

VALUE CREATION AND VALUE CAPTURE IN AMERICAN BUSINESS HISTORY
MGMT 714/225
2020C

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Tuesdays, 3:00 – 5:40
Room: (This term online only)
Version of 20200806

The course and its organization

This memorandum gives some basic information about MGMT 714 and 225 as they will go on in the fall term of 2020 (2020C). 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). Versions of the course have in the past been offered to mixed audiences of undergraduates and MBA's and this will be the format for again 2020A. The two groups seem to mix reasonably easily. Sometimes the mixing is quite productive.

The course seems to work best when we gather in a room together; but discussions remained reasonably lively when all courses went online in the springtime of 2020 due to the coronavirus. (We had to get used to the software and to using it rather than in effect being used by it; but the point is that this was feasible and it all seems to have worked out reasonably satisfactorily in the end. All it took was some commitment. But we at Wharton are well capable of that.)

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 the changing 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 those particular aspects of business fit into the long arc of American history may find the course of interest. Those contemplating work for consulting firms, transaction-oriented businesses

(investment banking, venture capital, private equity, etc.), or more traditional investment businesses may also find it useful professional background. This is less because of the strictly historical aspect than because the course is at its heart 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 had by looking, reflecting, and absorbing. It may be worth adding that past students report finding that there is a great deal of utility in the value creation and value capture perspective. One of this year's revisions of the course materials has involved expanding the (extensive) study questions to provoke more systematic student reflection along those lines.

The course could be thought of as proceeding in six basic pieces. First comes an introduction to the subject matter, themes and tools. We then begin to proceed at once chronologically and thematically. The first (and brief) substantive section is a curtain-raiser: it exposes, so to speak, the pre-history, a glimpse at the American economy prior to the industrial revolution. We then spend three classes on the emergence of an industrial economy as this first materialized. A longer third substantive section concerns the so-called Second Industrial Revolution. (You might think of this as the golden days for both the economy overall and for at least some of the businesses comprising it as well.) This takes us up through the post-WWII years into the 1960s. We then proceed to a section you might think of thematically as "What could possibly go wrong?" A short section on thinking about firms and their strategies in a positive way will conclude.

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 which 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. I am hopeful that we will have a number of students such that this fully engaged mode will be easy. The Covid crisis and having to run the course online this term will be unhelpful. But as I noted above, the students in the springtime did remarkably well in keeping the discussion quality up in the online part of that term and I am hopeful we will be able to do that in this term as well. I will speak about this a little in the opening class and perhaps also in an email just before that sent to everyone who is enrolled at that point.

Readings, memoranda, and important announcements will be posted on a Canvas course webpage accessible to those registered for the course, generally a week before the class in question—in particular, Tuesday evenings at 9 pm. (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.

In support of enabling lively discussion, I have decided that I should make very much more time available for out-of-class one-on-one discussion than has been standard at Wharton. My provisional plan is as follows. (I will be happy to revise it if experience suggests modification.) Students usually seem to do the readings each week during the

Friday-through-Sunday period. I will be happy to set up calls in response to email requests over the weekend when feasible. (That shouldn't be any great problem since for obvious reasons I am not going anywhere.) But be that as it may, I will be available on reasonable notice via email for discussion of readings, writing issues, general course issues, and any other matters arising all day on Mondays into the early evening and all morning on Tuesdays. Absolutely please set up a call if it might help you make sense of the upcoming class's material or how it fits in with material we have previously read or developed in class sessions. Over and above that, at least in the beginning weeks, I think it might be a good idea if everyone would set up a meeting at least once every two or three weeks. We can talk about the course and also get to know one another a little. It might seem a small gesture; but in the weirdly distanced environment in which the University will be operating this term, I think it might be a good idea. So let's try it out and see how it goes.

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. The usual curve for MBA courses will be in force if the School insists and not otherwise. If there is no curve for MBA students, then MBA's and undergraduates alike will be graded strictly on the merits. In the event—I hope an unlikely one—that an individual's preparation or attendance seem less than responsible, the grade will be adjusted appropriately.

I do understand that emergencies 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 by the end of your work day on Monday (which I appreciate may be in the small hours of Tuesday morning). Please note that I will begin reviewing them when I get up (early) on the Tuesday morning.

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 a two-page max analytical memo 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 detail about suitable topics and framing in the opening class and will circulate a memo, which we will discuss in class in Week 5, once the course is under way and students have some experience with its perspective.

The University academic integrity rules (see <http://www.upenn.edu/academicintegrity/> -- after reading that, follow the “Acknowledge your sources” embedded link) will of course apply for all written work. Please also note the “Electronics in the Classroom Policy” text at <https://mba-inside.wharton.upenn.edu/wharton-mba-academic-policies/>. (This text definitely means no open phones other than by pre-arrangement in emergency situations. In this particular course, many people will want to be able to consult the readings electronically while we discuss them and that is fine. But the linked policy is clear that there is to be no use of electronics during class for non-educational purposes and I will expect you to honor this.)

I had hoped to organize a series of group lunch dates and very much wanted to have lunch with everyone relatively early on. That will clearly not be possible given the Covid situation. But perhaps, as suggested above, we can take advantage of the plentiful “office hours” time to talk a bit one-on-one and get to know one another a bit more than usually happens in that setting.

If questions, remain in your mind after reading this memo, by all means please 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 at the University of Chicago 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 enthusiastically 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). These are 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 each have various rather more recent books which do a related but similar sort of thing with more quantitative evidence.

Digging more deeply

After each class, I will distribute, if desired, 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

Value Creation and Value Capture in American Business History
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 2020C
 Venue TBA
 Version of 20200806

The following is a proposal, not a contract. There may well be revisions prior to the beginning of term. (In particular, depending on how my August goes, I may want to have a class on October 13th after all so please don't schedule anything for that date yet despite the below.) Please email the instructor if you want to see the most recent version. There will be a final version after consultation with those attending the opening class session (September 1). Study questions will be available with the readings on the course website, week by week, Tuesdays at 9 pm beginning on September 1.

- Week 1
 (September 1)
- Introduction, administrative matters, the long view, the top-down one, and what the top-down one misses
 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
 (September 8)
- 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). Excerpts from *Commonwealth v. Pullis* (the Philadelphia Cordwainers case) (1806).
 In-class slide show: Colonial America and colonial and Federal

Philadelphia (social and economic)

In-class handout: Correspondence and excerpt from Carey's Autobiography, mainly on the standing-type Bible.

Week 3
(September 15)

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*. [If you should go to the flicks at the Ritz at the Bourse the weekend before, pause to eyeball the Bourse building across the street before or after going in.]

Week 4
(September 22)

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". [Should you pass through 30th Street Station before this class, take a moment to look at the sculptural panels in the large foyer to the north of the lobby (on the way, e.g. to the bathrooms).]

Assigned video: "Moby Dick" YouTubes. (see Study Questions).

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

- Week 5
(September 29)
- Railroad shenanigans and shenanigans more broadly
Main subjects: How to think about term paper subjects.
Fink carried over if necessary. 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). Excerpts from Ida Tarbell, *History of the Standard Oil Company* (1904) and perhaps also from Henry Demarest Lloyd, *Wealth Against Commonwealth* (1894). Charles Francis Adams, “Some Chapters of Erie”. Materials on the Union Pacific Railroad from Matthew Josephson, *The Robber Barons*.
In-class handouts: Further (much briefer) excerpts from Ida Tarbell, *History of the Standard Oil Company* (1904)
- Week 6
(October 6)
- 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
- NB: No class on October 13**
- Week 7
(October 20)
- 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: Possibly “The “River Ran Red”
- Week 8
(October 27)
- 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 and

some brief consideration of the forms of innovation and the sources of consequent productivity growth.

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). Possibly also an excerpt from Frederick Dalzell, *Engineering Invention: Frank J. Sprague and the U.S. Electrical Industry* (2010).

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 3)

More of the same (SIR) or something different?

Main subjects: Alternative industrial models. The Ford Motor Company as a manufacturing enterprise.

Assigned readings: Excerpts from John Brown, *The Baldwin Locomotive Works, 1831-1914* and Thomas Kinney, *The Carriage Trade*. Colvin, "Building an Automobile Every 40 Seconds"

In-class handouts: Statistics on the Great Merger Movement. The original ASCAP contract (with a Broadway restaurant in New York), the 1932 ASCAP contract with the NBC radio network, and Spotify's press release concerning Taylor Swift.

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

Week 10
(November 10)

The Twenties as a Time

Main subjects: Brief consideration of the 1918 flu epidemic as a firm-level disruption. Longer-term perspective on 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: Sumner Slichter, "The Current Labor Policies of American Industries," *Quarterly Journal of Economics* 43 (May 1929). Robert E. Wood, "[The] Past, Present, and Future of the Mail Order Business" memorandum. Milton J. Blair "Where Do the Best Customers Live?" Curtis Publishing Company memorandum [scan, do not read cover-to-cover]. Excerpts from the 1926 Sears Catalogue. Initial Book-of-the-Month Club advertisement. 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 11
(November 17)

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, contractionary dynamics, and contractions as potential evolutionary events. (In this light, the influenza epidemic of 1918 and the coronavirus epidemic of 2020.) 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*. Excerpt from Alexander Field, *A Great Leap Forward*. 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" (*Journal of Economic History* (1992)) and "Technological Heterogeneity" ms., perhaps others.

NB: No class on November 24 (which the Provost has declared to be a Thursday for course scheduling purposes)

Week 12
(December 1)

The Long Boom and some immediately subsequent developments (the latter in the vein of "What Could Possibly Go Wrong?")

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 how that went wrong. Other things that could and sometimes did go wrong as well.

Assigned readings: TBA but probably to include excerpts from Lichtenstein, *Labor's War at Home*, and Wilson, *Destructive Creation*, also the 1948 GM-UAW Master Contract and an article on the Toledo plan from *Fortune*, perhaps a little local newspaper coverage as well. Possibly

also brief background materials tba on the history of RCA.
(Or perhaps, time permitting, I will just lecture these in.)

In-class handouts: Tables on the 80s from Bhagat, Schleifer, and Vishny (*Brookings Papers: Microeconomics* (1990)) and Kaplan and Stein (*Quarterly Journal of Economics* (1993)), possibly others.

Week 13
(December 8)

Further on finance, innovation, and anti-trust and a wrap-up
Main subjects: Loose ends from the previous session if any. The birth of venture capital and Silicon Valley (and tech more broadly) as we know it, Evolution of the innovation system and what became of the rents. Anti-trust in the digital age.
Assigned readings: None. (You'll have been finishing your term paper. Let's be realistic.)
For fun readings (if and only if you have the time): Excerpts from the Congressional debates on the Sherman and Clayton Anti-Trust Acts. Amazon 1997 letter to shareholders. Excerpts from the Amazon, Apple, Facebook, and Google documents in evidence for the House Judiciary Committee on "Online Platforms and Market Power" of July 29, 2020.
NB: Term paper due in class as of the beginning of class.
