By 1900, the US had become the largest industrial producer in the world, and the largest exporter of agricultural goods. Fundamental to both was the creation of a national rail system. It enabled farmers in the Midwest to reach a global market, ranchers in the Southwest to ship their cattle to Chicago and other packing centers, meat packers in Chicago to compete in eastern cities. It enabled Andrew Carnegie to integrate his steel company vertically by linking his mines in Michigan’s Iron Range and his coal fields in Kentucky with his steel manufacturing plants in Pittsburgh. Financial networks emerged as well and, with them, business civilization that exalted the role of the entrepreneur.

**WATERED STOCK:** Financing railroads and other projects that take years to complete and therefore years to return a profit on investment was a crucial problem. Governments, at all levels, frequently subsidized construction. Typically, this took the form of land grants, and the lines used the proceeds from land sales to finance operations. There was another commonly practiced method of raising the needed capital. This was the issuing of watered stock. A company watered its stock by issuing shares far in excess of the real value of its assets. It used these surplus funds to pay interest and dividends. In this way a railroad could begin paying interest on its bonds long before a single car moved over its rails. The over-capitalization made it very difficult for companies to turn a profit. A 6% return on its real assets would amount to only 3% on its stock and bond issues (assuming they had “watered” their stock at double its value). So holders of common stock rarely made much money on their investment. The real profits went to those insiders who did the watering. It was this type of activity which revealed the anarchic state of Wall Street after the Civil War and emphasized the public’s helplessness in the face of business predators.

**LAISSEZ-FAIRE:** Businessmen often made extravagant claims for the benefits of free competition. Yet many, through trusts, cartels, pools or holding companies, did everything in their power to reduce or eliminate it altogether. Why? And why did they continue to proclaim its advantages even as they struggled to put an end to it?

**THE RETAILING REVOLUTION:** A number of development provided for the rise of huge retailing operations like Macy’s and Sears, Roebuck. The growth of the national rail system, improvements in postal delivery and the discovery of processes for making steel cheaply---which made the large department store possible---all contributed to a revolution in retailing. These changes in the marketing of consumer goods had profound consequences beyond their crushing effect on small retailers.

Technical innovations in the textile and shoemaking industries in the 1840s-50s led the way toward the mass production of consumer goods. Then the Civil War accelerated the process. Then, improved rail and postal services along with the new print technologies that permitted the mail order catalogs to be mass produced cheaply, made it possible to market the standardized products nationwide. The result was a series of sweeping changes not only in the ways people dressed but also in their aspirations. Wards and Sears, Roebuck gave farmers and blue-collar workers the means to dress like the middle classes and to dream of possessing the same creature comforts. The resulting homogenization of
American life has been hailed as a victory for democracy and bemoaned as a critical stage in the creation of mass culture---but either way---something very significant happened. Class, ethnic and religious differences were becoming invisible in an important way as all segments of the society came to participate in a single material culture.

**PROBLEMS OF FREE MARKETS**

1. **ABUSE OF PROPERTY RIGHTS:**
   - child labor
   - environmental pollution
   - public health
   - hours and conditions of work

2. **CASUALTIES OF INDUSTRIALISM**
   - aged
   - unemployed
   - displaced
   - uneducated-unskilled

3. **CYCLICAL FLUCTUATION**
   - inflation
   - stagnation
   - boom and bust

4. **CONCENTRATION OF CAPITAL**
   - monopoly
   - oligopoly
   - political corruption