

VALUE CREATION AND VALUE CAPTURE IN AMERICAN BUSINESS HISTORY
MGMT 714/225 20115A

Daniel Raff
Department of Management, The Wharton School

Tuesdays, 3:00 – 5:40
Tentative venue : JMHH F50 (but confirm before the first class meeting!)

Version of 110314

The course and its organization

This memorandum gives some basic information about MGMT 714/225 as it will go on in the Spring term of 2015 (2015A). 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). As in most past years, undergraduates taking this course will meet jointly with MBA students and perhaps the occasional Law student or student from elsewhere in the University as well. All are welcome.

This course concerns the evolution of the institutions of American business. There will be some sidelong glances abroad, though these would be confined almost entirely to the beginning and the end of the term. 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 grand 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 arc 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 of the course than because it is about embedded actors and entrepreneurs confronting changing conditions and emerging opportunity. (Students reviewing the syllabus proper below will note that I try hard to use original source material when I can, on the principle that it puts readers closest to a participant's-eye view.) The vividness of the situations and 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, generally a week before the class in question. (I will send everyone an email once the registration list is in and the website up and accessible.) 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 provoke systematic thinking about the readings prior to class discussion.) These essays are to be submitted to me via the course webpage 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.

Entirely optional but perhaps useful sources for background on general US history

Students, especially non-US nationals, occasionally ask for a suggested background reading, perhaps for consumption in small installments, covering general US history. Actual course textbooks tend to be overwhelming in their size (they usually resemble cinderblocks) and detail. The Wikipedia article { which more resembles a telegram, or perhaps even a telegraphic version of a telegram) lies at the opposite extreme. (Which is not to say that it isn't useful as a kind of parachutist's view if ever you should want one.) In between you might look, if you were curious, for Paul S. Boyer, *American History: A Very Short Introduction* (Oxford: 2012), which I believe the Penn Book Center on 34th Street tries to keep in stock and is also of course available from www.oup.com directly or from Amazon, and, at greater length but with appealing curiosity and massive charm, Alistair Cooke, *Alistair Cooke's America* (Knopf, 1973, many times reprinted, also pb Basic Books, 2009), which you would probably need to buy used over the Internet (try www.abebooks.com if you do not have a preferred alternative). (Boyer is a history professor. Cooke was for nearly sixty years the BBC's American correspondent and may be more familiar as the initial presenter for Masterpiece Theater. [It would take a heart of stone not to add that he is the also only author referred to in this syllabus or course who has a Sesame Street character named after him.])

Daniel Boorstin—for many years a history professor and for twelve years the head of the Library of Congress—wrote a series of books under the general heading *The Americans* in three parts: *The Colonial Experience* (New York: Random House, 1958) *The National Experience* (New York: Random House, 1965), and *The Democratic Experience* (New York: Random House, 1973) that can also be recommended: none of the volumes is short but all are compulsively readable, vivid, and full of acute observations and general stimulus. (You will judge correctly from the continuing participation of Random House

in the project that the target audience was general readers and that the books sold very well indeed.) D.W. Meinig takes a different sort of perspective in his remarkable *The Shaping of America: A Geographical Perspective on 500 Years of History I. Atlantic America II. Continental America 1800-1867 III. Transcontinental America 1850-1915 IV. Global America 1915-2000* (New Haven: Yale University Press, 1986-2006). It's also worth a look if you should ever find yourself on the fifth floor of the library with a moment to spare.

John Gunther's *Inside U.S.A.* (New York: Harper, 1947) is an interesting more granular look at the nation—at a moment in time but with lots of sense of history. Neal Peirce and Michael Barone have various rather more recent books (each) which do a related but similar sort of thing with more quantitative evidence.

Digging more deeply

After each class, I will distribute reading suggestions for those who might want to probe more deeply into issues, institutions, or individuals related to the week's readings and discussions. But it's better to do this afterwards, so that everyone in the room on the day is operating with more or less the same information base. (For this reason, these references do not appear in the list that follows.)

(The syllabus proper starts on the next page of this document.)

The syllabus proper

Value Creation and Value Capture in American Business History 2015A
Version of 110314

The following is a proposal, not a contract. There will be a final version after consultation with those attending the first class session on January 20th.

- Week 1
(January 20)
- Introduction, administrative matters, the long view, and the top-down one
Main subjects: American history, American economic history, and American business history (in a little bit of cross-sectional perspective). The conventional narrative. “Theory” lurking behind business school competitive strategy courses. 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” and “Two Centuries of Economic Growth: Europe Chasing the American Frontier”
- Week 2
(January 27)
- 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)
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
(February 3)
- 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 10)

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 17)

Railroad shenanigans and shenanigans more broadly
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
(February 24)
- 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
(March 3)
- 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: NO CLASS ON MARCH 10

- Week 8
(March 17)
- The SIR embedded
Main subjects: Some political context for the developing regulation of competitive behavior. Legal and financial contexts for business development (including corporate bankruptcy in late nineteenth-century America, also developments in the legal status of corporations). 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 24)
- 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 31)
- Backwards and Forwards: Intellectual Property and the Debut of Technology (as we use the word)
Main subjects: Origins of intellectual property in America. Development of the telegraph and telephone industries. Implications of technology for competitive strategies. Nineteenth-century markets in IP. The industrialization of invention.
Assigned readings: TBA but to likely to include excerpts from Alexander Hamilton, *Report on Manufactures* (1791), the text of the Patent Act of 1836, and excerpts from Gerald Brock, *The Telecommunications Industry*, Richard John, *Network Nation*, and Paul Israel, *From Machine Shop to Industrial Laboratory* (1992).
- Week 11
(April 7)
- 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 (including in the financial services industries).
Assigned readings: TBA but to include Sumner Slichter, "The Current Labor Policies of American Industries," *Quarterly Journal of Economics* 43 (May 1929), and excerpts (on 1920s Wall Street) from John Kenneth Galbraith, *The Great Crash*.
In-class handouts from Paul David and Gavin Wright, "Early Twentieth Century Productivity Growth Dynamics: An Inquiry into the Economic History of ‘Our Ignorance’”, possibly others.
- Week 12
(April 14)
- Crashes, Contexts, and Creation both in the Large and in the Small
Main subjects: Changes in finance and firm-level organization and incentives. The Great Depression and contractionary dynamics. The New Deal and Business as a general matter.

Bleak times as good times for innovators.. Changed conditions on the labor management front.

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”, perhaps others.

Week 13
(April 21)

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. Evolution of manufacturing and competitive advantage in it. Evolution of the innovation system and what became of the rents.

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.

In-class handouts: Tables on the 80s from Bhagat, Schleifer, and Vishny and Kaplan and Stein, probably others.

Week 14
(April 28)

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