

Value Creation and Value Capture in American Business History

Daniel Raff

MGMT 714/225

Room tba

Tuesdays 3:00-5:40

Version of 112612

Introduction

This memorandum gives some basic information about MGMT 714 as it will go on in the Spring term of 2013 (2013A). The then-current 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 Tuesday 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 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

Value Creation and Value Capture in American Business History 2013A

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| Week 1
(January 15) | <p>Introduction, administrative matters, and the long view</p> <p>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.</p> <p>Assigned readings: None</p> <p>In-class handout: Tables from Angus Maddison, <i>The World Economy: Historical Statistics</i>, Steven Broadberry, <i>The Productivity Race</i> and <i>Market Services and the Productivity Race</i>, and Robert Gordon, “Interpreting the ‘One Big Wave’ in U. S. Long-term Productivity Growth” and “Two Centuries of Economic Growth: Europe Chasing the American Frontier”</p> |
| Week 2
(January 22) | <p>Pre-industrial America</p> <p>Main subjects: Place and population. Economic opportunities. Characteristic forms of trade and commercial organization. A group of economic ideas useful for understanding these.</p> <p>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) <i>voyageur</i> contract (early 1800s). Weems-Carey correspondence (1796-1809).</p> <p>In-class slide show: Colonial America and colonial and Federal Philadelphia (social and economic)</p> <p>In-class handout: Correspondence and excerpt from Carey’s</p> |

autobiography on the standing-type Bible. Excerpts from Commonwealth v. Pullis (the Philadelphia Cordwainers case) (1806) if time permits.

Week 3
(January 29)

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 pm the organization of the Philadelphia trade at mid-century sourced from Philip Scranton’s *Proprietary Capitalism* on

Week 4
(February 5)

More on corporations and Some (Good) on Railroads
Main subjects: Delaware goes Whaling. Development of a national transportation and communications infrastructure. The coming of the railroads. The challenges of running one effectively.

Assigned readings: Materials on Delaware Whaling and incorporation. Albert Fink, “Classification of Operating Expenses” from the *Annual Report of the Louisville and Nashville Railroad* for 1874. Edgar Thompson, “Pennsylvania Railroad 1857 Report”.

Assigned video: “Moby Dick” YouTubes tba.

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

Week 5
(February 12)

Railroad Shenanigans
Main subjects: How to think about term paper subjects. Fink carried over. The Erie wars. Building the Union Pacific Railroad. The received wisdom and the actual rise of Rockefeller. Rockefeller as a prototypical Robber Baron and his adventures with the muckrakers

Assigned readings: Contracts to establish the South Improvement

Company (1871-1872). Charles Francis Adams, “Some Chapters of Erie”. Materials on the Union Pacific Railroad from Matthew Josephson, *The Robber Barons*.

In-class handouts: Excerpts from Ida Tarbell, *History of the Standard Oil Company* (1904)

Week 6
(Feb 19)

Basics of the Second Industrial Revolution

Main subjects: The canonical Second Industrial Revolution in manufacturing (via Carnegie) and distribution (via Marshall Fields)

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.

In-class slide-show: Oil and Rockefeller in a second light

Week 7
(Feb 26)

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.

Assigned video: “Steel: From Start to Finish” YouTube video

In-class video: “Steel: From Start to Finish“, possibly also “The “River Ran Red”

SPRING VACATION

Week 8
(March 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).

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 9
(March 19)
- More of the same (SIR) or something different?
Main subjects: Alternative industrial models. The Ford Motor Company as a manufacturing enterprise. [The distribution enterprises of Sears and the Book-of-the-Month-Club.]
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 10
(March 26)
- Backwards and Forwards: The Debut of Technology (as we use the word)
Main subjects: Development of the telegraph and telephone industries. Implications of technology for competitive strategies. Monopoly and technological progress. The brief experiment in government control of industry.
Assigned readings: TBA but to include telegraph contracts and excerpts from Richard John, *Network Nation*. Alexander Hamilton, *Report on Manufactures* (1791). Excerpts from Paul Israel, *From Machine Shop to Industrial Laboratory* (1992). Naomi Lamoreaux and Kenneth Sokoloff, “The Market for Technology and the Organization of Invention in US History”? Patent Act of 1836? Excerpts from Brock, *The Telecommunications Industry*.
- Week 11
(April 2)
- The Twenties as a Time
Main subjects: Structural change in the economy. Change in available technology and infrastructure. Human resource management as industrial practice. Innovations in distribution. Boom times.
Assigned readings: TBA but to include, an unpublished essay of Paul David and Gavin Wright, excerpts from *Lochner v. New York*. and excerpts from Boris Emmet and John Jeukes, *Catalogues and Counters* (1950). 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(on the windup) from John Kenneth Galbraith, *The Great Crash*.

- Week 12
(April 9)
- Crashes, Contexts, and Creation both in the Large and in the Small
Main subjects: The Great Depression and contractionary dynamics.
The New Deal and Business. Origins of intellectual property in America, nineteenth-century markets in IP, and the industrialization of invention.
- Assigned readings: Further excerpts from Galbraith, *The Great Crash* (1955). Excerpts from Adolf Berle and Gardiner Means, *The Modern Corporation and Private Property*. Contemporary reports on the Flint Sit-Down Strike of 1936-37. LaFollette Committee affidavits including those of Victor Reuther and Genora Johnson.
- In-class handouts: Tables and Figures from Timothy Bresnahan and Daniel Raff, “Intra-Industry Heterogeneity and the Great Depression” and “Technological Heterogeneity”. Excerpts from 1938 Bankruptcy Act?
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- Week 13
(April 16)
- The Long Boom and immediately subsequent developments
Main subjects: The war as mobilization and as environment.
Labor relations post-war. The triumph of Keynesian and the fruits of a small import sector. The Conglomeration movement and the birth of a market for corporate control. Subsequent opportunities and who seized them.
- Assigned readings: TBA but to include the 1948 GM-UAW Master Contract. Klein (or Gladwell) on GM and health care. Possible excerpts from an early 1960s ITT 10-K. ALSO set up PH-S if not the next time????
- In-class handouts: Tables on the 80s from Bhagat, Schleifer, and Vishny and Kaplan and Stein.
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- Week 14
(April 23)
- Our subsequent troubles and some perspective
Main subjects: Main subjects: Troubles and opportunities in Distribution and manufacturing (industry focus on some subset of books, cars, pharma, and IT, institutional focus on vertical structure, IP), further post-war capital markets history to the 1990s.
- Assigned readings: None (papers due at beginning of class)
In-class handouts: TBA
Possible in-class presentation from Peter Hildick-Smith, Codex Group

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