

Too many generations of Americans have swallowed whole Matthew Josephson's portrait of the great nineteenth-century entrepreneurs as Robber Barons—rapacious predators who grew rich through tactics that were unethical at best, illegal at worst, and contrary to the public interest in any case. Maury Klein Winter 1995

Too many generations of Americans have swallowed whole Matthew Josephson's portrait of the great nineteenth-century entrepreneurs as Robber Barons—rapacious predators who grew rich through tactics that were unethical at best, illegal at worst, and contrary to the public interest in any case. They bilked companies, corrupted public officials, and defrauded rivals in their quest for gain. But as history *The Robber Barons* (1934) is no more accurate than a Norman Rockwell painting a kind of Norman Rockwell in reverse. Josephson was less a historian than a moralist who cared less about the accuracy of the story than about the ideological message he saw in it.

The men Josephson caricatured were in fact the creators of the industrial system that gave the United States the most powerful and dynamic economy in the world. They were masters of organization—visionaries and risk takers who thought and acted on a grand scale. Though they amassed the largest private fortunes ever known, what drove them was the game itself. "I do not love the money," insisted Philip D. Armour, the meatpacking magnate. "What I do love is the getting of it. . . . What other interest can you suggest to me? I do not read. I do not take part in politics. What can I do?"

The game took place on what may have been the most open playing field ever known. During the Civil War, once the South had seceded, Republicans took control of Congress and passed a stream of long-stalled legislation crucial for economic development: a National Banking Act, a tariff act, a Homestead Act, a Pacific Railroad Act, and more. When the war ended, land, resources, and cheap labor abounded, while the political and legal system offered fewer restraints to individual action than existed anywhere else on the globe. Never before—or (arguably) since have opportunities been so ripe for those capable of mobilizing capital and organizing large enterprises.

The entrepreneurs who came to dominate this scramble were to the American economy what the Founding Fathers were to the political system. They also transformed New York into the financial, commercial, corporate, social, and cultural nerve center of the nation. Among the hundreds of ways to look at New York and what it reflects about the American experience, one important if overlooked way is to see it as the largest living monument to the misnamed Robber Barons.

as individuals, the entrepreneurs were a varied lot whose personalities and tangled legacy of creativity and destructiveness defy easy generalization or glib labels. Cornelius Vanderbilt, who created the first fortune topping \$100 million, was as ruthless and personally unpleasant a man as they come, but no man did more to establish New York's commercial primacy. Born on Staten Island in 1794, a farmboy so ill educated that he never learned to read and could spell words only phonetically, Vanderbilt borrowed \$100 from his mother to buy a small boat and hired himself out as a ferry service to New York City. From that modest beginning, he fashioned a career as a designer and operator of

boats, first on the Hudson River, then on Long Island Sound and the coastal route to the Isthmus of Panama.

Snubbed by polite society, the coarse, profane, tobacco-stained Commodore (a name he acquired as a steamboat owner) erected a mansion on a corner of the old family farm. No one doubted his ability or his toughness; when two associates tried to snatch one of his companies in his absence and enrich themselves from it, he roared at them, "You have undertaken to cheat me. I won't sue you, for the law is too slow. I'll ruin you." And indeed he made them suffer. In all these endeavors he gave the country a short course in the rules of cutthroat competition: he operated efficient, well-run companies, sold out to competitors for a fat price that amounted to greenmail, and then entered a brand-new arena with yet another sleekly efficient competitive venture.

At 66, Vanderbilt had accumulated a fortune of \$20 million and might have retired to a life of luxury. Instead, he hurled his indomitable energy into the two most vital arenas of American economic development: railroads and the telegraph. In both cases, he applied his familiar formula of competing to win with the best-run company. "My idea of a railroad is this," he once barked at a public hearing: "If you have been running a road and you spend nine or ten millions to run it, if I cannot do it for eight, and do it as well, I am ready to go from the road; that is profit enough for me."

Between 1862 and 1869, the Commodore did it well enough to gather up a motley assortment of 17 local rail lines and forge them into the mighty New York Central system running between New York and Chicago, second only to the Pennsylvania Railroad in strength and prestige. He did this by ruthlessly watering the stock of the companies he bought, then increasing their value through unified management, reduced costs, and improved efficiency. In 1871, he gave New York a splendid new railroad station called Grand Central Depot. Applying the same formula to the telegraph industry, Vanderbilt bought control of giant Western Union, squeezed the water out of its stock, bought up smaller competitors, and imposed his own brand of efficiency on the operation.

"His ambition is a great one," admitted a grudging Charles Francis Adams Jr. "It seems to be nothing less than to make himself master... of the great channels of communication which connect the city of New York with the interior of the continent, and to control them as his private property." The Commodore was still hard at the task when death claimed him in 1877.

Nine years later, a Boston manufacturer named Edward Atkinson tried to put Vanderbilt's achievement in perspective for some critics who complained that Vanderbilt grew rich while his workers got low wages. Admitting that Vanderbilt made about 14 cents profit on every barrel of flour shipped over his railroads, Atkinson observed that in the process he also greatly lowered the price of flour. "Did Vanderbilt keep any of you down," he demanded, "by saving you \$2.75 on a barrel of flour, while he was making 14 cents?"

Jay Gould, whose swashbuckling market manipulations and titanic battles for corporate control earned him the reputation as the most hated man in America, had much in common with his business enemy Vanderbilt. Born on a Delaware County, New York, farm in

1836, he overcame a frail, sickly constitution to become the quintessential Robber Baron. He was so intelligent, so strikingly original, and so devious that Josephson dubbed him "Mephistopheles." His positive achievement was as full as it was complex. No one developed more of the American West than Gould did through his investments in railroads, mines, real estate, timber, and other industries.

After an early career in tanning, Gould came to Wall Street to try his luck, bringing little capital and no contacts but a formidable intellect. All his life he remained an outsider to the establishment, forging his independent way backed by a corps of trusted followers, whom he led in a soft-spoken, self-deprecating style. Once, late in life, he told a reporter that he was a mere passenger on the vehicle of his enterprises; but those in the know never doubted who was at the wheel, even when the enterprises grew immense.

Between 1874 and his death in 1892, Gould reshaped even more dramatically than Vanderbilt the two key sectors of transportation and communication. He reorganized the floundering Union Pacific Railroad and put it on solid footing, then bought into the small Missouri Pacific Railroad and used it as the nucleus for a giant rail system through the largely undeveloped Southwest. His forte was developing not only railroads but the regions through which they ran. Unlike many men of wealth, he put none of his money into safe investments like government bonds but instead committed it to the development of mines, stockyards, industries, timberland, and other sources of freight traffic along the roads he controlled.

Gould, observed General Grenville M. Dodge, a railroad surveyor and financier who knew him well, "will stand in history as having risked and planted his millions in developing a new country, while others merely risked and planted their millions in a country already developed . . . where there was no risk as to returns."

During the 1880s, Gould wrested control of Western Union from Vanderbilt's son William and imposed on it no less efficient a management than the Commodore's. He also turned his attention to New York's troubled elevated railroads. Always a master at the salvage of floundering properties, he bought control of the rival el lines and gave them the most efficient (and profitable) management they had ever had. The elevated roads proved invaluable in New York's rise to commercial and financial leadership.

Gould was an innovator in everything he touched, whether on Wall Street, in his many and far-flung enterprises, or in the courts, where he became one of the nation's chief litigants (he was a pioneer in using the law to deceive, delay, and obfuscate, and in the bargain helped elevate Shearman & Sterling to one of the New York's leading law firms). No less protean an innovator was John D. Rockefeller, one of the first entrepreneurs to be excoriated by critics. Born on a farm in upstate New York, he migrated to Cleveland in 1853 at age 14. There he entered a firm that bought and sold commodities on commission. This was an emerging business in America, one made possible by the railroad and the telegraph. Rockefeller recalled the value of this experience to his early education: "We would receive, for example, a shipment of marble from Vermont to Cleveland. This involved handling by railroad, canal, and lake boats. The cost of losses or damage had to be somehow fixed between these three different carriers, and it taxed all the inge-

nuity of a boy of 17 to work out this problem to the satisfaction of all concerned, including my employers."

At 20, Rockefeller opened his own commodity firm; four years later he became a partner in a new oil refining company. A devout Baptist, in business Rockefeller worshipped at the altar of efficiency and devised his own ritual for shaping the oil industry. Through tight organization and ruthless cost-cutting, he came to dominate virtually all the refineries in Cleveland and then spread out into refineries in other states at a time when American law had no useful vehicles for the operation of multistate enterprises. Operating in a legal environment never designed for the interstate structure and scale of economic activity that was emerging, Rockefeller became a key pioneer in big business.

To consolidate his hold on a growing empire of refineries, Rockefeller created the Standard Oil Company of Ohio in 1870. Together with his associates, he formed similar companies in other states as he brought competing firms into alliance with him and added their most talented managers to his service. Debarred by law from managing these companies directly, he created in 1882 the nation's first trust, a legal device placing corporate control in the hands of Rockefeller and eight associates as trustees. This quasi-legal form of control gained such notoriety as to become a pejorative buzzword for big business. Yet for Standard Oil the trust lasted only until the 1890s, when Rockefeller made Standard Oil of New Jersey the flagship of his empire under a new state law that legalized holding companies for the first time. By evolving new organizational forms that enabled him to manage an enormous and complex national operation from New York, Rockefeller gave the city a crucial boost toward becoming the corporate capital of the nation.

He did more than create a giant empire. He brought such high-pressure efficiency to the oil industry that he could undercut rival firms and still turn a profit. He developed new oil fields and new technologies that enabled once-unusable oil to be refined. From its dominance of oil refining, Standard Oil integrated backward to the buying of oil fields and forward into retailing. Standard controlled every aspect of the process, from the time the oil left the ground until it reached the consumer's hands. Personally, Rockefeller extended his own interests into iron ore, railroads, lake shipping, and many other fields.

By 1905, Rockefeller's net worth approached \$240 million, and that year alone his charitable gifts exceeded \$13.6 million. Five years later, he gave Standard Oil stock worth \$50 million as seed money for a foundation bearing his name. As his fortune grew, so did his philanthropy. Like many of the entrepreneurs, he became as active late in life giving away money as he had been earlier in accumulating it.

what Rockefeller did for oil, Andrew Carnegie did for iron and steel, Henry Haverneyer for sugar refining (one of Brooklyn's major industries), Gustavus Swift for meat packing, Charles Pillsbury for flour milling, James B. Duke for cigarettes, Richard Sears for mail-order retailing, and Henry Ford for automobiles. The rise of giant enterprises rode a crest of merger mania at the turn of the century, which in turn required immense amounts of capital. Accordingly, in the field of banking, two giants transformed a sleepy

insider's profession into the heart of the new industrial order, with New York as its undisputed headquarters.

J. P. Morgan's portly figure looms so large in the history of American banking that other worthies have difficulty escaping its shadow. The son of a wealthy banker, Morgan developed his firm into the dominant house in America at a time when investment bankers were beginning to seize center stage in the industrial economy.

Like some fine old piece of Victorian furniture, solid and massive, built to endure the ages, the House of Morgan at 23 Wall Street was a rock of stability and conservatism in turbulent times. No one commanded more influence, had more connections, or boasted a more unimpeachable reputation for integrity and reliability than Morgan. On Wall Street he was known as "Jupiter," the titan to whom all others deferred.

That reputation stood the nation in good stead during the Panic of 1907, when the aged Morgan gathered about him in his magnificent library on Madison Avenue the leading bankers and business figures in New York in a concerted, and successful, effort to halt the sell-off. Since the United States had no central bank or any institution capable of exerting leadership during such crises, Morgan became the equivalent of a central bank, harnessing balky bankers to put up funds to stave off bankruptcies or provide loans for investors to meet their margin calls. Through the long meetings, a weary Morgan sat at his desk, playing solitaire and smoking a cigar, calculations turning in his head as the cards flipped through his thick fingers. Amid his opulent art and manuscript treasures, leading financiers came to his desk with gloomy expressions, relayed news, received their marching orders, and departed.

Through this ordeal of beating back the Panic, no one stood more staunchly at Morgan's side than James Stillman, head of the National City Bank. A transplanted Texan of impeccable dress and velvet manner, Stillman was so reticent that he earned the sobriquet "The Man in the Iron Mask." But his banking genius spoke for him. Stillman foresaw the vast expansion taking place in American business and made his bank a major player. In 1891, when he became its president, the National City Bank was only the 12th largest commercial bank in the city. When he retired in 1909, the bank was the largest and strongest in the nation, with assets of nearly \$334 million, ten times the amount of 1891.

A cultured, complex man, with a touch so fine and graceful it seemed magical, Stillman understood his rivals and associates well. Once, after relating the story of how he had helped Morgan provide the government with a loan during the gold crisis of 1894, he paused to light a cigarette and then murmured, "You see ... he is a poet; Morgan is a poet." But Stillman's visionary eye never lost sight of what the game was about. Hearing the young banker Henry Morgenthau express surprise at the amount of profit on a transaction, he quietly replied, "Morgenthau, you don't understand what profits we are in the habit of making."

Stillman had the rare ability to remain his own man while forging alliances with other strong personalities. He remained on good terms with Morgan even while joining forces with Morgan's chief rival, Jacob Schiff of Kuhn, Loeb; with William Rockefeller, who had

moved out from beneath his brother's shadow to become a force of his own; and with E. H. Harriman, who had fought many a bitter battle with Morgan over the years. It helped that Stillman's two daughters were married to William Rockefeller's two sons.

Using these connections, Stillman moved National City into investment banking as a major player, broadening its customer base to include many of the largest corporations. He opened a foreign exchange office, entered correspondent banking, and bought stock in several smaller banks and trust companies. To cement the ties he forged, Stillman lured the heads of great enterprises onto the board of National City Bank and gleaned priceless information from them at board meetings. "These men attend board meetings once a week and receive \$10 for their attendance," he observed with a faint smile, "and for that price I am free to pick their brains."

The Robber Barons put their stamp on cultural as well as business institutions in New York and most other cities. There is scarcely a museum, art gallery, concert hall, orchestra, theater, university, seminary, charity, or other social or educational institution that does not owe its beginnings and support to these men. Whatever their motives, the enduring results remain one of the most impressive monuments to the Robber Barons' careers.

One venerated New York landmark, the Morgan Library, offers a striking example of the connection between business, culture, and philanthropy. In that miniature marble palace on 36th Street, Morgan conducted some of his meetings or enjoyed the company of friends and family, surrounded by some of the treasures from his fabulous art collection. Later that collection became the core for the Metropolitan Museum of Art. Not all of the city's landmarks bear the name of the endower, as Carnegie Hall and Rockefeller Center do, but most—from New York University to the New York Public Library—have money from the entrepreneurs behind them.

Thanks to the efforts of the entrepreneurs, wealth congregated in New York as nowhere else in the land. When the New York Tribune attempted in 1892 to identify every millionaire in the nation, by state and city, it came up with a list of 4,047 names. Of that number, 27 percent lived in New York City, a figure not remotely approached by any other place. Brooklyn (then a separate city) had another 4 percent, giving the metropolitan area 31 percent of the total. New York was a city of immigrants in more ways than one. Men who had made fortunes elsewhere could seldom resist coming to the city to test their mettle in the major leagues. The American city was the ultimate marketplace in those years, and no city offered a more daunting challenge or greater rewards for success than New York.

This influx of migrant millionaires eager for fresh conquests may have given New York a lopsided distribution of wealth, but it also endowed the city with a collection of business talent, genius, and acumen unmatched anywhere else in the world. Rockefeller called Cleveland home, but in the 1880s he moved permanently to New York. Andrew Carnegie presided over the largest part of Pittsburgh's steel mills, but his mansion sat opposite Central Park. William A. Clark earned his fortune in the mines of Montana but came to New York to lavish it on a young wife, an enormous mansion, and a craving to become

a U.S. Senator. Joseph Pulitzer made his journalistic reputation in St. Louis before acquiring the New York World and enlightening a new audience. Collis P. Huntington built the largest transportation empire in the world, most of it in the Southwest and West, but he ran it from a desk in New York.

Americans have always been ambivalent about the role of business and its leaders—indeed, about wealth itself. The entrepreneurs inflamed this ambivalence by piling up unprecedented fortunes, counted in the tens of millions of dollars, while the average working man was taking home less than \$500 a year. In the process, they ushered in the age of the superrich and the popular obsession with them. Ward McAllister, the high priest of fashionable New York society, offered this glimpse into what happened when the possessors of the new industrial fortunes laid siege to the citadel of old money and genteel society during the 1880s:

Up to this time, for one to be worth a million of dollars was to be rated as a man of fortune, but now . . . New York's ideas as to values, when fortune was named, leaped boldly up to 10 millions, 50 millions, 100 millions, and the necessities and luxuries followed suit. One was no longer content with a dinner of a dozen or more, to be served by a couple of servants. Fashion demanded that you be received . . . by from five to six servants, who, with the butler, were to serve the repast. . . . Soft strains of music were introduced between courses, and in some houses gold replaced silver in the way of plate. . . . Our forefathers would have been staggered at the cost of hospitality of these days.

Defenders of these new fortunes equated wealth with success and extolled it as a reward of character, proof of the Protestant ethic in action. In an age bereft of political heroes, the entrepreneurs who forged America's industrial economy served as role models for the nation's young.

The best of them exemplified virtues long treasured by Americans: vision, energy, perseverance, hard work, and character. Even though most started near the top, enough outsiders, like Gould, Carnegie, and Vanderbilt, climbed the slippery ladder of success to preserve the American dream that anyone could do so.

But still these businessmen were vilified, at bottom perhaps because they did their work too well. So brilliantly did they exploit the open system to amass wealth and power that they forced radical changes in the rules by their excesses, even as they forged an industrial system that produced quality goods on a colossal scale at prices that declined steadily for more than 30 years.

E. H. Harriman, who by the time of his death in 1909 controlled more railroad mileage than anyone else and had brought the industry into a new era based on long hauls of large volumes at low rates, pronounced the most clear-sighted judgment on himself and his fellow Robber Barons. During an interview, he startled a reporter by pulling out a sheet filled with data on improvements to the Union Pacific Railroad. "As he read from it," the reporter later recalled, "I realized it was the apologia pro vita sua."

"But the public assails and attacks you," said the reporter when Harriman had finished, "and impugns your motives and accuses you of all sorts of things. Doesn't the thanklessness of the job ever embitter you?"

Harriman responded by slapping the sheet of statistics with his hand.

"That," he said defiantly, remains."