The growth of big business in the United States and western Europe, 1850–1939

Prepared for the Economic History Society by

Christopher J. Schmitz
University of St Andrews

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Introduction

Few things epitomise economic change in the twentieth century world more than the rise and spread of giant business corporations. By the 1980s, organisations like General Motors, Royal Dutch-Shell and Siemens had grown to vast proportions, each employing hundreds of thousands of people around the globe and selling products valued in tens of billions of dollars a year. Yet, little more than a century earlier such leviathans of capitalism scarcely existed. During the 1850s and 1860s, modern forms of large-scale business enterprise had only emerged in a few limited areas, such as the railway industry. The next half century witnessed a business revolution, in which an ever-widening range of manufacturing, mining and service companies in the industrial economies adopted structural forms pioneered by the railways. By the 1930s the process was by no means complete, but the essential features of global big business had already taken shape.[1] An increasing part of economic transactions in the United States and western Europe was by then organised within integrated, multi-plant firms, engaged in a wide variety of activities, and commonly owning subsidiaries in a number of different countries. These enterprises were not just characterised by their scale of operations and huge work-forces. Unlike their counterparts of a century earlier, they were less frequently managed by their owners, but by a new class of salaried executives, organised in complex hierarchies of middle and upper management. Ownership in such firms was no longer commonly represented by intimate groups of entrepreneurs or family members, but by seemingly anonymous bodies of thousands of individual shareholders as well as large-scale institutional investors.

A pronounced example of this trend was the United States Steel Corporation, which in 1929 was one of the world's largest industrial companies, with gross assets of $2.3 billion, a quarter of a million employees and over 182,000 stockholders. The largest single stockholding represented less than 0.75 per cent of issued capital, while the entire board of directors only held 1.4 per cent (Berle and Means, 1932; *87*, *109*). In contrast, a century earlier, one of the largest industrial enterprises in Britain (and the world), the Cyfartha iron works in South Wales, had a capitalisation equivalent to around $2 million. It employed approximately 5000 men in 1830 and was closely owned and personally directed by a succession of members of the Crawshay family (Pollard, 1965; *22*, *77-8*).

There are two key problems in understanding the historical evolution of large-scale business organisations: how and why they developed in the first place, and what factors have placed an upper limit on their growth. These two lines of inquiry in turn beg a series of subsidiary questions. Why did the growth of big business occur at different speeds and take on distinctive forms in different societies? Why has big business developed to a greater extent in some industries rather than others? If there have been upper limits to the growth of firms, have these remained static over time or, as seems more likely, have these limits changed? In addition, there is the separate, but equally important, question of the welfare implications of the rise of big business.

The subject is complex and made more difficult by the different directions from which academic study has proceeded to examine it. For far too long, economic and business historians tended to concern themselves with describing the growth of individual firms or industries, without making much attempt to relate their findings to economic or managerial theory (Coleman, 1987; *151–2*). Meanwhile economists, sociologists and management scientists were generating an impressive but woefully fragmented collection of theories relevant to the growth of big business. As a recent survey suggests, 'since ideas on the economics of the firm have developed in a number of different directions, it is difficult to make general statements about their common attributes' (Clarke and McGuinness, 1987; *1*). It is also difficult to discuss big business in a value-free way. Few topics have aroused antagonism across such a broad political spectrum: from interwar fascists, who associated large corporations with an ill-defined 'conspiracy' of international finance; through the American liberal antitrust tradition; to Marxists, who regard big business as a devious regeneration of an ailing capitalist system.

Given these problems, one of the most influential research contributions in this area during the past quarter-century has been the work of the American historian Alfred D. Chandler. His books *Strategy and Structure* (1962), *The Visible Hand* (1977) and *Scale and Scope* (1990) have provided a series of invaluable generalisations about the rise of the modern large-scale business corporation in America and Europe. What can usefully be called 'the Chandler paradigm', is deceptively simple in concept but has powerfully influenced a generation of economists and business historians (Lee, 1990; *21–2*). This study follows recent trends in placing what Chandler has called the rise of 'managerial capitalism', particularly in manufacturing industry, at the heart of its discussion. However, it is important to set this in the context of growing reservations about many aspects of his schema, particularly when attempts are made to extend it beyond the specific cultural context of the United States (see pp. 71–2).[2] Large-scale enterprises in areas other than manufacturing, such as transportation, mining and banking, is also considered, although, as discussed later on, the forces leading to business concentration in these sectors often preceded, and were in some ways different to, those affecting manufacturing.

Two particular difficulties arise in explaining the historical development of big business: defining the terms under discussion and accommodating the diverse experience of corporate growth in different countries and different industries. This survey therefore starts with some definitions, and advances a number of generalisations about the features common to big business in different American and European industries; in particular, the vital role played by railway companies as pioneers of large-scale managerial enterprise. Discussion then turns to the key variations in the timing, degree and form of big business growth. These are of particular significance because much discussion of differing growth rates in the American and western European economies since the 1870s has turned on the structure and management of industry

(Landes, 1969; Elbaum and Lazonick, 1986). The major explanations for the rise of big business are then reviewed, before finally moving to a brief consideration of the welfare implications of the rise of the corporate economy in capitalist societies.