

Value Creation and Value Capture in American Business History

Daniel Raff

MGMT 225

JMHH 345

Mondays 3:00-5:40

Version of 090412

Introduction

This memorandum gives some basic information about MGMT 225 as it will go on in the Fall term of 2012 (2012C). The preliminary syllabus given below will be circulated in the opening class and its contents will be open for discussion there and via email over the following several days. A finalized syllabus will then be circulated to all enrolled students and posted on the course website.

This course concerns the evolution of the institutions of business. There will be some sidelong glances abroad, though these will be mostly in the beginning and at the end. In the main body of the course, focus will be on the American history. In this, there will be both big picture and (quite a lot of) industry and firm detail. The focus will be much more on actual business administration than on the great sweep of American economic development and its social context in the background. (For a highly complementary course focused on that, see Professor Licht's "Industrializing America" course in the History Department.) In terms of the functional courses in the Wharton core curriculum (accounting, finance, operations, marketing, etc.), the perspective of this course is fairly synthetic. It is about the operation of whole enterprises, then, now, and into the future. Wharton and other undergraduates contemplating work for consulting firms may find this useful background.

The course's most overt structure is chronological. That narrative starts in eighteenth-century Philadelphia and will run this year up through the current struggles between Amazon, Apple, and Google. The course's deeper preoccupations are how industries develop, how individual firms create, nurture, and sustain viable competitive positions, and how larger environmental changes affect these processes and activities. The historical episodes are chosen to be vivid and thought provoking; but the course as a whole is about far more than history.

I will inevitably have to lecture about some of the material; but as much as possible, I want to run the class sessions in discussion format. I am organizing readings I hope will support and facilitate this. My hope is that students in the course will play an active role in the classroom. It is much more fun for everyone that way.

The course will meet in a double session on Monday afternoons from 3 pm to 5:40 pm (or so sometimes, but even when running long ending comfortably before 6). We are currently scheduled to meet in Huntsman 345. The audience will be a mixture of undergraduates, MBA's, and in some semesters the occasional Law student. The readings are chosen, and the discussions

run, so as to maximize the likelihood that everyone will have a reasonable opportunity to contribute.

Readings, memoranda, and important announcements will be posted on a course webpage accessible to those registered for the course. There will be no readings assigned for either the first or the last session.

The formal requirements of the course are as follows. Students will be expected to (1) prepare all the assigned readings, (2) write one brief “thought paper” responding to some aspect of the readings each week, submitting it prior to class, (3) attend all classes, (4) participate in class discussion, and (5) write a term paper and submit it at the beginning of the final class. I give more detail on some of these below and will discuss all of these in the first class.

The basis for grade assignment will be a 35-65 weighted average of marks for class participation (which will be sensitive to the quality of the thought papers if they are out of the ordinary) and on the term paper. These scores will be ordered. Conditional on responsible preparation and attendance, individuals’ grades will be assigned on the basis of position in that order and the standard curve of the student’s home School at Penn (Wharton, SAS, Engineering, etc.). If any student’s home School has absolute rather than relative grading standards, as is the case for Wharton undergraduates, these will be honored. In the I hope unlikely event that an individual’s preparation or attendance seem less than responsible, the grade will be adjusted appropriately.

I do understand that emergencies do happen sometimes in life. I will make reasonable accommodation on preparation and attendance requirements for specific classes in specific cases. Please be in touch in advance via raff@wharton.upenn.edu.

“Thought papers” are 1-2 pp. (at the very most 3 pp.) essays responding analytically or critically to some element of the week’s reading. (Comparisons, contrasts, or other relationships between readings—either within one week or between weeks—are also fine. The main point of the exercise is just to work out some thinking about the readings in writing prior to class discussion.) These are to be submitted via the website prior to noon on the day of class.

Writing the thought papers may seem in the abstract like a burden. In many jobs into which Wharton (and, indeed, Penn B.A.) graduates move from here, however, the ability to write two-page analytical memo’s under heavy deadline pressure fluently and without much stress is extremely valuable. Neither our program (nor, in general, the American educational system) gives students much practice at this. It is a very useful skill.

The basic idea for the term paper is that it should be about a course-relevant topic of interest to you but pre-approved by me. The point of the pre-approval requirement is simply to warn you about topics that might look initially appealing but seem, on the basis of my prior experience, likely either not to have enough material to sustain a whole paper or to prove overwhelming once you get down to work. (I want writing the paper to be a good experience in its substance and a manageable one in terms of its time demands.) I have in mind papers roughly 20 pp. in length. I should perhaps say what “roughly” means. In the past, papers shorter than 15 pp. have pretty consistently not seemed to get to grips with their subjects. Papers longer than 25 pp. have

generally seemed unedited, though there have been some exceptions (the best of which I would have been happy to show to the Dean or, come to that, the Provost.) I will give more details about suitable topics and framing in the opening class and will post them in memo form on the course webpage.

I hope to organize a series of group lunch dates and would very much like to have lunch with everyone relatively early on.

If questions, remain in your mind after reading this memo, by all means email me at the address given above and ask.

DMGR

Preliminary Syllabus
(Version of 090412)

Week 1
(September 10) Introduction, administrative matters, and the long view
Main subjects: American history, American economic history, and American business history (in a little bit of cross-sectional perspective). The conventional narrative and the project of this course.
Assigned readings: None
In-class handout: Tables from Angus Maddison, *The World Economy: Historical Statistics*, Steven Broadberry, *The Productivity Race* and Market Services and the Productivity Race, and Robert Gordon, "Interpreting the 'One Big Wave' in U. S. Long-term Productivity Growth," "Two Centuries of Economic Growth: Europe Chasing the American Frontier," and "Is U.S. Economic Growth Over? Faltering Innovation Congronts the Six Headwinds"

NO CLASS ON SEPTEMBER 17 DUE TO THE RELIGIOUS HOLIDAY

Week 2
(September 24) Pre-industrial America
Main subjects: Place and population. Economic opportunities. Characteristic forms of trade and commercial organization. A group of economic ideas useful for understanding these.
Assigned readings: Michelle Craig MacDonald, "The Early American Economic Landscape". Franklin sale-of- printing-business contract (1748) [Look closely at the Ben-on-a-bench statue before reading this.] American Fur Company (i.e. Astor) *voyageur* contract (early 1800s). Weems-Carey correspondence (1796-1809).
In-class slide show: Colonial America and colonial and Federal

Philadelphia (social and economic aspects)

In-class handout: Correspondence and excerpt from Carey's autobiography on the standing-type Bible. Excerpts from the Philadelphia Cordwainer's Case if time permits.

Week 3
(October 1)

Industrial revolution(s) in textiles and the idea of a corporation
Main subjects: Further useful economic ideas. The New England industrialization in textiles in Rhode Island and Massachusetts from an entrepreneurial and managerial perspective. Philadelphia firm practice and trade organization story as an alternative approach.

Assigned readings: Samuel Slater contract with William Almy and Smith Brown (1790). An Act defining the General powers and Duties of Manufacturing Corporations (1809). An Act to incorporate the Boston Manufacturing Company (1813). Articles of Agreement between the Associates of the "Boston Manufacturing Company," previous to the Organization of the Corporation (1813). Nathan Appleton "The Introduction of the Power Loom, and the Origin of Lowell" memoir (1858).

In-class slide show: Textile technology, the New England landscape, the New England industrialization, and some human resources history of Lowell

In-class handouts: Table from Eric Hiltz, "When did Ownership separate from control". Various observations on the organization of the Philadelphia trade at mid-century sourced from Philip Scranton's *Proprietary Capitalism* on

Week 4
(October 8)

More on corporations and an encouraging glimpse at the railroads
Main subjects: Delaware goes whaling in its economic organization as a contrast to New England textiles. Development of a national transportation and communications infrastructure. The coming of the railroads. Federal assistance. The challenges of running one effectively.

Assigned readings: Whaling materials to be finalized. The Railroad and Homestead Acts of 1862. Albert Fink, "Classification of Operating Expenses" from the *Annual Report of the Louisville and Nashville Railroad* for 1874. Edgar Thompson, "Pennsylvania Railroad 1857 Report".

In-class slide shows: The coming of the railroads.

In-class handout: The Morrill Act of 1862 if time permits.

NO CLASS ON OCTOBER 22 DUE TO FALL BREAK

(Airplane reading or otherwise (colorful texts on the dark side of the coming of the railroads): Charles Francis Adams, "Some Chapters of Erie". Materials on the Union Pacific Railroad from Matthew Josephson, *The Robber Barons*.)

- Week 5
(October 29)
- Basics of the Second Industrial Revolution
Main subjects: The canonical Second Industrial Revolution in manufacturing (via Carnegie) and distribution (via Marshall Fields). How Mark Twain fits into the picture.
Assigned readings: Excerpts from Lewis Atherton materials on early CXIX country storekeeping. Articles from *Hunt's Merchants Magazine* on Philadelphia dry goods stores in the 1850s. Articles from Chicago newspapers and magazines on Marshall Fields ca. 1870 and 1900. Mark Twain correspondence concerning subscription publishing to be finalized.
In-class slide-show: Oil and Rockefeller (with a special guest appearance)
- Week 6
(November 5)
- The SIR inside the firm and inside industries
Main subjects: Significance of SIR for organization of production and workplace relations
Assigned readings: David Montgomery "The Foreman's Brains Are Under the Workman's Cap," from his *Fall of the House of Labor*. Congressional testimony from the hearings on the Homestead strike. Frederick Taylor excerpts from *Shop Management* (1903) and related sources.
Possible in-class videos: "Steel: From Start to Finish", "The River Ran Red"
- Week 7
(November 12)
- The SIR embedded
Main subjects: Legal and financial contexts (the latter including corporate bankruptcy in late nineteenth-century America). What became of the SIR.
Assigned readings: Legal documents organizing the Standard Oil Trust. Thomas Navin and Marian Sears, "The Rise of a Market for Industrial Securities 1887-1902". Excerpts from Louis Brandeis, *Other People's Money* (1914). Materials concerning the bankruptcy of the Charles Webster publishing firm.
In-class handouts: Excerpts from John Sherman's speech on the Senate floor and from the Sherman Anti-Trust Act of 1890. Statistics on the Great Merger Movement. Perhaps also excerpts from Northern Securities Co. v. U.S. Interlocking directorates exhibits from the Pujo Commission report.
- Week 8
(November 19)
- More of the same (SIR) or something different?
Main subjects: Alternative industrial models. The Ford Motor Company as a manufacturing enterprise.
Assigned readings: Statistics on the Great Merger Movement ? Excerpts from John Brown, *The Baldwin Locomotive Works, 1831-1914* and Thomas Kinney, *The Carriage Trade*. Selections from

the Sears Catalogue of 1904. Colvin, "Building an Automobile Every 40 Seconds".

In-class slide show: Making cars (and making men) at Ford

Week 9:
(December 3)

The Twenties as a time and the Thirties as an Evolutionary Event

Main subjects: Consolidation and innovation at the firm level in expansive times, the effects of shocks gross and subtle, and opportunities amidst the devastation

Assigned readings: Text of the announcement of the Five Dollar Day. Initial advertisement for the Book-of-the-Month Club (1926). Sumner Slichter, "The Current Labor Policies of American Industries," *Quarterly Journal of Economics* 43 (May 1929), and excerpts from John Kenneth Galbraith, *The Great Crash*.

In-class handouts: Tables and Figures from Timothy Bresnahan and Daniel Raff, "Intra-Industry Heterogeneity and the Great Depression" and Alexander Field, to be determined.

Week 10
(December 10)

The Long Boom, our subsequent troubles, and some overall perspective

Main subjects: Analytical narrative of the wartime mobilization, postwar Keynesian expansion, developing capabilities of the capital markets, evolution of the regulatory regime, our present troubles and prospects. The apparent modern history of innovation and the modern history of productivity growth. Relation to course themes and the current drama of Amazon, Apple, and Google.

Assigned readings: None (papers due at beginning of class)

In-class handouts: TBA

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