David George Surdam

Business Ethics from the 19th Century to Today

An Economist's View

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Introduction

By 1800, people across the world gained familiarity with impersonal trade with people in far-away places. Consumers found themselves interacting with strangers on a scale not experienced since, perhaps, the peak of the Roman Empire. Europeans, in particular, enjoyed goods found in East Asia and the so-called New World. Europeans would find the nineteenth and twentieth centuries filled with upheaval. A long-standing form of employer-worker institution—slavery—suffered a stunning collapse. Free labor became more assertive. A group of pioneering retailers transformed shopping for common people living in western Europe and North America. The industrialization of England and Holland spread across western Europe and the former British colonies in North America. A greater proportion of people, especially in America, began using consumer credit and investing in financial instruments. These financial tools required a learning process, and consumers often made mistakes. Neophyte consumers also proved prey for unscrupulous lenders and financial market manipulators.

New technologies and innovations created greater flows of information and greater impersonality between transactors. Better communication and transportation technologies opened vast vistas for fraudsters and also empowered consumers by creating more options in the marketplace and by helping identify unethical culprits. Despite continued fraudulent behavior, some business practitioners, religious thinkers, and philosophers formulated the idea that "business ethics paid," whereby ethical business practices would trump fraudulent actions. Other proposed ethical approaches included corporate social responsibility, stewardship, and stakeholder theory. Whether such theories, in themselves, raised the level of ethical practices remained unclear.

CHAPTER 1

Labor Resists

Labor and employer relations evolved considerably in America and Europe during the nineteenth century. Free labor struggled to get better working conditions and higher wages, leading to labor-management strife. Many workers decided that unionization was the best way to resist employers and to fight for better working conditions. Unions' endeavors to raise wages and to improve working conditions were perhaps inevitable in the face of increased productivity. All too many employers resorted to unethical actions to suppress worker interests, although unions, too, chose violent and unethical methods. Unions represented workers with sometimes diverse preferences. Craft unions and industrial unions had different goals and histories.

The coal mining industry may have experienced some of the most contentious labor and owner relationships in American labor history. West Virginia's coal mines provide an illustrative example that will be covered later in the chapter.

Business executives decided to promote welfare programs for their workers, in part to ward off unionization and government regulation. Workers chafed under even the paternalistic corporate welfare and other employer actions designed to foster greater productivity and harmony.

Economists derived new theories regarding the fairness of wages in the nineteenth and twentieth centuries. They hoped these new theories would rationalize the setting of wages and possibly stem discontent among workers.

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Labor unions and large firms, though, occasionally united in supporting legislation that they knew would injure the interests of owners and workers at smaller plants or in other industries. Although workers were sometimes victimized, such victimization did not make them virtuous.

Worker Productivity and Malfeasance

Small business owners may be able to adequately monitor their employers' efforts and productivity. As businesses get larger, though, no one person can monitor all of the employees. Employees can employ deception to appear productive, including claiming credit for other workers' efforts. Employers resort to increasingly complicated performance measures; such efforts leave a "tremendous wiggle room for deceptive activities (Shulman 2007, 141)." Because such efforts may inundate decision makers with a torrent of information, people "start to pay less attention to the particulars of the information swamping them." The overload creates "obfuscation parading as clarity." The valuable signs can easily be missed (Vaughan 1996, 250).

Employers also worry about employees embezzling money, supplies, or goods. Employees and even managers have varying motives for embezzling. Modern American employers conduct investigations into prospective and current employees' credit-worthiness. Besides employees embezzling money to pay debts, some employees are getting revenge against their company for perceived grievances, while other employees are simply greedy. The conundrum for embezzling employees, though, is how to successfully deceive superiors, since embezzling employees are "subvert[ing] some set of social controls … and [need] to feign trustworthiness." Anthropologist David Shulman concludes that "organizations inevitably have structural and cultural blind spots in their social control, in part because casual deceptions are so important in an organization's dramaturgical infrastructure."[1] Shulman asks whether business organizations (and this applies to any organization, including non-profit and governmental) created cultures that "subtly encourage the rationalization of misconduct …. Individual excuses and justifications are a symptom of an underlying set of organizational mechanisms that allow both individuals and organizations to detach themselves from adverse moral assessments of deception." An organization that tolerates "slightly questionable behavior" may be unwittingly promoting an escalation of misbehavior, a domino theory of unethical behavior (Shulman 2007, 145–146, 164).

Workers and Compensation

There was a fairly close connection between productivity and wages. One of the results of the "marginalist revolution" in economic thinking during the 1860s and 1870s was the idea that wages would and should be set equal to the marginal revenue product of labor (the incremental increase in revenue from hiring an additional identical worker or unit of labor). The early proponents of the marginalist revolution thought that this economic finding would establish some sort of ethical rationale for a market-determined wage. Economic exploitation was defined as paying workers less than their marginal revenue product. However, complete unanimity regarding this belief was and is still lacking for the validity of this economic theory.

The problem with associating marginal revenue product of labor with an ethical distribution of incomes is that "The product or contribution is always measured in terms of price, which does not correspond closely with ethical value or human significance. The money value of a product is a matter of the 'demand,' which in turn reflects the tastes and purchasing power of the buying public and the availability of substitute commodities. All these factors are largely created and controlled by the workings of the economic system itself. Hence their results can have in themselves no ethical significance as standards for judging the system (Knight 1935, 55–56)."

Many people believe that such a process might create a disproportionate number of jobs with very low wages. For instance, some charities employ disabled people to put together crafts-type items; the pay is often very low, because the productivity level is so low (Schecter 2013, no page numbers; *WBEZ915* 2013, no page numbers). Is this ethical? Is it exploitive?

The demand for labor depends upon workers' marginal productivity (the incremental increase in output) and the market price of the output they produce. If workers' marginal revenue productivity (the incremental increase in revenue) increases, perhaps because the employer provides more capital per worker; workers become more proficient through gaining experience; workers attain more knowledge; or the price of the output increases—then the demand for workers increases and both employers and workers share the gains. Employers earn more profits, and workers receive higher wages.

The supply of labor depends on several factors, many outside of an individual worker's control (such as population changes, diseases such as

the Black Death in medieval times, or other factors), including workers' willingness to work, which is the subjective trade-off workers make between more leisure and more income (which is converted into consumption). A worker's willingness to work at a particular job also depends upon workplace safety, amenities, and other factors. If a job is particularly nasty, fewer workers will be willing to take such a job at any given wage, reducing the supply of labor for that job and forcing the employer to pay higher wages.

All of this is tidily explained in any principles of microeconomics textbook. Students and the general public are entitled to wonder, "Does this stuff really work in the real world?" Economists studying historical data are often able to test whether such factors as danger, unpleasantness, and isolation affect the supply of labor for such jobs and therefore the wage.

Discontented Workers

Workers frequently accused masters of conspiring to suppress wages. Even Adam Smith recognized the tendency: "Masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate. To violate this combination is every where a most unpopular action, and a sort of reproach to a master among his neighbours and equals." According to physician and author Andrew Ure, some owners, though, were practicing an early example of "efficiency wages" (later practiced by Henry Ford and his $5 day wage), whereby workers were paid more than the market wage in the hopes of motivating workers to work harder in order to keep getting the high wage (Smith 1981, 84; Ure 1835, 366).

Whether the workers' plight would have been better under socialism or communism was doubtful. Thomas Aquinas recognized the ills of the communist system, whereby workers were transformed into slaves regulated by central direction; he also predicted that the workers would rebel against the functionaries, as they "would have to drudge in return for meager rations, whilst the functionaries take it easy and enjoy the lion's share of the profits (Hoeffner 1985, 29)."

Pope Leo XIII highlighted the growing issue of labor and management strife. He issued an encyclical, *Rerum Novarum*, in 1891 and described the problem thusly: "some opportune remedy must be found quickly for the misery and wretchedness pressing so unjustly on the majority of the working class: for the ancient workingmen's guilds were abolished in the

last century, and no other protective organization took their place." He disdained the socialist movement, arguing that "the working man himself would be among the first to suffer" from socialist programs. He based his belief upon an interesting argument: "Socialists, therefore, by endeavoring to transfer the possessions of individuals to the community at large, strike at the interests of every wage-earner, since they would deprive him of the liberty of disposing of his wages, and thereby of all hope and possibility of increasing his resources and of bettering his condition in life."

Pope Leo XIII, though, emphasized that the wealthy owner or employer should not "look upon their work people as their bondsmen, but to respect in every man his dignity as a person ennobled by Christian character." He countenanced the free bargaining over wages, except where one party held a disproportionate bargaining position. Otherwise, the state would be needed only to adjudicate non-compliance with the contract. Therefore, employers should not exploit their stronger bargaining position vis-à-vis workers: "to exercise pressure upon the indigent and the destitute for the sake of gain" was condemned. He then cast the employer's duties in a somewhat paternalistic light, requiring that employers grant their workers time to attend church services and to encourage their workers to shun dissipation and corruption. His concerns were quite similar to many of the leading industrialists, including those who used armed force to quell labor disturbances, despite their own attempts to improve workers' lives (George Pullman and Henry Ford, for example). The Pope worried about leisure time's potential for worker dissipation through alcohol, gambling, and other mean endeavors. He hoped workers would "turn [their] thoughts to things heavenly."

The Pope suggested that "wages ought not to be insufficient to support a frugal and well behaved wage-earner." In fact, the Pope thought that thrifty workers were capable of eventually amassing savings and becoming small capitalists. Such an eventuality was beneficial not only for creating a more even division of income and wealth but would make workers work harder with their own capital.

The Pope took the then controversial position that workers had a right to unionize and to strike but within bounds. He listed legitimate reasons for striking as impairment of health, lack of time for family and leisure, dangerous inter-mixing of genders, and other aspects. Some of labor's demands should be implemented, by the government if need be, in order to forestall strikes that injured trade and the general public, as well as the involved labor and management (Pecci 1891, paragraphs 3–5, 20, 41–47, 57).

An Unholy Alliance

Pope Leo XIII's fears about labor's vulnerability to owners' bargaining strength were borne out in America. American capitalists often developed friendly relations with local, state, and federal politicians and judges. In times of labor strife, these capitalists were often quick to call in judges (to issue injunctions), city police, National Guard, or employer-paid but legally deputized, private guards. Sometimes business owners subsidized police and National Guard units. Because of the various levels of government, management could "shop" for compliant officials. In the end, management's (and labor's) penchant for resorting to violence gave American labor history a bloody legacy. Of course, such heavy-handed, even murderous, tactics aroused the public's ire. Andrew Carnegie never shook off the legacy of the Homestead strike. How industrialists treated their workers often was the primary influence on the public's opinions regarding individual corporations.

On the other hand, many of the workers were immigrants. The Anglo-Saxon public feared the immigrants, whom they considered, literally, the unwashed. With the dissemination of the germ theory, educated Americans worried that crowding immigrants into unsanitary factories and slums was creating conditions ripe for infectious diseases. Such concerns eventually tainted the public's perception of the cleanliness of the products they bought (imaginative Americans could have wondered about the hands that sewed their garments or butchered their meat).

The Gilded Age and Progressive Age were marked by outbreaks of labor/management strife. Employers requested and received the assistance of state troops to suppress labor unrest almost 500 times between 1875 and 1910; by the 1890s, federal troops assisted employers in putting down striking workers (Marens 2013, 460, 462–463; Laurie 1989, 136–137; Hilkey 1997, 123).[2]

Some American consumers sided with workers, such as members of the National Consumers' League. These consumers decided to exercise their doubts regarding certain producers by boycotting those companies' products and favoring the products of employers who reputedly treated their workers well (Marens 2013, 464).

Industrialist Alfred Krupp was a pioneer in establishing worker welfare programs in Germany and offered an alternative to American employers' struggles with workers. From a modern vantage point, his efforts appear modest and perhaps ridiculously inadequate, but, "[Krupp] began doing

something at a time few did; that his were among the first steps toward industrial social responsibility; that his welfare programs were effective within the larger context of German social history; and that they set the internationally renowned Krupp firm upon a path which it never abandoned."

Krupp exercised almost complete control over his firm, until a Founder's Crisis of the mid-1870s, when he began preparing for his son to assume his position. Krupp's motives for initiating and expanding his welfare program were comprised of humanitarianism and self-interest that reflected his astute and visionary understanding of the workers' desires and needs and the benefits for the firm. He was intent on rewarding loyal workers. He was also paternalistic and tried to control his workers' lives. He avoided the violent labor strife found in America.

Workers, of course, chafed at such heavy-handed scrutiny, but as a later Krupp chairman of the board, Heinrich Heider, observed, acknowledging that growing class consciousness on the part of the worker would have inevitably eventually created tension between Alfred Krupp and his workers, "The fatherly image embodied by Alfred Krupp was as a rule accepted with an almost childishly naïve gratitude. We still today should respect this feeling. It would be false to judge the social activity of the past by the standards of the present (McCreary 1968, 24–25, 38, 49)."

The Perils and Discontents of Coal Mining

In the public's mind, coal mining perhaps exemplified exploitation of workers. Coal mining in America varied across regions. Labor investigator Howard Lee described the West Virginia mines of the early 1900s. Pioneering West Virginia mine owners exploited the miners and the original landowners. He relates how eastern capitalists sent engineers to survey likely veins of coal; these agents then induced the inhabitants to sell their land for "mere pittances" of less than a dollar an acre. Somewhat confusingly, though, Lee described the early operators of coal mines in Appalachia as being short of capital but willing to work extensive hours. Some of these owners eventually became wealthy men with political influence. "They treated their workers and operated their mines just as they had been treated and had seen mines operated in their native lands and in Pennsylvania. They knew no other way."

The West Virginia mine owners wanted to control their labor force and resisted unions. The mine owners used a variety of means to keep the

unions out; the tactics included getting injunctions from friendly local magistrates; imposing martial law; gaining influence over local government officials; maintaining excessive scrutiny of workers; employing thuggish mine guards; and blacklisting pro-union miners (Lee 1969, 7–8, 12). Although some of these tactics may have had legitimate uses, the owners used political and legal influence to gain disproportionate negotiating strength against the workers; such tactics raised ethical questions.

In retrospect, the miners' demands seem pretty reasonable. The Paint Creek, West Virginia miners wanted piece rates a half-cent per ton below those paid at union mines; rights of free speech and peaceable assembly; no more blacklists; no more compulsory purchasing at company stores; an end to "cribbing"; installation of scales; check-weighmen; and joint owner/worker scrutiny of "docking" for impurities (Wheeler 1976, 70). That miners included rights of free speech and peaceable assembly in their demands demonstrates how skewed bargaining power had been in the past. These demands appear consistent with most people's conception of simple fairness. The mine owners might have better forestalled union organization by not hiring expensive mine guards and avoided the recurring work stoppages had they acceded to most of these rather modest demands.

West Virginia mine owners held interesting attitudes toward a "ton." Most people regard a ton as consisting of 2000 pounds. Mine owners used "cribbing," a framework at the top of mine cars that increased the cars' coal-carrying capacity and required miners to load well over 2000 pounds to earn pay for a "ton." Workers naturally scorned such petty cheats. Mine owners also imposed edicts against adulterating coal with inferior coal or non-coal material (Lee 1969, 18; Wheeler 1976, 70).

Workers also despised the "Yellow-Dog" contract that mine owners often imposed upon workers. The contract required workers to sign away their right to join a union, and Lee, among other historians, considered it a pivotal tactic in repelling unionism. Lee observed that the contract "was supplied to the operators by the union itself. If the union had not violated its union contract with the Hitchman Coal & Coke Company [legal case], and had it not tried to induce that company's workers to break their individual contracts of employment, there would have not been any Yellow-Dog Contract in West Virginia …. The union did not provide these strikers with sufficient relief funds [so the miners began drifting back to work]." The mine owners allowed workers to return, if they signed individual contracts. "The union, however, began to pressure these work-

ers to breach their contracts, return to the union, and continue the strike." The Hitchman Company filed for and won an injunction; the Supreme Court eventually upheld the Hitchman Company's actions (Lee 1969, 79–80; Wheeler 1976, 86).

Mine owners, too, had grievances. The West Virginia mine owners did not operate in a vacuum. They competed, often at a disadvantage due to their higher costs of transporting coal to users, with mine owners in Pennsylvania, Ohio, Indiana, and Illinois. These Great Lakes mines already faced unions and paid higher wages. The West Virginian owners remained viable competitors only by keeping wages and other expenses lower than their rivals. The operators in the other states negotiated with the unions facing them that such unions would try to organize (or infiltrate, depending upon one's perspective) the non-union mines in West Virginia. The West Virginia operators "were justified to some extent in their view of the union as an agent of their competitors, bent on damage to their competitive position." The existing unions, of course, understood and desired to bring more of their working brothers into organized labor, thereby strengthening the existing unions' leverage (Wheeler 1976, 75).[3]

There was also an element of lawlessness in the region. The mine operators often finagled deputy sheriff positions for trusted employees. The attractions of having one's own employees serve as law enforcement officers eventually became an element of abuse and hatred. One sheriff, Don Chafin, gained notoriety. Chafin became the county Democratic county assessor, county clerk, and sheriff after the war. He replaced the Baldwin-Felts mine guards with his own men. Eventually he had hundreds of men on the deputy-mine-guard payroll. Chafin was adept at skimming money off the expenses of his "feudal army." By 1921, he testified before the U.S. Senate Committee that he was worth $350,000, even though his salary was $3500 per year. The Senate committee stated, "The system of paying deputy sheriffs out of funds contributed by the operators, as the testimony shows has been done in Logan County … is a vicious and un-American policy." The committee then made the ironic statement, "It would be just as logical to have members of Congress paid by certain interests." The owners paid for such a large crew of deputies through charges upon coal tonnage; one wonders whether it would have been cheaper to simply accede to some of the workers' demands.

Because the owners held sway over the West Virginia legislature and local governments, the abusive law enforcement system persisted. Workers were as willing to resort to violence as were the mine owners. Both sides

armed themselves, and the owners built fortifications. During the violence immediately after 1918, there were plenty of workers who were war veterans with familiarity with firearms and explosives (Lee 1969, 11, 22–24, 87, 91).[4] All too often, violence begat violence, with the old playground charge, “He started it!” becoming the justification for retaliation.

Unionization in Coal Mining

When workers organized and formed unions, they, in essence, created a monopoly of labor. In remote areas, a mine owner might be the sole employer for miles around, giving that owner some wage-setting power (what economists designate as monopsony power). Economic theory suggests that when a union faced mine owners, the outcome with regard to setting a wage was indeterminate. The outcome depended upon the relative bargaining powers of the unions and the owners. Both sides had incentives to increase their bargaining power. The owners could import replacement workers, hire mine guards and “detectives,” or call upon their friends in the state house for local militia. The workers could arm themselves and deter the importation of replacement workers. They could also resort to the courts, with sporadic success.

One Colorado governor did not even wait to see whether a miners’ convention would result in a walk-out before he declared martial law. The miners were incensed by this “unwarranted and uncalled for action” and instead of calling off their strike, decided to strike; the miners decided that returning to work in the face of the military would have been perceived as “cowardly surrender (Suffern 1915, 60).”

During a strike in 1912, the West Virginia governor Henry Hatfield—himself no stranger to violence, as a descendant of the Hatfield-McCoy feud—imposed martial law and allowed military tribunals to mete out justice. The tribunals, a violation of civil liberties, hastily arrested, convicted, and sent men to the state penitentiary. Howard Lee comments, “In civil life the judges of the military courts were laymen, many of whom did not know the difference between a felony and a misdemeanor, and their judgments reflected their lack of knowledge.” In many cases, militia members did double duty as mine guards, so miners understandably viewed such “law enforcement” efforts as illegitimate. In fairness to Hatfield, he eventually forced the mine owners and miners to accept a brokered peace in 1912; the miners won some of their demands (Lee 1969, 33–35, 46; Wheeler 1976, 72).

Despite or perhaps because of mine violence, working conditions in West Virginia improved up to the mine war of 1920–1921. Workdays shortened and the company store system became less exploitative. Mine owners paid twice monthly, and mine safety improved. More importantly, mine wages, both in nominal terms and in purchasing power, rose between 1897 and 1918. The mine wars in West Virginia did not result from "progressive immiserization" of the workers. "Prior to both mine wars [1912 and 1920–1921], conditions, which had been improving, took a downward turn. This is quite pronounced in the case of the 1920–1921 mine war. A more concrete basis for the violent nature of the confrontation between labor and capital in West Virginia is that both sides considered that they were locked in a struggle to the death (Wheeler 1976, 82–83, 90)." The 1920–1921 general economic downturn in America may have contributed to worker discontent after the war.

Aspects of the Coal Mining Industry

Economists Price Fishback and Dieter Lauszus noted that coal companies were often not as powerful as reputed. Unions and miner mobility forced owners to offer competitive wages and conditions. By the 1920s, at least, much of any exploitation that had existed was probably waning. They added that the negative reputation of company towns emanated from the sole employer aspect: "In the company town, the employer was landlord, merchant, and politician rolled into one, and so became the focal point of discontent over all and all aspects of life. Further, since the company town was private property, employers could prevent trespassers and maintain political control over the town. Workers feared the abuse of this power and the violation of their personal freedom (Fishback and Lauszus 1989, 140–141)."

Because the nature of coal mines made supervision difficult, workers were often paid piece-rate wages. Miners were usually responsible for their own safety, aside from some basic safety-related "public-goods" that had economies of scale (being cheaper to provide for all, than if each individual had to provide such goods on his own): ventilation, mine gas inspections, watering, and providing pre-cut timbers. Mine supervisors or foremen assigned particular spaces for each miner (or pair of miners). The miner and his co-worker "made nearly all of the accident prevention decisions within his own workplace. He decided how often to timber the roof to prevent roof falls, and how large a blast to use in dislodging the coal."[5]

Contemporaries originally placed much blame upon mine workers themselves for accidents. Miners took short cuts with regard to safety; perhaps revealing inspectors' nativist prejudices, inspectors also accused recent immigrants as being especially lax. The recent immigrants' inability to speak English and possible lack of mining experience were often cited. Other inspectors, though, held mine owners accountable for not fulfilling their responsibilities with regard to safety. Fishback suggests that later historians, who vilified the mine owners, portrayed the miners as "helpless economic pawns in the coal operator's hands. They emphasized the geographical isolation of the mining towns and describe the operator as routinely meeting competition from other operators by reducing the wages of the working man directly or indirectly by increasing prices at the company store." Fishback pointed out that real wages for miners had, in fact, increased until the mid-1920s. Strangely enough, the United Mine Workers of America (UMWA) considered mine safety a secondary goal; the UMWA focused on increasing unionization of non-union mines, in order to strengthen its monopoly power in the industry. Therefore union and non-union mines would not necessarily have different safety records based solely on a union/non-union distinction (Fishback 2006, 271–275).

Mine owners often resisted miners' attempts to organize, claiming such attempts were a monopolization of labor, a restraint of trade. The owners, though, were more than happy to organize among themselves. Some mine owners wanted to combine to keep the price of coke sufficiently high, so they could pay their men a living wage. Of course, such a collusive agreement foundered upon individual mine owners' self-interest. In any event, the influx of foreign labor proved a convenient scapegoat for the low wages. Presaging the "Buy America" and anti-immigrant sentiments persisting in modern-day America, native-born miners wanted a ban on hiring foreign miners. Mine owners disagreed. Henry Clay Frick, for instance, refused to stop hiring Slavs and Italians (Sheppard [1947] 1991, 47–50).

Andrew Carnegie and Frick differed on their approaches to handling labor disputes. Frick wanted to take a militant and antagonistic stand against the workers, although in the past he had been in the forefront of making an agreement that gave his miners sufficient to live upon and with planned increases in wages; he also paid his workers in a timely fashion. Carnegie told Frick, "My idea of beating in a dispute with men is always to shut down and suffer; let them decide when they desire to go to work—say kindly, 'All right, gentlemen, let's hear from you … when a majority vote to start, start it is.'" Carnegie understood that workers resented

replacement workers (scabs) and noted, "Who can blame them (Sheppard [1947] 1991, 42, 46–48; see also Standiford 2005, 223)?"

A year later, Carnegie wrote for public consumption in the periodical *Forum*: "To expect that one dependent on his daily wage for the necessities of life will stand by peaceably and see a new man employed in his stead, is to expect too much." He also preached to his fellow industrialists: "There is an unwritten law among the best workmen. Thou shalt not take thy neighbor's jobs." Of course, commentators then and now harped on the contradictions between Carnegie's remarks and his actions.

Carnegie had tempered Frick's attempt to quash a coal strike in 1887, but he was nonplussed to experience a significant increase in costs that his rivals, adhering to more hardline tactics, avoided. Carnegie had earlier surrendered in a fight with his workers. In 1885, Carnegie realized that his workers were restless upon hearing that his firm earned $3 million in profits; he decided to give a 10 percent raise. The skilled and experienced workers wanted a return to the eight-hour shifts that had been taken away earlier. To forestall a strike, Carnegie authorized the dismissal of hundreds of skilled operators and to bring in strikebreakers, but the rest of the workforce rebelled and forced Carnegie to retreat (Standiford 2005, 71).

In 1892, Carnegie headed to Scotland and left Frick in charge of the Carnegie Steel Company in Homestead, Pennsylvania. Frick's tactics led to violence, although some of his fellow executives applauded his adamant refusal to accede to the workers' union. Carnegie pleaded that he had nothing to do with the ill-fated decisions, saying he was incommunicado in Scotland. The incident tarnished Carnegie's standing in the public's eye; decades of charitable efforts never succeeded in erasing the smudge (Sheppard [1947] 1991, 50–51, 63).

The workers realized that Carnegie and Frick held the whip hand, with one telling Hamlin Garland, a writer for *McClure Magazine*, "We can't hurt Carnegie by six months' starving. It's our ribs that'll show through our shirts. A man working for fourteen cents an hour hasn't got any surplus for a strike." Another worker conceded, "There are lots of other jobs as bad." The workers were most aggrieved by the length of the work shift, not the work itself (Standiford 2005, 230–231).[6] As grim as these working conditions were, and by twenty-first-century standards, they were atrocious conditions, immigrants still clamored to come to America. These immigrants likely had some notion of what they were going to encounter, as their friends and family who had immigrated earlier corresponded with them.

Exploitation or Not

Although Tennessee Ernie Ford sang the deathless line, "Owe my soul to the company store," in "Sixteen Tons," the company store may have been more benign than legend has it. Some British factory owners paid wages in tickets or "tommy-books" redeemable only at the company store. As with many American coal miners, the factory owner required workers to use their tickets at the company store; any worker with the temerity to ask for cash was threatened with, "If you don't want tommy you don't want work." Not all company shops were exploitative, and some were respectable and were intended for the convenience of the workers. Although stores may have originally been exploitative, using scrip and charging high prices, economic historians have shown that by the 1920s or so, the stores served to monitor and reduce the cost of credit for both company and the worker. The company store also could charge lower prices for items it purchased in bulk. Stores located in isolated regions might naturally have charged more, as the costs of shipping merchandise to such locations might have been higher (Davis 1966, 273).

Coal mine owners in western Pennsylvania reportedly used company stores to exploit their workers in the late nineteenth century. Observers claimed that the stores, referred to as "pluck-me stores," not only charged exorbitant prices but induced owners to limit the hours that miners worked. The purpose of limiting the hours was to ensure that every dollar the miner earned went through the company store, "Otherwise, when pay day came, there would be a cash balance due him and a consequent loss of profit on a corresponding amount of store goods." The logic of this explanation seems dubious. Owners, therefore, overcrowded their mines with workers. Mine owners with company stores were better able to survive competition that drove profits from mining coal to zero; these owners survived based on their profits from the company store. Because of these supposed abuses, mine workers strove to eliminate the company stores in this region or at least to create a differential wage structure, whereby companies with stores paid more per ton of coal mined (*Annals of the American Academy of Political and Social Science* 1896, 162–164; Suffern 1915, 27).

Price Fishback disputed the standard depiction of company stores as exploitative. He acknowledged that the historiography tends to see the company stores in a negative light; journalists and a Senate investigation

found higher prices at company stores than local trade stores. Fishback's thesis was "the company store's prices were part of an employment package offered to geographically mobile miners in a labor market with hundreds of mines." His argument revolved around the mobility of the miners (and, implicitly, the flow of information regarding wages and working conditions among mines). Mines may have been located in rural areas, but there were often several mines in relatively close proximity. Because the stores were somewhat isolated, the cost of transporting merchandise was undoubtedly higher for such stores, accounting, in part, for the higher prices than miners might have faced in more established towns. Mines also differed by regions; miners in West Virginia faced different conditions than miners in Illinois. Fishback argued that even a company operating a store monopoly in a non-union area faced constraints on its prices. He noted that a researcher who declared the company stores exploitative, also described the miners' mobility in response to better working conditions or wages.

To be sure, an Immigration Commission of 1907 discovered some cases of coerced buying and other anti-competitive tactics. But a Coal Commission in 1925 concluded that "the system of openly forcing employees to buy at commissaries is said to be no longer in practice." The two commissions' different dates are highly suggestive of a gradual evolution of company stores.

Congressional committees rarely collected prices from a large number of stores, so Fishback claims that the evidence from the scattered prices could be misleading. Even with this drawback, a table showing prices for December 1922 "show that in six of the ten comparisons the stores in mining districts—including independent and company stores—charged less than stores in manufacturing districts." Miners also frequently found better quality articles at the company store than at independent stores, according to 1908 and 1909 Immigration Commission investigations.

Assuming miners were both mobile and knowledgeable about working conditions between mines (both within and between regions), then a mine owner exploiting miners through high store prices would have to compensate by offering higher wages or other inducements above that of companies not exploiting miners in a similar fashion. In fact, some miners might have benefited from the differing wage/benefit packages. Single males would gravitate to mines paying higher wages and charging higher prices at the company stores, since such miners' propensity to purchase

consumer goods would have been lower than miners with families. The mine owners' ability to exploit workers was inversely related to the workers' literacy and their understanding of English. Across the early decades of the twentieth century, workers were becoming more literate and the immigrants were gaining facility with English.

As company stores began to buy in bulk, they began receiving better wholesale prices. The stores, similar to most local retailers, often extended credit to the miners. The company stores had an advantage with regard to information of miners' ability and willingness to repay loans, as store operators usually had access to company payroll information. One other aspect of the mines' relative isolation was the lack of banks. The issuing of scrip—which sometimes was in response to miners' request for advances on wages due the following payday—may have been in response to a scarcity of currency; in addition, not having to handle cash reduced the mine owners' cost of security with regard to large sums of cash. Companies also acted as lenders to their "better workers," in order for those workers to purchase consumer durables and even houses. The intent was not to create debt peonage, but to help motivate workers to remain with the company; such policies incurred the risk of a worker repudiating the loan by moving away.[7]

Fishback found evidence that companies charging higher prices at their stores also paid higher wages. The workers appeared well-enough informed to force mine owners to offer competitive compensation packages. He concluded scrip was a more benign aspect than traditionally thought (Fishback 1986, 1011–1018, 1021–1023, 1029).

Fishback's work often dealt with conditions after 1900. The pioneering coal mine operators in the previous decades may have possessed greater monopsony power until new owners entered the local market. Fishback acknowledged such a process in his discussion regarding operators attempting to raise prices at the company store to offset the higher wages; he doubted that such a policy would work, as "the mines [had become] increasingly less isolated with increased mobility of miners and increased competition from independent stores." Certainly miner ownership of automobiles and access to railroad/bus transportation services reduced isolation; in fact, the likelihood of unionization appeared to be associated with greater isolation (Fishback 2006, 273–274).

In any event, allegations of coal mine owners acting unethically with respect to their workers may have been inaccurate. Economic analysis reveals, at the least, ambiguity with respect to some of these allegations.

Employer Welfare Capitalism

Several of the late nineteenth-century Quaker factory owners used social welfare programs to improve their workers' standard of living. Henry Ford gained acclaim for his five-dollar-day wage; there was a sinister ramification of his seemingly generous wage in that conveyor belts began running faster. Ford and similar employers made a show of building housing or creating social welfare programs for their workers, but many of these employers privately worried that putting more dollars into the pockets of their workers would lead to worker dissipation through spending on alcohol. On the other hand, the public seemed to think, at least initially, that such largesse implied that Ford and his compatriots were behaving ethically in other phases of their corporations. National Cash Registers had the ability to ward off punishment for violating the Sherman Act, as many people defended the company based upon its renowned social welfare programs. Publicist Ivy Lee rehabilitated International Harvester after the firm faced allegations of antitrust violations and an unfavorable magazine expose entitled "Making Cripples and Dodging Taxes." Lee emphasized the firm's social welfare programs and reversed the flow of public opinion (Marens 2013, 469).[8]

Welfare capitalism was an attempt to create worker loyalty and to forestall the formation of unions through positive motivations, including providing benefits and "harmonizing" worker, supervisory, and capitalist interests. Although providing carrots to motivate workers was calculated to undercut worker militancy and to present a good public persona, workers and owners recognized the latent coercion involved. Employers could still evict workers from company housing or eliminate coverage under the health care plan. Welfare capital had mixed effects (Edwards 1979, 91, 95; Surdam 2015, 68).

Some companies established company unions. The seeming contradiction in terms did point to such entities' weakness. Company unions developed in the first two decades of the twentieth century. The standard interpretation of company unions is that they were a devise to forestall the creation of an independent union and to implant "welfare capitalism." Such interpretations may have missed the key question of whether company unions resolved, if only partially, some of the issues that drove workers to demand unions. One feature stood out during the first two decades of the twentieth century: Employers began realizing that a high level of labor turnover was costly and that the employers needed to address

low worker morale. Management could improve worker morale by creating procedures whereby workers could express concerns about shop floor conditions. Such concerns often revolved around the arbitrary behavior of immediate supervisors, such as foremen. During the 1920s, many large manufacturing companies, indeed, formed company unions, and these organizations reduced turnover rates and improved productivity growth. In addition, injury rates fell. The evidence suggested that "company unions ultimately benefitted both labor and management on the shop floor, while at the same time serving to prevent the distributional losses employers would have suffered had independent unions been successfully organized." A contemporary economist, Paul Douglas made the distinction clear: Company unions increased production and morale, but "independent unions insured that labor received its fair share of the gains."[9]

One researcher analyzed the available data and found that "those industries reporting the greatest success in reducing turnover through welfare measures were also those with the largest concentration of recorded welfare benefits." In 1919, firms that pioneered welfare capitalism, however, found themselves facing striking workers. The researcher found that the industries with the greatest success at cutting labor turnover using welfare benefits experienced the largest growth in strike activity during the late 1910s (Fairris 1995, 493–494, 502–506).

Independent trade unions, too, had flaws. There were disturbing aspects of trade unions, especially in comparison with "Friendly societies:" "the one [trade unions] intent on using the collective power of the work force to make a change in real wages and the other [friendly societies] developing a system of welfare services among members through cooperative effort." Economist Brian Griffiths cited the 1906 Trade Disputes Act that gave British trade unions "total immunity for torts 'alleged to have been committed by or on behalf of the trade union.'" A contemporary observer, jurist A.V. Dicey, claimed, "It makes a trade union a privileged body exempted from the ordinary law of the land." Sidney and Beatrice Webb, who were avowed socialists, admitted that the act was "nothing less than monstrous (Griffiths 1980, 114–115; Dicey 1914, xlvi)."

Such criticism of trade unions may surprise many readers used to thinking of such organizations as benign, even heroic. Union wage gains were associated with losses by non-unionized workers. Some union leaders, when confronted by this association, saw nothing wrong with extracting "from the society the highest possible reward for the labour power that we