

SHAPING THE AMERICAN ECONOMY

Robber Barons or Captains of Industry?

by *T. J. Stiles*

On February 9, 1859, Henry J. Raymond, editor of the *New York Times*, said something strange about Cornelius Vanderbilt. Raymond didn't like Vanderbilt, a steamship tycoon with such a vast fleet that he was known as the Commodore, then the highest rank in the US Navy. In an editorial titled "Your Money or Your Line," Raymond blasted him for taking a large monthly payment from the Pacific Mail Steamship Company in return for Vanderbilt's foregoing competition on the sea lanes to California.

"Like 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," Raymond wrote, "Mr. Cornelius Vanderbilt . . . has insisted that the Pacific Company should pay him toll, taken of all America that had business with California."

Though Raymond never used the exact phrase "robber baron," his editorial is the first known use of the metaphor in American journalism. It has become an enduring description of the industrial moguls of the nineteenth century. It conjures up visions of titanic monopolists who crushed competitors, rigged markets, and corrupted government. In their greed and power, legend has it, they held sway over a helpless democracy.

But here's the strange part: That's not what Raymond meant. He compared Vanderbilt to medieval robber barons because he preyed upon monopolists. Pacific Mail had total market control of the sea lanes to California, and it bought off Vanderbilt in order to preserve its monopoly. Raymond attacked the Commodore for pursuing "competition for competition's sake; competition which crowds out legitimate enterprises." To the editor of the *New York Times* in 1859, Vanderbilt was a robber baron because he was a challenger, a spoiler—almost the opposite of the current meaning of the term.

So how did the definition of "robber baron" change from Raymond's to our own? The simple answer is *scale*. Starting in the middle of the nineteenth century—even as Raymond wrote "Your Money or Your Line"—the first truly large enterprises began to emerge. The rise of big business reshaped not only the economy, but politics and culture as well.

A few key individuals played a leading role in this process. Condemned as robber barons or praised as captains of industry, they helped to invent the giant corporation and became the focus of the modern debate over opportunity and equality, over the power of private enterprise and the role of government



Cornelius Vanderbilt, ca. 1865. (Gilder Lehrman Collection)

Cornelius Vanderbilt, ca. 1865. (Gilder Lehrman Collection)

regulation.

THE MAKING OF A COMMODORE

The life of Cornelius Vanderbilt offers a convenient guide to both the impact of these titans and the controversy that surrounded them. For one thing, his career lasted through most of the nineteenth century. Born on a farm on Staten Island in 1794, during the presidency of George Washington, he lived long enough to make deals personally with John D. Rockefeller and leave Andrew Carnegie and J. P. Morgan hungering for his business. For another, he himself was at the forefront in creating the first large enterprises, which first appeared in his industry, transportation.

Vanderbilt's early decades as a regional steamboat manager and entrepreneur help explain Raymond's curious use of the robber-baron metaphor (curious to our ears, that is). Thomas Gibbons hired Vanderbilt to captain a steamboat in 1817, when such vessels were barely a decade old. With relatively few banks and only infant financial markets, the economy was ruled by unspecialized general merchants. In keeping with the eighteenth-century belief in a natural social hierarchy, a few patrician, land-owning families provided leadership in all areas of public life—politics, business, and society. In fact, New York's state constitution, which went into effect in 1777, established a three-tiered system of citizenship, with escalating property requirements for voting; only those in the top bracket of wealth could cast ballots for governor and the state senate.

Gibbons challenged that system through a business and legal battle against a New York state monopoly on steamboats. In 1798, the legislature had granted the monopoly to Chancellor Robert R. Livingston, head of one of the most prestigious patrician families; though he had shared it with inventor Robert Fulton, he passed it down to his descendants as a hereditary right. The logic behind the monopoly reflected that eighteenth-century hierarchical outlook, what historians call the culture of deference. The orderly development of the economy, the state legislators believed, should be directed by the patrician class; New York needed steamboats, so it turned to one of its leading families to provide them, in return for a monopoly.

Gibbons attacked the monopoly because of a personal vendetta against Aaron Ogden, a former governor of New Jersey who was licensed to run a steam ferry between New York and New Jersey. With Vanderbilt in charge of the boat, Gibbons punished Ogden in business, even as he brought a legal challenge to the US Supreme Court. “Gibbons runs an elegant steamboat for half price . . . purposely to ruin Ogden,” wrote one aristocratic observer. “Ogden has lowered his price and now Gibbons says he will go for nothing. Did you ever hear of such malice in this enlightened age?” Though “malice” seems like an odd word for offering better service at lower prices, it speaks to the patrician mindset. Competition was a new thing on the American scene, and the old landed elite did not welcome it. They saw it as a destructive force, plain and simple.

Gibbons won the court battle in 1824 when Chief Justice John Marshall ruled that states could not erect barriers to interstate commerce, in *Gibbons v. Ogden*. Ogden went to debtor's prison, and Gibbons himself died in 1826. Vanderbilt soon emerged as a steamboat proprietor in his own right. He

concentrated on the main artery of trade as it shifted across the landscape—always with one end in New York. When the Erie Canal opened, he competed between New York and Albany; when textile mills began to sprout in New England during the industrial revolution, he switched to Long Island Sound, on the route to Boston. Everywhere he went, he was feared as the most effective competitor, one who either destroyed his enemies or extracted a ransom in return for leaving a market. As one businessman wrote to a partner about Vanderbilt, in contemplating who might prove to be an ally or a rival, “I confess if we are to be opposed I’d sooner have *him* with us, than against us.”

Conservative members of the Whig Party sometimes condemned such competition, just as the old patricians had. They desired rapid economic development, but believed that it should be guided and assisted by the government. Jacksonian Democrats, on the other hand, praised competition, upholding aggressive self-interest in the marketplace as a matter of individual liberty. This was an era of increasing democratization, as suffrage was being granted to all men (though usually only white men), regardless of their wealth. The principle of individual equality—of competitive individualism—infused the Jacksonians’ view of everything. In their eyes, government involvement in the economy only served to grant special privileges to favored (usually wealthy) men, which created an artificial aristocracy, the antithesis of democracy.

When Henry J. Raymond of the *New York Times* condemned Vanderbilt in 1859 for competing against “legitimate enterprises,” he wrote as an old Whig (though the Whig party had disappeared by then). He saw Pacific Mail as a virtuous example of Whig values: Though privately owned, it had been organized to fulfill a federal plan to guarantee regular communications between California and the rest of the United States and received a federal subsidy in return for carrying the mail. The irony is that the California steamship business itself helped change the American economy in ways that would make Raymond’s views seem obsolete within just a few years.

When the California Gold Rush began, Vanderbilt abruptly left the regional transportation market around New York and competed in this oceangoing steamship business. Even though the federal government subsidized his competitors (Pacific Mail and its partner, the US Mail Steamship Company), he built steamships to run on both the Atlantic and Pacific, which connected via a transit route across Nicaragua, farther north than the established crossing in Panama. In 1851 he inaugurated the line, offering lower fares and a faster passage. He again proved himself a consummate competitor, and swiftly earned a fortune. When the Nicaragua route was closed by a war in 1856, Pacific Mail and US Mail paid him the large monthly fee discussed by Raymond to prevent him from competing by way of Panama.

These California steamship lines gave Americans a glimpse of the future of big business. They stretched for thousands of miles, with stations in distant countries. When they fought each other, the repercussions were felt by hundreds of thousands of travelers, California residents, and businesses. The demands of these enterprises also fed other industries. For example, Vanderbilt purchased (and expanded) a major shipyard and steam-engine works in New York.

Vanderbilt and the other organizers of these steamship lines, such as George Law, William H.

Aspinwall, and Marshall O. Roberts, became household names in the 1850s. And yet, with the exception of Vanderbilt, none are remembered today. For one thing, the steamship lines were soon eclipsed by the transcontinental railroads—the first being completed in 1869. And the railroads, broadly speaking, far surpassed shipping as true examples of big business.

Except in geographical extent, the California steamship lines could not match the largest railways in terms of numbers of employees, volume of business, capital requirements, or almost any other measure. And it was the railroads that, directly or indirectly, gave rise to the most famous captains of industry (or, if you prefer, robber barons). Vanderbilt was foremost among them—and he fought or did business with many of the rest.

THE RAILROAD KING

In 1863, amid the turmoil of the Civil War, Vanderbilt began to sell off his steamship interests in order to buy large amounts of railroad stock. The younger brokers on Wall Street mocked him, refusing to believe that the old Commodore knew anything about the nation's most dynamic industry. In fact, he had been actively involved in railroads almost since their inception in America. His steamboats had connected with New England's early railways, and in 1847 he had seized the presidency of the Stonington Railroad, a strategic line in Rhode Island and Connecticut. During the 1850s, he helped to save the endangered Erie Railway and New York & Harlem Railroad (better known as the Harlem), lending them money and helping to restructure their debt. When he took the presidency of the Harlem in 1863, then, he drew upon deep experience with the stock exchange, corporate finance, the railroad industry, and this particular line.

In some respects, Vanderbilt became the greatest railroad tycoon of his era almost by accident. At the age of 69, he simply wished to show that he could turn a nearly bankrupt railroad into a thriving company. But the fragmented nature of the railroad system—a vast net of small lines, each built to serve a local community rather than a national network—led to one conflict after another. In each case, he would pursue diplomacy with a connecting line, seeking an amicable agreement; the attempt would fail, a business conflict would ensue, and Vanderbilt would triumph, ending the war by purchasing control of the neighboring railway.

After he assumed the presidency of the Harlem in 1863, he ran into trouble with the neighboring Hudson River Railroad. He took control of it in 1864, which gave him a monopoly on the railways that entered Manhattan. In January 1867, concluding a long struggle, he seized the New York Central after stopping all trains over the Hudson River at Albany, an act that largely severed New York City's connection to the rest of the country (albeit only briefly). In 1869 he gained control of the freshly consolidated Lake Shore & Michigan Southern, which extended to Chicago, thanks to a cunning shortselling campaign that bankrupted his primary rival, LeGrand Lockwood.

Only one major campaign failed: his attempt to corner stock in the Erie Railway in 1868. Vanderbilt wanted to punish his old friend and rival Daniel Drew, who had betrayed the Commodore and his allies on the stock market. The resulting conflict came to be known as the Erie War. Drew, the treasurer of the

Erie Railway, allied himself with new members of the board of directors, particularly Jay Gould and Jim Fisk. As Vanderbilt bought Erie stock, Drew sold it short. Then the Erie board flooded Wall Street with fresh share certificates of dubious legality. A famously corrupt judge, George Barnard, issued arrest warrants for the directors, prompting them to pack up the Erie corporate files (and funds) and flee to New Jersey. Gould visited Albany, New York's capital, with a suitcase full of greenbacks and checkbooks—which convinced the suddenly enriched state legislators to legalize the new shares. But Barnard kept his arrest warrants out, so the Erie board had to compromise with Vanderbilt. The company restored his losses on the stock exchange; in return, Vanderbilt asked the judge to lift the warrants and allow the Erie directors to return to New York.

This was a critical episode in the making of the modern notion of the “robber baron.” For very good reason, the Erie War came to symbolize the rampant corruption wrought by the enormous new railroad corporations. Yet closer inspection reveals the nuance behind the historical stereotype. Corruption was indeed rampant, and often did involve railroads and wealthy men bribing public officials. Yet it also came in the form of extortion by officeholders, who threatened to pass harmful laws unless corporations paid off the legislators. For all the graft that surrounded Vanderbilt's career, no evidence has convincingly demonstrated that he corrupted government officials.

The Erie War also suggests why robber barons (or, if you prefer, captains of industry) loom so large in the popular imagination: Through such dramatic episodes, they personalized the very process of depersonalization. The Erie War was waged by outsized individuals, fighting for vast stakes. Yet the weapons, the battlefield, and the prize itself reflected the rising institutionalization of the emerging corporate economy. Vanderbilt, Drew, Gould, and Fisk fought with securities—stocks and bonds—traded on a formal exchange, financed by large banks, in order to gain control of a massive, bureaucratically managed enterprise. They made dehumanization human.

Of course, these individuals were indeed important. They made decisions that affected the lives of millions. Vanderbilt in particular spanned a long period of economic history, from an age of individual proprietors and small partnerships, to a corporate world of anonymous investors and multi-tiered professional management. As one of the most successful businessmen during this transformation, he attained disproportionate wealth and influence. To paraphrase an old cliché, he was in on the ground floor—and as the building rose, he stood atop the roof all the way, giving directions as it was built. Ironically, this new corporate structure was not dependent upon individuals, as the old society had been. Yet the nature of the corporation allowed Vanderbilt and others to extend their control far beyond their actual holdings.

As the “Railroad King” (to use the newspapers' nickname for Vanderbilt), he took a series of dramatic steps that reshaped the railroad industry. He consolidated smaller lines into some of the first giant corporations in American history—capitalized at levels that dwarfed entire industries at the time. With his son William Henry Vanderbilt as his operational chief, he rationalized the organization of his companies, and brought in professional managers. He introduced new efficiency into the nation's transportation system, lowering costs and building key new infrastructure. The New York Central & Hudson River Railroad paid steady, healthy dividends to investors, even during the depression that

began with the Panic of 1873. As the *Railroad Gazette* wrote of him after his death in 1877, “His early career as a railroad manager was distinguished by a series of bold, startlingly revolutionary measures which attracted universal attention and had an effect reaching far beyond the lines and companies with which he dealt directly. The Vanderbilt era was the first great era of consolidations.”

CAPTAINS OF INDUSTRY

As the nation’s first big business, railroads occupied the center of the economy, a driver of demand and shaper of strategic interests of other enterprises that gave rise to the classic captains of industry. In Cleveland in the 1860s, a pious young bookkeeper named John D. Rockefeller Sr. formed a petroleum-refining business with partner Henry Flagler. They called it Standard Oil. Using some of Vanderbilt’s own competitive tactics—driving down prices and buying out competitors—they began to dominate the young oil industry. Relations with railroads, which shipped oil, were a primary concern. Rockefeller worked closely with the Commodore and his son to maintain healthy relations and obtain preferential rates.

Railroads were even more central to Andrew Carnegie’s career. A famously penniless immigrant from Scotland, Carnegie rose through the ranks of the mighty Pennsylvania Railroad as the protégé of Thomas A. Scott, first superintendent and then vice-president of the company. Scott and J. Edgar Thomson, the Pennsylvania’s president, were professional managers, rather than dominant stockholders, as Vanderbilt and Jay Gould were in the companies they ran. Though they were excellent executives, they also developed a variety of methods to skim money out of the Pennsylvania’s transactions. They often demanded stock in companies that contracted with the railroad, and sometimes routed business through shell companies that they personally controlled.

Carnegie got his start as an entrepreneur with a series of enterprises that fed the Pennsylvania’s voracious demands, from sleeping cars to bridges to iron, obtaining contracts through such pay-offs and his personal relationship with Scott and Thomson. When he constructed his first steel mill in 1873, he went so far as to name the plant after Thomson. Yet he had learned his lessons well: He made sure that the steel company was a private partnership, and kept a close eye on the various managers. He did not want anyone to profit off his own firm as his mentors had from the Pennsylvania.

J. P. Morgan, too, rose with the railroads. Born into a banking family, he spent much of his career as a banker to the railways, serving as advisor, organizer, and financial agent. Throughout the nineteenth century, railroads continued to be the most capital-intensive (and thus most capital-hungry) companies in America, so the great financial houses were largely devoted to serving their needs. Morgan helped to reorganize and rationalize burgeoning industries, restructuring railroads to end destructive competition and fostering such giants as General Electric and US Steel. He helped to move big business out of the age of the pioneering titans and into an era of institutionalization.

Ironically, Morgan helped inspire the single most important, and lasting, federal intervention in the economy. “When a panic started in New York in 1907,” wrote biographer Jean Strouse, “he led teams of bankers to stop it.” And stop it he did. But his very success made Congress painfully aware of the level

of influence held by this private individual, and of the vulnerability of the financial system. The result was the creation of the Federal Reserve, America’s central bank.

THE BIRTH OF REGULATION

Vanderbilt, Carnegie, Rockefeller, and others are often remembered as monopolists, yet they radically lowered prices. As early entrants into their markets, they fought their way through chaotic competition by strictly controlling costs and increasing efficiency at every step. By making transportation, steel, and oil far cheaper and more widely available, they contributed to the rapid growth the American economy, and the creation of tremendous wealth.

Not everyone was happy with these developments. The rise of large companies also gave rise to a new class of lifelong wage workers (by contrast with earlier generations, which had anticipated owning their farms or shops). Unionization and strikes increased rapidly after the Civil War. Starting in the 1870s, workers demanded laws to limit the workday to eight hours.

Farmers, too, felt helpless before the railroads—“the greatest and most powerful monopoly on the face of the earth,” in the words of one orator. “They let the public feel their power in the fuel of their kitchens, the bread of their bodies, the material for their houses.” Cheaper transportation integrated the national marketplace, putting farmers in distant regions into direct competition with each other. And railroads gave discounts to large, long-distance shippers; farmers who sent their harvest and livestock over short distances to local markets resented paying a higher rate per mile.

As with workers’ demands for eight-hour laws, agrarian radicals wanted government action. One council of Grangers declared, “We hold that a state cannot create a corporation that it cannot thereafter control.” Another speaker said, “The time would come when the management of the roads must fall into the hands of the public.”

This call for public regulation, even ownership, marks a major shift in politics. Gone were the days when Jacksonian radicals wanted the government to stay out of the economy, to allow individuals to rise on their merits. Now those on the left embraced government intervention as a means of countering the new power of large corporations, which towered over the economy as no businesses had before the Civil War.

It took decades for this kind of regulation—especially federal regulation—to emerge. Yet even before the death of Cornelius Vanderbilt in January 1877, the modern argument over private enterprise and the role of government had clearly emerged. In a sense, it does not matter whether one sees Vanderbilt and his peers as robber barons or captains of industry; it is the fact that we argue about them as one or the other that matters most. They not only changed the way we live—they changed the way we think.

T. J. Stiles is the author of *The First Tycoon: The Epic Life of Cornelius Vanderbilt* (2009), winner of the 2009 National Book Award for Nonfiction and the 2010 Pulitzer Prize for Biography, and *Jesse James: Last Rebel of the Civil War* (2002).

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