Darwinism Theory that taught only the strong survived

Andrew Carnegie Scottish immigrant who became a giant in the steel industry

vertical integration Process in which a company buys out its suppliers

horizontal integration Process in which companies producing similar products merge

J.P. Morgan Banker who made his money by taking over and merging other businesses

John D. Rockefeller Head of the Standard Oil Company

trust Group of businesses owned by competing companies that is controlled by a single group of trustees

monopoly Complete control over an industry's production, wages, and prices

Sherman Antitrust Act Made it illegal to form a trust that interfered with free trade

Before You Read

In the last lesson you read about the growth of the railroad industry in the United States. In this lesson you will read about the growth and power of big business in America.

As You Read

Use a chart to take notes on the causes and effects of business practices and government regulation.

A FAVORABLE CLIMATE

***How* did Social Darwinism justify the idea of laissez-faire capitalism?**

The late 1800s was perfect for people who wanted to build huge companies and gain great wealth. With free enterprise, individuals and private businesses ran most industries. By the late 1800s many business leaders followed **laissez-faire** capitalism. They did not want the government destroying their independence, reducing profits, or hurting the economy. They wanted the government to stay out of business.

Some business leaders believed in the theory of **Social Darwinism.** This theory, based on the ideas of biologist Charles Darwin, said that "*natural selection*" enabled the best-suited people to survive and succeed. Social Darwinism supported the ideas of competition, hard work, and responsibility. The wealthy found this theory sensible; however, others did not.

1. Why would business leaders favor laissez-faire capitalism and Social Darwinism?

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NEW BUSINESS STRATEGIES
How did entrepreneurs try to control competition?

Most entrepreneurs were willing to do whatever was necessary to gain control of their industry. **Andrew Carnegie** entered the steel industry in 1873, and by 1899 he was determined to control the entire steel industry. Through **vertical integration,** he bought companies that supplied his raw materials such as iron and coal, and railroads to transport the steel. He used **horizontal integration** by buying out or merging with other steel companies.

Some entrepreneurs tried to control competition. Banker **J.P. Morgan,** for example, did this by taking over and merging other people's businesses. He created companies that did nothing but buy out the stock of other companies. So he gained control of the railroad, steel, and farm equipment industries. Eventually, he merged the Carnegie Steel and other steel companies to form the United States Steel Corporation.

John D. Rockefeller had another approach to mergers. He formed **trusts** in which competing companies put control of their businesses under a single group of trustees. He used the Standard Oil trust to almost completely control the oil industry. Rockefeller's ruthless business practices earned him huge profits.

Carnegie, Morgan, and Rockefeller each created a **monopoly,** or complete control over their industry's production, wages, and prices. Consumers had fewer choices and were forced to pay whatever price stated for products. Workers had fewer choices, too. They were stuck with the wages companies offered because they could not easily find another job.

While Carnegie and other wealthy business owners made charitable contributions, some Americans thought of them as robber barons because they took advantage of workers and consumers.

2. What problems were caused by monopolies?

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GOVERNMENT AND BUSINESS
What was the purpose of the Sherman Antitrust Act?

As the power of giant corporations grew, the government became concerned that there was a lack of free competition. In 1890 the **Sherman Antitrust Act** made it illegal to form a trust and prohibited monopolies and other activities that prevented competition.

However, this was a difficult act to enforce. First, the definitions of a trust and monopoly were not clear. Second, large companies that were pressured by the government reorganized into a single corporation to avoid prosecution. Even the Supreme Court threw out cases the federal government brought against trusts.

While the North was experiencing industrial growth, the South was experiencing difficult times as it tried to recover from the Civil War. There was little money for investment. So the South stayed mainly agricultural.

Entrepreneurs there had to deal with high transportation costs, high tariffs, and lack of skilled workers. The business boom in the United States bypassed the South, which continued to suffer economic stagnation.

3. What made the Sherman Antitrust Act so ineffective?

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Answer the questions to identify causes and effects of business practices and government regulation.

Cause	**Effect**
1. Why were big businesses able to thrive during the late 1800s?	2. What were the effects of laissez-faire capitalism?
3. What did Andrew Carnegie want to gain control of?	4. How did Andrew Carnegie reach his goal?
5. Why was J.P. Morgan able to control his competition?	6. What was the result of his controlling the competition?
7. What was the purpose of trusts?	8. How did forming trusts help John D. Rockefeller?
9. Why did monopolies come about?	10. What problems did monopolies create?
11. Why did the government pass the Sherman Antitrust Act?	12. What were the results of the Sherman Antitrust Act?