

VALUE CREATION AND VALUE CAPTURE IN AMERICAN BUSINESS HISTORY
MGMT 714/225 2013C

Daniel Raff

Department of Management, The Wharton School

Tuesdays, 3:00 – 5:40

Huntsman F-70

The course and its organization

This memorandum gives some basic information about MGMT 714/225 as it will go on in the Fall term of 2013 (2012C). A tentative syllabus is presented below and will be circulated in the opening class. Its contents will be open for discussion in that class and via email through the several days following. A finalized syllabus will then be circulated to all enrolled students and posted on the course webpage.

The course will meet in a double-length block 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 F-70. As in most past years, undergraduates taking this course will meet jointly with MBA students and perhaps the occasional Law student as well.

Note that we will not meet on October 8 and will have a meeting (Huntsman F-70) on November 26.

This course concerns the evolution of the institutions of American business. There may be some sidelong glances abroad, though these would be mostly in the beginning and at the end. In the main body of the course, 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. 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. Anyone committed to a career in business but curious about history or curious about how developments in these aspects of business fit into the long sweep of American history may find this of interest. Those contemplating work for consulting firms, transactional work, or investing may also find this useful professional background. This is less because of the strictly historical aspect than because it is about embedded actors and entrepreneurs confronting changing conditions and emerging opportunity. The vividness of the stories entirely aside, there is a good deal of general utility to be learned by looking, reflecting, and absorbing.

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.

Readings, memoranda, and important announcements will be posted on a course webpage accessible to those registered for the course. There will be no required 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” (see below for details) each week prior to class, (3) attend all classes (see below for what this means), (4) participate actively in class discussion, and (5) write a term paper on a mutually acceptable subject (again, see below), due at the beginning of the final 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) 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, Law, etc.). If any student’s home School has absolute rather than relative grading standards (e.g. 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 welcome. The main point of the exercise is to systematically provoke thinking about the readings prior to class discussion.) These essays are to be submitted to me via email 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 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.

The syllabus proper

Value Creation and Value Capture in American Business History 2013C
Version of 080613

The following is a proposal, not a contract. There will be a final version after consultation with those attending the first class session on September 3rd.

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| <p>Week 1
(September 3)</p> | <p>Introduction, administrative matters, and the long view
Main subjects: American history, American economic history, and American business history (in the long view and in international perspective). The conventional narrative and the project of this course.
Assigned readings: None
Unrequired background reading for the curious: Daniel Raff, “How to Do Things with Time,” forthcoming; poster for Raff 2012 lecture series at LSE “The Open Ground between Business Strategy and Business History”
In-class handout: Tables from Angus Maddison, <i>The World Economy: Historical Statistics</i>, Steven Broadberry, <i>The Productivity Race and 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> |
| <p>Week 2
(September 10)</p> | <p>Pre-industrial America and conducting business in it
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) <i>voyageur</i> contract (early 1800s). Weems-Carey correspondence (1796-1809).
In-class slide show: Colonial America and colonial and Federal Philadelphia (social and economic)</p> |

In-class handout: Correspondence and excerpt from Carey's autobiography on the standing-type Bible. Excerpts from *Commonwealth v. Pullis* (the Philadelphia Cordwainers case) (1806) if time permits.

Week 3
(September 17)

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
(September 24)

More on corporations and some (the positive parts) 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. Edgar Thompson, "Pennsylvania Railroad 1857 Report". Albert Fink, "Classification of Operating Expenses" from the *Annual Report of the Louisville and Nashville Railroad* for 1874.

Assigned video: "Moby Dick" YouTubes tba.

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

Week 5
(October 1)

Railroad shenanigans

Main subjects: How to think about term paper subjects. Fink carried over if required. 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)

NB: NO CLASS ON OCTOBER 8

- Week 6
(October 15)
- The Second Industrial Revolution (SIR) as value creation and value capture
- 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
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- Week 7
(October 22)
- 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"
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- Week 8
(October 29)
- 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
(November 5)

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: 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 handouts: Statistics on the Great Merger Movement. Reading Alfred Sloan's mail.

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

Week 10
(November 12)

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*. Origins of intellectual property in America, nineteenth-century markets in IP, and the industrialization of invention.

Week 11
(November 19)

The Twenties as a time, again from the value creation and value capture perspectives

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*.

NOTE ANOMALOUS TIMING (RELATIVE TO THE SCHOOL SCHEDULE) OF WEEK 12 CLASS (PLEASE CONSULT WITH THE ISNTRUCTOR IF YOU HAVE A CONFLICT)

- Week 12
 (November 26)
- Crashes, contexts, and opportunities both in the large and in the small
 Main subjects: The Great Depression and contractionary dynamics. The New Deal and Business. Bleak times as good times for innovators (perhaps including a second look at Baldwin).
 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. <More on Baldwin?>
 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?
- Week 13
 (December 3)
- 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, who seized them, and the evolution of terms.
 Assigned readings: 1948 GM-UAW Master Contract. Articles from the Toledo newspapers and the national press on the new model welfare capitalism proposed by Toledo UAW Local 16 in the autumn of 1949. Possible excerpts from an early 1960s ITT 10-K.

In-class handouts: *Toledo Blade* Editorial “Will Mr. Gosser Wreck Toledo?” Excerpts from the 1950 GM contract. Tables on the 80s from Bhagat, Schleifer, and Vishny in *BPEA* and Kaplan and Stein in the *QJE*

Week 14
(December 10)

Our subsequent troubles, transformations of competition and value capture with the rise of technology industries, and some overarching 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 (unless Reading Steve Jobs’s mail) since papers due at beginning of class)

In-class handouts: TBA
