

## AMERICAN VOICES

MATTHEW JOSEPHSON, describing the Gilded Age, in his 1934 book, *The Robber Barons*:

At Delmonico's the Silver, Gold and Diamond dinners of the socially prominent succeeded each other unfailingly. At one, each lady present, opening her napkin, found a gold bracelet with the monogram of the host. At another, cigarettes rolled in hundred-dollar bills were passed around after coffee and consumed with an authentic thrill. . . . One man gave dinner to his dog, and presented him with a diamond collar worth \$15,000.

**Who were the robber barons?**

Wall Street's insider trading scandals and the New York City corruption high jinks of the 1980s are polite misdemeanors when viewed against the wholesale corruption of American business and politics during the late nineteenth century. This was the era when political genius took a backseat to a genius expressed in accumulating and holding more private wealth and power than had been possessed in history. One illustration of this power was the financier John P. Morgan Sr.'s refusal to make loans to the U.S. government because it lacked collateral. In 1895, Morgan bailed out a nearly bankrupt federal government by exchanging gold for U.S. bonds, which he promptly resold at an enormous profit.

The accumulation of American wealth in the hands of a few was nothing new; since colonial times a minority had held the vast majority of the nation's wealth. But the late nineteenth century brought this concentration of wealth to unprecedented heights.

After the war, the lands of the West were opened up, cleared of Indians, and ready for the great surge. To reach these rich lands—to bring the cattle and wheat to eastern markets to feed the factory workers who made the tools and machinery to mine the gold, silver, and copper—called for cheap, fast transportation. Building more railroads required four basic components: land, labor, steel, and capital. The federal government provided the land; immigrants on both coasts supplied the

labor; Andrew Carnegie provided the steel. And J. P. Morgan Sr. and Jr., the bankers' bankers, provided the cash.

With unlimited vistas of western wealth, the plan to link East and West by railroad provided equally unlimited schemes to bilk the Treasury. Corruption came to the fore with the exposure of the Crédit Mobilier scandal in 1872. Massachusetts congressman Oakes Ames was a shovel maker and one of the directors of the Union Pacific Railroad, the company taking the line westward from Nebraska. Ames and the Union Pacific created a company called Crédit Mobilier of America, which was awarded all construction contracts. The company was paid \$94 million by Congress for work actually worth \$44 million. Ames had smoothed the way for this deal in Washington by spreading around plenty of Crédit Mobilier shares, selling them at half their value on the New York Stock Exchange. Among those enjoying this "insider trading" were congressional leaders, including future president James A. Garfield, and President Grant's first- and second-term vice presidents, Schuyler Colfax and Henry Wilson, giving the "vice" in the title a whole new dimension.

The Central Pacific, owned by Leland Stanford, built eastward from California and did the same things, winning land grants, contracts, and enormous overpayments to Stanford's railroad-owned construction company. Stanford got away with it and eventually built a university. Ames and Representative James Brooks of New York were censured by Congress, but neither of them got a university out of the deal. Other legislators were exonerated.

Besides the enormous costs in graft, the linking of East and West by rail, completed on May 10, 1869, at Promontory Point, Utah, cost thousands of workers' lives as the lines snaked their way over mountains, across deserts, or through Indian territory, decimating the buffalo as they went to feed the workers. Workers' lives and sound construction principles were cast aside, sublimated to greed and the rush to lay track to win bonuses. Bribes were paid by towns that wanted the railroad lines to run through them, and millions of acres of land were given away to the railroads as plums.

Ames's two terms were boom times for the corruptible. Besides the Crédit Mobilier scandal, which reached into the White House, there was the Whiskey Ring scandal, which defrauded the government of

millions in taxes with the assistance of the Treasury Department and Grant's personal secretary, Orville Babcock, a man with his proverbial finger in every pie. In the Bureau of Indian Affairs, corruption was equally widespread, with millions in kickbacks paid to administration officials all the way down the line, ending up with Indians on the reservation getting rotten food, when they were fed at all.

The millions made in these scandals were still small change when compared against the fortunes being made by the so-called robber barons, a phrase coined by historian Charles Francis Adams in his 1878 book, *Railroads: Their Origins and Problems*. But they raised their form of thievery to sound business organization and called them "trusts."

For many of these men, such as Gould and Vanderbilt, the railroad was the ticket to enormous wealth. "Commodore" Cornelius Vanderbilt (1794-1877) started by building a Staten Island ferry business into a steamship empire, expanding into railroads after the war. Through graft and bribery, Vanderbilt built the New York Central into the largest single railroad line in America, passing down a vast amount of wealth to his family, who then gave new definition to "conspicuous consumption" with lavish parties at which guests dug in a trough for jewels.

Jay Gould (1836-92), one of Vanderbilt's fiercest competitors, started with the Erie railroad line in New York, but was forced out after revelations of stock watering so blatant that officials in this "anything goes" era had to step in. Gould built a large empire with small lines in the Southwest, integrating them into a regional monopoly. In 1869, Gould and James Fisk, who had made millions selling shoddy blankets to the Union through Tammany Hall (see p. 271) attempted to manipulate the gold market, which was then governed by the traders in the Gold Room of the New York Stock Exchange rather than by the U.S. government, using an unwitting President Grant for their purposes. Slow to catch on to the scheme, President Grant stopped gold sales for a time, forcing up gold prices until he realized what was going on and released \$4 million in gold, driving gold prices down on "Black Friday" (September 24, 1869), causing a stock market panic that set off a depression lasting several years. (Gould was later shot dead by a former business partner in a quarrel over a shared mistress.)

With corruption and monopoly at the core of the railroad system, and the depression unleashed by the "Black Friday" panic, the rail

roads were ripe for disaster. By the 1890s, many of the lines were nearly bankrupt from intense competition and poor economic conditions. In stepped John Pierpont Morgan Sr. (1837-1913). (J. P. Morgan Sr. and Jr. are often confused, because of their names, appearance, and power.)

The son of an American banker who was based in London, Pierpont Morgan had not only avoided fighting in the Civil War, but had profited handsomely from it. Pierpont financed the purchase of some obsolete carbine rifles for \$3.50 apiece. Then he refinanced the purchase of the same rifles to a second man who paid \$11.50 each. The weapons were updated and resold for \$22 each. In a three-month period, the government had repurchased its old, altered rifles at six times the original price, and Morgan had financed the whole deal. As Ron Chernow writes in his book *The House of Morgan*, "The unarguable point is that he saw the Civil War as an occasion for profit, not service. . . . Like other well-to-do young men, Pierpont paid a stand-in \$300 to take his place when he was drafted after Gettysburg—a common, if inequitable practice that contributed to draft riots in July 1863." Later during the war when the gold market responded to war news with sharp ups and downs, Morgan tried to rig the market by shipping gold out of America.

By the turn of the century, Morgan had his hand in almost every major financial undertaking in America. His banking house was a millionaires' club that loaned money to other banks. Through Morgan, a small group of men was able to take control of the railroads of America, and by 1900, Morgan owned half of America's track mileage. His friends owned most of the rest, enabling them to set the railroad rates across the country.

In 1900 also, Morgan and steel king Andrew Carnegie (1835-1919) met at a party. Carnegie scribbled a figure, Morgan agreed, and U.S. steel was born, the first billion-dollar corporation. Unlike Morgan, Carnegie embodied at least a portion of the rags-to-riches myth. Born in Scotland, he immigrated to the United States with his family in 1848, and first worked in a cotton factory. His rise to power was mythic, going from telegraph clerk to secretary to the head of the Pennsylvania Railroad, and later becoming a Wall Street broker selling railroad admissions. When oil was found on a property he owned, Carnegie moved into the oil industry and later into iron and steel. Using an

improved steel production technique called the Bessemer method, which he had seen in England, Carnegie revolutionized steel production in the United States, and with ruthless efficiency, he set out to control the American steel market.

Carnegie and one of his managers, Henry Clay Frick, were violently anti-union. In 1892, while Carnegie was in Scotland, Frick provoked a bloody strike when he demanded a pay cut and an end to the union at his Homestead plant in Pennsylvania. When the workers refused to accept Frick's demands, he fired the entire workforce, surrounded the plant with barbed wire, and hired Pinkerton guards to protect the strike-breakers he brought in. Two barges carrying the Pinkerton guards were met by thousands of strikers and their friends and families, who kept the guards from landing, in a battle that left twenty strikers dead. Stiffening his back, Frick called on the state governor to send in 7,000 militiamen to protect the replacement workers. During the four-month confrontation, a young anarchist named Alexander Berkman—the lover of “Red Emma” Goldman (1869–1940), the most notorious anarchist leader of the day—shot Frick in the stomach, but only wounded him, and he was back in his office that day.

After the militia arrived, strike leaders were charged with murder, but all were acquitted. The plant kept producing steel with workers shipped in by railroad, and other Carnegie plants failed to join the Homestead strike, a union defeat that kept labor unorganized in Carnegie plants for years to come.

Another of the era's “giants” was John D. Rockefeller (1839–1937), a bookkeeper by training who was once hired to investigate the investment promise of oil. Rockefeller told his employers it had “no future” and then invested in it himself, buying his first refinery in 1862. With a group of partners he formed the South Improvement Company, a company so corrupt it was forced out of business. Rockefeller responded by forming Standard Oil of Cleveland in 1870. Standard bought off whole legislatures, made secret deals with railroads to obtain favorable rates, and weakened rivals through bribery and sabotage until Rockefeller could buy them out with Standard Oil stock. By 1879, Standard controlled anywhere from 90 to 98 percent of the nation's refining capacity at precisely the moment when oil's value to an industrial society was becoming apparent.

Twenty years later, Standard Oil had been transformed into a “holding company” with diversified interests, including the Chase Manhattan Bank. The key to this diversification had been the invention of the “trust” by one of Rockefeller's attorneys, Samuel C. T. Dodd, who was looking for ways around state laws governing corporations. Standard Oil, for instance, was an Ohio corporation prohibited from owning plants in other states or holding stock in out-of-state corporations. Dodd's solution was to set up a nine-man board of trustees. Instead of a corporation issuing stock, Standard Oil became a “trust” issuing “trust certificates.” Through this new device, Rockefeller gobbled up the entire industry without worrying about breaking corporate antimonopoly laws. The idea was soon copied in other industries, and by the early 1890s, more than 5,000 separate companies had been organized into 300 trusts. Morgan's railroad trust, for instance, owned all but 40,000 miles of track in America.

The trusts and the enormous monopolies kept prices artificially high, prevented competition, and set wages scandalously low. They were obviously not popular among working Americans. Standard Oil became the most hated company in America. Many of these monopolies had been built through graft and government subsidies, on the backs of poorly paid workers whose attempts to organize were met with deadly force. If any vague hope for reform rested in the presidency, it was false hope.

For a generation, beginning with Andrew Johnson's abbreviated term and the Grant years, the president almost seemed superfluous. In 1876, Rutherford B. Hayes (1822–93) became president because of a fraudulent election that stole the presidency from Democrat Samuel J. Tilden, resulting in a compromise with Southern Democrats that killed congressional Reconstruction and any hope for civil rights in the North. When Grover Cleveland (1837–1908) was elected in 1884, he named William Whitney his secretary of the navy. Whitney had married into the Standard Oil fortune and set out to build a “steel navy” by buying Carnegie steel at inflated prices.

Attempts at “reform” were mostly dogs without much bark or bite, intended to mollify a public sick of corruption. The Interstate Commerce Commission, established during Cleveland's administration to regulate railroads, was a charade for public consumption. Cleveland's

successor, Benjamin Harrison (1833–1901), was a former railroad attorney who had broken railroad strikes as a soldier. During his tenure, as a reaction to public sentiment, Congress passed the Sherman Anti-Trust Act of 1890, named for Senator John Sherman, brother of General William Tecumseh Sherman, for the purpose of protecting trade against “unlawful restraints.”

It was a weak law made even more puny when the Supreme Court ruled in 1895 that a company owning 98 percent of the nation’s sugar-refining capacity was a manufacturing monopoly, not one of commerce, and was therefore immune to the law. During an extremely conservative, pro-business period, the high court also ruled that antitrust laws could be used against railway strikers who were “restraining trade.” This Alice in Wonderland Court took its perverse interpretations another step when it ruled that the Fourteenth Amendment, passed to guarantee the rights of freed slaves, was a protection for corporations, which the court said were “persons deserving the law’s due process.”

Were any honest fortunes made? Of course. As the nation spread west—at the expense largely of the vanishing Indian—incredible opportunity opened up for Americans—many of them newly arrived immigrants or their children—to prosper. But in the broad historical sweep, it is safe to say that the era—and the nation—belonged to a small group of wealthy men, in other words, a plutocracy. As conservative historian Kevin Phillips recently wrote in *Wealth and Democracy*, “The measure of the Gilded Age, beginning in the 1870s, was that by the 1890s the goliaths of U.S. business, railroading, and finance had gained de facto control over many state legislatures, the federal judiciary, and the U.S. Senate.”

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From ANDREW CARNEGIE’s article “Wealth,”  
(published in the *North American Review*, 1890):

The Socialist or Anarchist who seeks to overturn present conditions is to be regarded as attacking the foundation upon which civilization itself rests, for civilization took its start from the day when the capable, industrious workman said to his incompetent and lazy fellow, “If thou dost not

*When Monopoly Wasn't a Game*

sow, thou shalt not reap,” and thus ended primitive Communism by separating the drones from the bees. One who studies this subject will soon be brought face to face with the conclusion that upon the sacredness of property civilization itself depends—the right of the laborer to his hundred dollars in the savings bank, and equally the legal right of the millionaire to his millions. . . . Not evil, but good, has come to the race from the accumulation of wealth by those who have had the ability and energy to produce it.

#### Of what was William Tweed boss?

In New York, quite a bit of energy and ambition were directed toward acquiring wealth. But much of it was being acquired through systematic corruption on a grand scale. The epidemic of greed didn’t begin or end with Washington and the great captains of industry. It extended to the local level, perhaps most notoriously in New York, the seat of power of William Marcy Tweed (1823–78), the infamous “boss” of Tammany Hall. The word Tammany was a corruption of the name Tammamund, who was a Delaware Indian chief of the early colonial period said to be “endowed with wisdom, virtue, prudence, charity.” These were qualities in conspicuously short supply in the club named for the chief.

Tammany began as one of many fraternal societies that adopted Indian names in post-Revolution days. Unlike the Society of Cincinnati, which was reserved for Washington’s officers, groups like Tammany were for the common soldier, and their political value soon became apparent to clever power brokers like Aaron Burr and Martin Van Buren. By the time of the Civil War, the clubs not only had political pull, but had become quite corrupt, serving as a conduit for government contracts to crooked suppliers who sold the Union shoddy blankets and maggot-ridden meat.

A mechanic by trade, Tweed rose to his greatest heights of power ostensibly as chief of the Department of Public Works in New York City. But that small title gave no sense of the grip he possessed on almost every facet of city life. As the leader of Tammany Hall, the New York