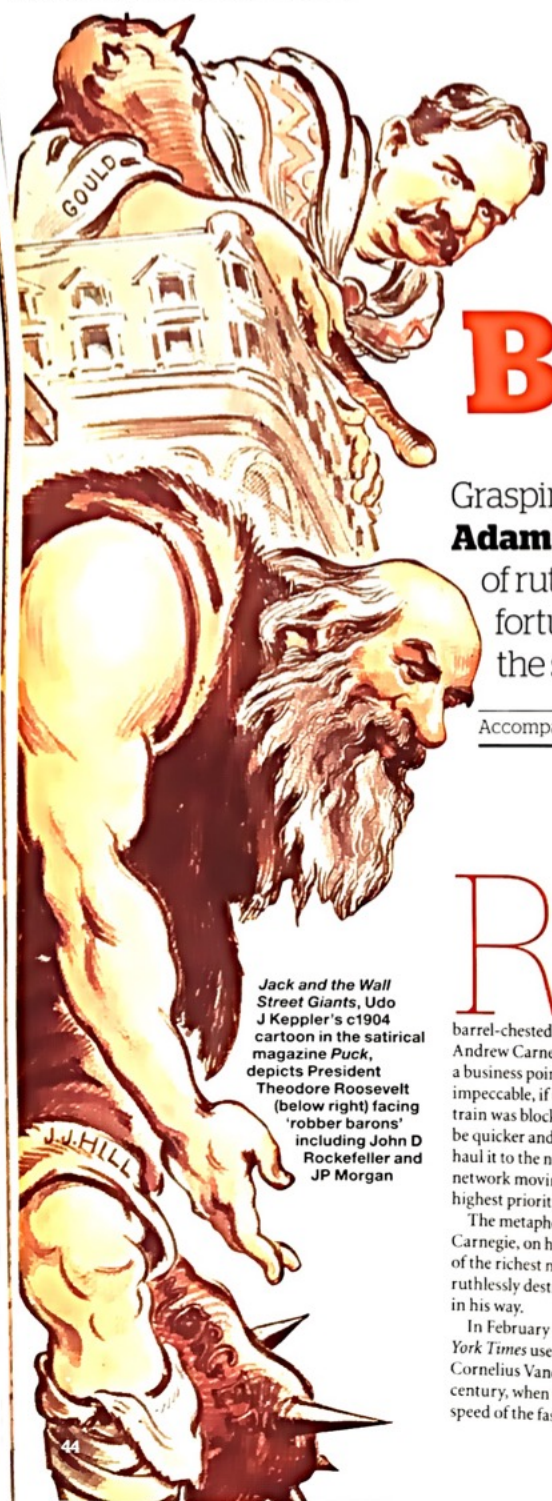
# Rise of the Robber Barons

Grasping monopolists or American heroes? **Adam IP Smith** tells the story of a new breed of ruthless businessmen who made fortunes from oil, steel and railroads in the second half of the 19th century

Accompanies the new BBC Radio 4 series *The Robber Barons*






***Jack and the Wall Street Giants*, Udo J Keppler's c1904 cartoon in the satirical magazine *Puck*, depicts President Theodore Roosevelt (below right) facing 'robber barons' including John D Rockefeller and JP Morgan**

Railway bosses were not supposed to order their own freight cars to be burned. But in 1859, the superintendent of the western division of the Pennsylvania Railroad – a diminutive, barrel-chested 24-year-old Scotsman called Andrew Carnegie – did exactly that. From a business point of view, Carnegie's logic was impeccable, if unconventional: a derailed train was blocking the line, and it would be quicker and cheaper to destroy it than to haul it to the nearest depot. Keeping the network moving, Carnegie realised, was the highest priority.

The metaphor is irresistible: Andrew Carnegie, on his way to becoming one of the richest men the world has ever known, ruthlessly destroying anything that stood in his way.

In February of the same year, *The New York Times* used a sinister simile to attack Cornelius Vanderbilt – a man born in the 18th century, when travel times were limited to the speed of the fastest horse, but who went on to dominate the early development of both steam ships and railroads.

To Carnegie's ambitious generation, the venerable Vanderbilt – or 'the Commodore', as he was known – was the man who showed what could be done if you disregarded old rules and made your own. In the 1850s, Vanderbilt was engaged in fierce competition to control the lucrative sea route to California via Central America. At one stage, his rivals paid him a subsidy in exchange for him suspending his line.

To the *Times*, though, Vanderbilt's behaviour was literally robbery. He resembled "those old German barons who, from their eyries along the Rhine, swooped down upon the commerce of the noble river and wrung tribute from every passenger that floated by". The label 'robber baron' was born in that angry editorial; 20 years later it was in wide circulation as withering shorthand for the handful of men who dominated business in what Mark Twain dubbed "the Gilded Age".

In the wake of the American Civil War, with the nation reunited on the back of the abolition of slavery, these so-called robber barons – generally identified as Vanderbilt, Carnegie, John D Rockefeller and a handful of other hard-nosed and hugely successful businessmen of that era – profited from one of the most profound revolutions in the human experience: the transition from a society in which most people were either self-employed or in some form of unfree labour, to one in which most worked for wages.

## Bigger is better

One thing they all had in common was that they made their money from the relentless logic of the economies of scale. By driving out competition, controlling the supply and distribution chains, and keeping wages as low as possible, the robber barons ruthlessly cut costs. They forged their path in the business world at a time when new technologies – steel, oil refining, railroads and steam-powered factory technology – were remaking the material basis of the western world. They were the exploiters, not the inventors: men who took small-scale operations and scaled them up, and then up again.

Size was everything. As John D Rockefeller realised, one big oil refinery was vastly more efficient than 20 small ones. Similarly, as Jay Gould and Leland Stanford were to demonstrate, big railways with no competition could move more freight and charge higher rates than a bunch of small railroads competing for the same traffic.

The robber barons created the world's first large-scale corporations – impersonal organisations that, with the aid of bankers such as JP Morgan, could raise undreamed-of capital from financial markets. When Morgan bought Carnegie's steel business in 1901 he paid the equivalent of US$370bn in today's money. Rockefeller's Standard Oil totally dominated the world's production, refinement and distribution of oil. By 1890, railroads employed around 3 per cent of the entire national workforce, or 800,000 men – many times more than worked for the government or served in the armed forces.

The personification of these otherwise impersonal organisations, the robber barons were, among other things, literally cartoon characters. Their names and faces became familiar to millions through the pages of satirical illustrated magazines such as *Puck* in which the titans of industry were drawn as crooked hucksters carving up the country, or as obscene octopuses strangling the populace. The cartoons fed into a mass movement to defend the principle of government of, for and by the people against the monopolists who had stolen the American dream.

Ida Tarbell, a feisty journalist whose father's oil-producing business in western Pennsylvania had been ruined by Rockefeller, was the most acerbic of the critics. Tarbell and her millions of sympathetic readers were fighting, they thought, to defend the dying ideal of an egalitarian republic of small-scale farmers and artisans.

For others, however, the likes of Carnegie and Rockefeller were heroic entrepreneurs who were making America a steam-powered superpower. They were the real-life proof of the moral wisdom of those immensely popular Horatio Alger stories for young boys in which, in America, hard work always paid off and the poor could rise up.

Critics and fans alike saw the robber barons, for good or ill, as the masters of this >

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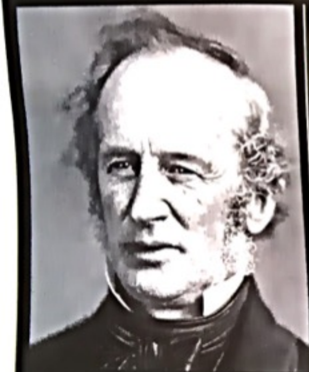
# Three titans of big business



THE FIRST OF THE BARONS

## Cornelius Vanderbilt

1794-1877

**Wealth:** At his death, Vanderbilt's fortune was estimated to be around US$100m which, as a share of US GDP at the time, makes him perhaps the second-wealthiest American in history, after only John D Rockefeller.

**How he made his money:** Shipping, then railroads. Vanderbilt began work as a ferryman in New York City harbour, soon working his way into a partnership with the operator of a state-of-the-art steamboat. By the 1850s he ran a transatlantic passenger line and was competing hard, using every trick in the book to dominate the lucrative transport route to California. (At that time by far the cheapest and quickest way to the goldfields was to take a ship from New York to Panama or Nicaragua, make an overland crossing from the east coast to the west, then embark again for the sea journey up the North American Pacific coast.) After 1860, Vanderbilt sold his shipping interests and invested in railroads instead. He spent the final 10 years of his life building up the New York Central, the principal route from New York City to Chicago.

**How he spent it:** Establishing one of his sons as his heir. Not one of the great philanthropists, he nevertheless endowed Vanderbilt University in Tennessee.

**Legacy:** Vanderbilt was the first of the so-called 'robber barons'.

THE TOUGH PHILANTHROPIST

## Andrew Carnegie

1835-1919

**Wealth:** He sold Carnegie Steel for US$480m – if calculated as a share of GDP today, at least US$370bn.

**How he made his money:** Steel. Carnegie was born in Fife into a family of struggling weavers who emigrated to western Pennsylvania in search of a better life when young Andrew was 13. He worked his way up from telegraph messenger boy to a senior position in the Pennsylvania Railroad, thanks to the patronage of railroad president Tom Scott. Avoiding service in the Civil War by paying for a substitute to fight in his place, Carnegie made his mark, and the basis of his fortune, by investing in steel companies. His innovation was to find ways of using new processes and technologies to produce steel more cheaply and in vastly greater quantities than ever before. Driving out competition and buying out all his suppliers, Carnegie's companies provided, among other things, the rails that crisscrossed America in the late 19th century.

**How he spent it:** He gave away 95 per cent of his fortune in his lifetime, endowing libraries, universities and concert halls, and campaigning for international peace.

**Legacy:** He was culpable for vicious labour relations, but was also a great philanthropist.

THE OIL BILLIONAIRE

## John D Rockefeller

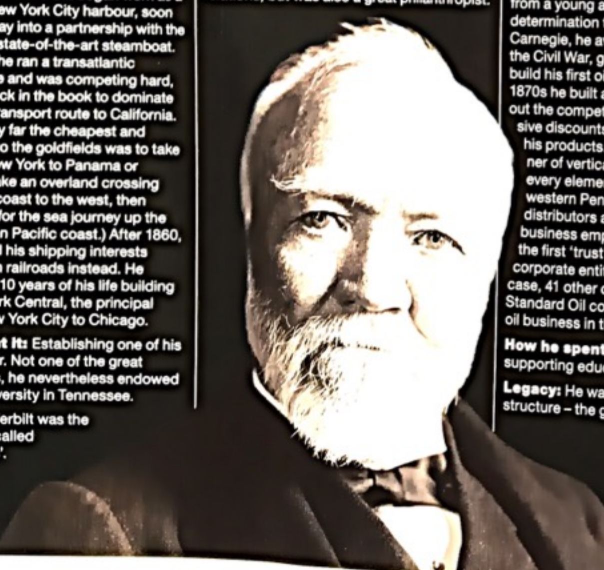
1839-1937

**Wealth:** The world's first dollar billionaire, his fortune at the time of his death was estimated to be around US$1.4bn, making him by far the richest man in the country, then or since.

**How he made his money:** Oil. The son of a bigamist father and a devout mother, from a young age Rockefeller had a steely determination to make money. Like Carnegie, he avoided military service in the Civil War, going into partnership to build his first oil refinery in 1863. In the 1870s he built a near-monopoly, squeezing out the competition and agreeing exclusive discounts with railroads to transport his products. He was a great practitioner of vertical integration, bringing every element of the supply train, from western Pennsylvania oil drillers to distributors and retailers, into his business empire. His Standard Oil was the first 'trust', a new kind of vast corporate entity that contained, in this case, 41 other corporations. At its height, Standard Oil controlled 95 per cent of the oil business in the US.

**How he spent it:** Creating foundations supporting education and science.

**Legacy:** He was an innovator in corporate structure – the great monopolist.



Andrew Carnegie, who latterly gave away some US$350m of his fortune

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new world. But these men did not always see it that way at all. They were, by their own accounts, driven as much by anxiety as optimism. Neither Horatio Alger heroes nor Ida Tarbell villains, they saw themselves as the necessary instruments by which the economy could be managed.

Rockefeller and Carnegie claimed that they were motivated not by personal ambition but by public-spiritedness. The two were hardly soulmates (Carnegie got a kick out of giving an annual Christmas present of fine Scotch whisky to the teetotal Rockefeller) but they each developed a theory of capitalism according to which the vast organisations they built were the necessary means of managing the hellishly disruptive forces unleashed by industrialisation.

Their companies, they argued, reduced inefficiency and wasteful over-production. Where there was chaos, they brought order; where there was strife, they brought harmony. This was a breathtaking inversion of how many saw them, but it was repeated with conviction, and it drew on a coherent and, to them, self-evidently true narrative of their careers.

A prime example concerns how Rockefeller understood the crucial turning point in his business career. This occurred in the early 1870s, at a time of falling prices in the nascent oil-refining business, when he leveraged a freight deal with a railroad to compel his competitors in Cleveland to sell out to him. Charged with behaving aggressively and dishonestly, Rockefeller responded that his company was an "angel of mercy". Standard Oil, he later claimed, was "the Moses who delivered [his benighted competitors] from their folly which had wrought such havoc in their fortunes".

Carnegie adopted a similar business strategy and, in essence, a similar rationale when he moved from railroads into steel, combining investment in new technologies with using every trick in the book to eliminate rivals.

### The curse of bigness

At the heart of the problem – as their critics saw it – was the sheer scale of the robber barons' enterprises. It was 'the curse of bigness' that gave these men the giddying power they had. But the robber barons' riposte was that the new economy required central planning. "The day of combination is here to stay," Rockefeller assured an interviewer in the 1920s, as Europe experimented with different types of state planning. "Individualism is gone, never to return."

It was a sentiment echoed by New Deal planners when, in response to the Great Depression, they abandoned decades of anti-monopoly politics. In its place they sought ways of centrally managing a capitalist system in which no one imagined a return to 19th-century levels of growth.

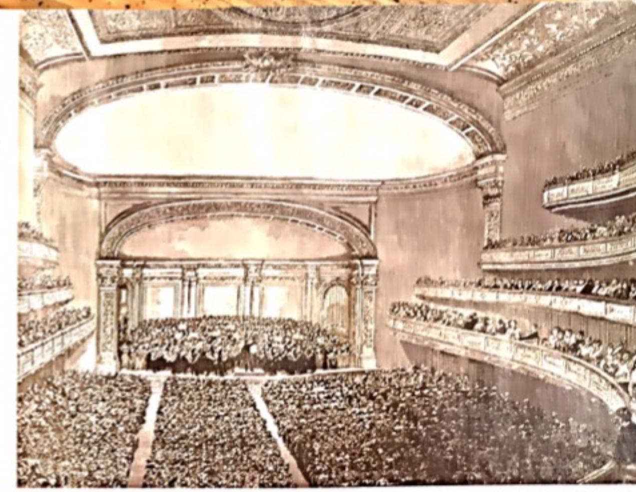
Carnegie had a greater desire for public adulation than Rockefeller ever seemed to require, but a similar determination to present himself as acting always in the public interest. After he sold his business, Carnegie moved into a newly built mansion in Manhattan (complete with an elevator and a prototype air-conditioning system) and wrote tracts in a library with Sunday school-type mottoes painted high on the walls. Gazing up from his desk at the injunction that 'Thine Own Reproach Alone Do Fear', Carnegie worried about the contrast between "the palace of the millionaire and the cottage of the laborer".

To combat the dangers of "rigid castes" living in "mutual ignorance" and "mutual distrust" of each other, he poured millions of dollars into building public libraries – more than 2,500 of them around the world. This munificence was possible because of the vast business he had created and was therefore, to him, evidence that great concentrations of wealth could (at least in the right hands, such as his own) bring about a great dispersion of public benefit.

### A disappearing world

Contrary to the way they are often imagined, the robber barons were in fact the champions neither of unfettered free markets nor of unfettered individualism. Paternalists more than libertarians, they saw rational central planning as the antidote to the insecurity and irrationality of market competition. Hailed for their role in the onrush of modernity, they harked back to the virtues of a disappearing world and worried about the spiritual and social consequences of the gulf between rich and poor to which they had contributed so much. Their material success assured, the robber barons sought something more: validation that their work was of public worth.

These larger-than-life industrialists had an all-too-human capacity for self-deception, and it is easy – and not entirely unfair – to charge them with hypocrisy. But that does not mean we should not take seriously their own rationalisations. The words of these robber barons reveal much about how these powerful men made the choices that helped shape our world. ■



New York's Carnegie Hall is packed to the rafters on its opening night in 1891. The world-famous concert hall was funded by the magnate who gave it its name, Andrew Carnegie

TOPFOTO

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**RADIO**

▶ **The Robber Barons,** a new Radio 4 series presented by Adam IP Smith, is due to air from 17 October