Understanding Economic Change in the Gilded Age

A n announcement that the Gilded-Age economy is on the agenda produces pained looks around the classroom. These signs of distress signal that the economic history of the late nineteenth century needs special handling. The first step in this task is to recognize the obstacles in teaching the subject. The chief impediments are the inherent complexities of economics, negative stereotypes about the Gilded Age, and the dual paths of economic change during the period. No single strategy can cut a smooth course through these brambles, but acknowledging their existence helps to avoid becoming entangled in them.

Economics frightens many students. Some aspects of the subject are difficult, it is true, but our contemporary culture adds to these complications. Today's teenagers grow up in an affluent society. Most college students and a large proportion of high school students come from middle-class backgrounds, where abundance, not scarcity, is their chief economic reference. The vast majority of young Americans do not earn their own living. Few know anything about budgets or accounting; still fewer have experienced the fear of bankruptcy. It's not that kids today are out of touch. They just have little personal basis for understanding the economic realities that faced adults in the Gilded Age.

My strategy for coping with these challenges begins with posing some simple questions. I start by asking how people earned a living in the period. Answers to this inquiry not only describe the contours of the workforce, but also prompt questions about the goods that workers produced. One can follow up the answers by discussing how these items were made. I encourage students to draw on their own experiences and use their imagination in these exercises. A question such as "how did a person get a pair of shoes before malls existed?" can get the ball rolling.

Profiling the workforce leads to questions about how much workers were paid and how they spent their earnings. At this point I introduce the concepts of standard of living and the distribution of wealth. Students tend to dichotomize Gilded-Age society into a few fabulously wealthy industrialists and a mass of impoverished workers—a distorted image probably due in part to the period's nickname. While students have a general sense that the United States is today among the richest nations in the world, few know that the standard of living improved substantially for many Americans during the Gilded Age. Nor are they usually aware that the United States out-produced all other nations on a per capita basis and in aggregate totals by the end of the nineteenth century (1).

Here I take a brief detour into an explanation of "real" per capita Gross National Product (GNP) and the relationship between productivity and incomes. To interject realism into this exercise, I review the volatility of the Gilded-Age economy, which slumped into depression in the 1870s and 1890s. Describing the rise in bankruptcies and the travails of unemployment during these "hard-times" dramatizes how individual fortunes became increasingly interconnected with the overall health of the economy in the industrial age.

The Gilded Age conjures up images of "robber barons," corrupt politicians, and laissez-faire government, and this is the second obstacle to learning Gilded-Age economics. The stereotypes contain elements of truth, of course. Bold entrepreneurs did accumulate great fortunes, and politicians did cooperate with businesspeople to block regulations. Yet historians can no longer let Charles Beard and Matthew Josephson monopolize the economic story of the era. Several generations of scholars have demonstrated that the plot was far more complex than these early "progressive" historians indicated. Nonetheless, the "robber barons" motif remains an entrenched stereotype about the period.

The third impediment to understanding the economic history of the Gilded Age lies in its dual paths of development. These twin strands of growth give instructors a lot of ground to cover. One
trajectory of change followed the settlement of agricultural land and the exploitation of natural resources, a story that is conventionally discussed as the "western movement." The other path of development headed toward industrialization, which advanced rapidly between 1865 and 1900. Although the United States had not become a mature, urban-industrial society by 1900, changes since the Civil War had fundamentally altered the nation's economy.

These dual paths of growth produced an economic expansion of extraordinary proportions. No other major industrial society matched the record of the United States in combining the scope of its development in agriculture and extractive resources on the one hand and its accelerated transition to an industrial base on the other. One way of helping students grasp the magnitude of this duality is to explore the growth of job opportunities. Thirteen million immigrants came to the United States between 1865 and 1899; another fourteen and a half million arrived during the next two decades. This massive relocation of people becomes easier to comprehend in light of the demand for labor generated by the simultaneous expansion of agriculture and industry. Simply put, America’s dual tracks of development spelled good paying jobs and numerous business opportunities, including the chance to own a farm.

A second way of underscoring the duality of America’s economic growth is comparison with other countries. Britain, Germany, and Japan—three leading industrial powers—did not undergo extensive agricultural settlement at the time of their industrial transitions. Other frontier societies, such as Australia, Canada, Argentina, and South Africa, opened new agricultural regions during the late nineteenth and early twentieth centuries, but their industrial sectors evolved later than that of the United States and never matched its scale. Britain, Germany, and Japan turned to foreign colonization, in part because of the scarcity of open spaces within their own borders. Although the United States joined the race for empire at the century’s end, America’s colonization occurred internally on lands already integrated into the nation.

America’s dual paths of development ranged over enormous territory. My classroom presentation of this story relies heavily on maps, tables, and biography. The search for resources after 1865 took Americans to every corner of the continent. Opportunists flocked to the Titusville oil region of Pennsylvania, the rich prairies of the northern Great Plains, the Mesabi iron range, the northwestern forests and piney woods of the Gulf coast, and the fertile valleys of California, Oregon, and Washington. Locating these places offers an opportunity to combat students’ geographic illiteracy. I use an overhead projector in class to locate resource sites, agricultural commodity belts, and industrial cities (2).

Maps show location and spatial relations but they don’t handle rates and aggregate totals very well. To convey this quantitative material, I rely on collections of printed data, such as Table 1. Line 1 of the table gives the number of farms and the amount of land in cultivation, both of which more than doubled between 1870 and 1900. The wheat harvest grew at an even greater clip. All three categories continued to expand between 1900 and 1920, albeit at a slower rate. I also use some tables that extend to 1990, in order to place the Gilded Age within the context of longer developments.

Teaching with quantitative data poses a special challenge, because many students are loath to confront facts expressed in numeric form. I don’t give in to this aversion. Numbers are as integral to economics as music is to ballet. My strategy is to keep the data displays simple, to explain the construction of each indicator, and to ask questions that emphasize the significance of each numeric story. Line 2 in Table 1 shows the size of the workforce, which doubled in the thirty years after 1870; manufacturing jobs grew even faster. This growth—plus new positions created in trade, services, and administration—proceeded at a fast pace, so that the agricultural workforce actually shrank proportionately between 1870 and 1920.

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<thead>
<tr>
<th>Table 1: Indicators of Economic Change, 1870-1920</th>
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<tr>
<td>1. Farms (millions)</td>
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<tr>
<td>Land in farms (million acres)</td>
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<td>Wheat grown (million bushels)</td>
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<td>2. Employment (millions)</td>
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<td>in manufacturing (millions)</td>
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<td>3. Percentage in Workforce</td>
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<tr>
<td>agricultural</td>
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<tr>
<td>industry</td>
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<tr>
<td>trade, service, administration</td>
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<td>4. Railroad track (thousands of miles)</td>
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<td>Steel produced (thousands of tons)</td>
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<td>5. GNP (billions of dollars)</td>
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<td>per capita (in 1958 dollars)</td>
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<td>6. Life expectancy at birth (years)</td>
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a. Includes manufacturing, transportation, mining, construction.
b. Includes trade, finance, public administration.

(see line 3), despite its absolute (numeric) growth. Railroad track mileage quintupled during the Gilded Age; steel production multiplied fourteen times (line 4). These gains underlay a surging GNP (listed on line 5). When translated into per person "constant" dollars (based on the purchasing power of a dollar in 1958), "real" economic growth doubled in the United States between 1870 and 1900.

Per person GNP provides a rough approximation of trends in income during the late nineteenth century, although these data do not speak directly to its distribution among groups. This macroeconomic evidence suggests that industrialization raised the standard of living for the majority of Americans. Line 6 of Table 1, which measures longevity, supports this likelihood. Life expectancy at birth lengthened significantly between 1870 and 1900 and registered a greater gain over the next twenty years, reflecting advances in the standard of living and investments in public health during the Gilded Age. Few students quarrel with the notion that living longer constituted progress (3).

Students invariably ask what caused incomes to grow. Industrialization, of course, is the primary reason, but this explanation raises as many questions as it answers. I define industrialization as the process of change whereby economic activity shifted away from localized harvesting and extracting activities and home manufactures, to a diversified network of commercial relationships in which integrated manufacturing processes, continuous technological innovation, and finance capitalism predominated. But this conceptualization remains a blurry abstraction unless it is anchored to specific features of economic change. My approach to industrialization highlights the role of six components: technology, railroads, corporations, finance capitalism, labor, and retailing. These attributes can be thought of as causes, but I avoid discussion of explicit models of growth in the classroom. Getting students to see that industrialization unfolded along several intersecting planes is useful in itself (4).

Technology is a good place to begin this exploration. In the automobile and television age, students intuitively grasp the significance of technical innovations. I work backwards from the artifacts of our own time, like the computer and walkman, to nineteenth-century forerunners, such as the typewriter, phonograph, and electrical lighting. From consumer items I shift attention to innovations in industrial materials (e.g., steel), sources of power (coal and steam, petroleum), and internal combustion engines. Showing tangible artifacts of industrialism is easier than depicting innovations in manufacturing processes, which probably explains why a picture of the Ford assembly line is a favorite with textbook authors. Less photogenic but no less important were advances in education and research (engineering schools and industrial labs, including publicly run agricultural experiment stations), and bureaucratic management (including accounting) (5).

Railroads are a recognizable symbol of industrialization. Students always volunteer that the railroads shortened trip time and made travel easier. They are less likely to know, however, that railroads lowered the cost of shipping freight. Carrying goods, not people, was the railroad's principal contribution to economic growth. This dichotomy in students' intuitive understanding of railroad economics probably derives from their personal experience driving a car but not running a transportation business (6).

Lowering the costs of shipping permitted a reduction in the prices customers paid for food and durable items. In forging connections between production and distribution, railroads accelerated the trend toward localized manufacturing of products for sale over wide areas. The evolution of national markets stimulated new levels of competition. Three facts symbolized the railroad's influence on the creation of national markets: the completion of the first transcontinental connection in 1869, the adoption of four standard time zones for the continental United States in 1883 (a cooperative railroad venture), and the agreement on the standardization of track width in 1886. The enactment of the Interstate Commerce Act in 1887 fits in nicely with this chronology. Although initially weak, the act was the first significant federal regulation of an industrial business.

Railroads were not only the nation's first big industrial business, but they also contributed to the popularity of corporate organization
among manufacturers. Because most large companies eventually incorporated matters such as limited liability, capitalization, and stock issues, hierarchical administrative organization and legal obligations imposed on corporations by their charters warrant explanation. The emergence of large-scale enterprises in the last decades of the 1800s is generally associated with legendary figures in American business history—Rockefeller, Carnegie, Edison, Swift, Duke, and others. Their rise to fame and fortune provides material for interesting stories, but historians should resist entrapment in the "robber baron" stereotype. Matthew Josephson's indictment of business ethics highlighted the weak regulations of the Gilded Age, but this critique of capitalism is one-sided and obscures other dimensions of corporate activity during the era (7).

John D. Rockefeller, the creator of Standard Oil, offers a case in point. The craze to profit from the oil in the Titusville region threatened to drown drillers and refiners in a sea of petroleum. Rockefeller understood the logic of rationing this production, as well as the importance of transportation to the business of processing and marketing a bulk commodity. Contemporary writers such as Henry Demarest Lloyd and Ida Tarbell pilloried Rockefeller for cutting special deals with railroads (rebates) and for pressuring competitors into selling out to highlight the weak regulations of the Gilded Age, but this critique of capitalism is one-sided and obscures other dimensions of corporate activity during the era (7).

Two aspects of the Rockefeller story offer a counterpoint to the robber baron critique. First, Rockefeller's personal life was a model of Victorian decorum: he did not smoke, drink, or flaunt his wealth. His life revolved around his family, the Baptist church, and philanthropic activities. Second, Standard Oil lowered the cost of kerosene and other products, at least until Rockefeller retired from active management of the corporation. Keeping prices low was a strategy to discourage the entrance of new competitors into the field. Few Americans complained about the falling price of oil or other products, but many hated Standard and monopolies. This distinction between the consumer ethos of the public and its distrust of big business is important to understanding economic life in the Gilded Age (9).

The captains of industry will continue to engender debate. But it is beyond doubt that corporations were engines of economic growth. Analyzing these organizations leads students to the unpredictable swings in the business cycle, which included two severe depressions during the Gilded Age. In addition to idling thousands of workers, these downturns pitted firm against firm in "merciless" competition. As demand fell, anxious managers scrambled to survive. One potential escape from ruin was through consolidation. Many railroads formed cartels in the wake of the depression of the 1870s. The contraction of the 1890s, which put a third of the railroads in bankruptcy, produced a wave of consolidations. A merger movement swept through the manufacturing sector between 1897 and 1904, creating corporate entities such as U.S. Steel, Goodyear, and Nabisco (10).

While many big corporations emerged during these years, small businesses outnumbered big business many times over and dominated some portions of the economy. Private bankers brokered many of the consolidations formed at the turn of the century. The contribution of investment bankers to capitalist development derived from the tremendous appetite of industrial businesses for funds used for expansion. This demand stimulated the evolution of the securities market, which dealt primarily with bonds during its formation period. The depression of the 1890s accelerated a trend toward greater issues of stock, a shift that paralleled the rise of large manufacturing corporations (11). Investment bankers underwrote the finances of many new corporate mergers, often by forming syndicates for the distribution of securities. The appearance of the Dow Jones average for industrial stocks in 1896 and the prominence of J. P. Morgan as the master impresario of corporate consolidations mark the emergence of a new stage of finance capitalism.

Some manufacturing firms hired thousands of workers. This demand for labor had an important impact on the nature of work, which became increasingly tied to wages and controlled by managers. Workers in the antebellum era retained considerable freedom on the shop floor and capitalized on their skills as artisans. The rise of the mass-production industries opened up opportunities for semiskilled and unskilled workers. Unlike more traditional business proprietors, who knew their employees personally and sometimes labored beside them, managers of large, mass-production firms saw labor as a commodity, in which costcutting and control of shop operations became dominant objectives (12).

Generalization about workers in the Gilded Age is complicated by their heterogeneity. Criss-crossing cleavages existed in skill levels and between small and large firms. Further segmentation resulted from differences among sectors of the economy and regions of the country. Race, ethnicity, and gender stratified all groups of workers. Still, several broad tendencies are apparent. Laboring ten to twelve hours a day with crude machinery, industrial workers suffered high rates of accidents. Moreover, employment was uncertain, as slack periods idled many workers even during prosperous years. Unions remained weak in the period compared to those in Europe, a subject that has attracted considerable scholarly discussion. Although laissez-faire attitudes constrained lawmakers from enacting much effective legislation for labor, officials usually came to the aid of business during labor disputes. The Cleveland administration's suppression of the Pullman Strike in 1894 represents a low point in Washington's insensitivity to the conditions of workers (13). Despite the mismatch in power between businesses and workers, wages doubled on average between 1870 and 1900.

The growing output of America's farms and factories induced producers and retailers to find new ways of marketing their goods. As experienced mall shoppers, students already know a lot about retailing by the time they take a history course. The hours spent in front of the television make them savvy to many of the techniques, if not all the functions, of advertisers, who took on new significance during the Gilded Age. Students will likely have had contact with modern-day incarnations of two retailing developments of the period,
mail-order companies and department stores. Examining the rise of Montgomery Ward and Sears, Roebuck affords an opportunity to discuss how the railroad, post office, and systematic management transformed shopping. The simultaneous growth of mail-order firms and the department store illustrates how the nation’s dual paths of economic development spawned new ways of selling to customers in rural and urban America. The Sears catalog and the grand emporiums that rose in the downtown areas showcased the mushrooming array of consumer goods. City shopping also opened up new opportunities for women, who dominated department store clientele and counter service (14).

Examination of the six attributes of industrialization discussed in this essay touches on fundamental components of economic change during the Gilded Age and opens up links to others. Exploration of these paths can be fun and fascinating.

Endnotes
14. On retailing, see Chandler, Visible Hand, ch. 7; Cronon, Nature’s Metropolis, ch. 7; and Gunther Barth, City People: The Rise of Modern City Culture in Nineteenth Century America (New York: Oxford University Press, 1980), ch. 4.