Chapter Two

THE RISE OF THE ROBBER BARONS

[Railroad tycoon Cornelius] Vanderbilt is but the precursor of a class of men who will wield within the state a power created by it, but too great for its control. He is the founder of a dynasty.

—Charles Francis Adams Jr., "A Chapter of Erie," 1869

From its earliest days, the United States was a place where individuals could take huge financial risks and reap equally huge rewards. Land speculation, get-rich-quick schemes, stock market fluctuations, and financial panics became common characteristics of the American economy. People admired businessmen who bested their competitors or government authorities to achieve the "American dream" of wealth and power. But this atmosphere of cutthroat economic competition reached new heights during the Gilded Age, which extended roughly from the end of the Civil War in 1865 to the turn of the twentieth century. Unprecedented economic development was accompanied by unbridled competition, excessive greed, manipulation of markets, and political corruption. Government officials handed out subsidies, land grants, tariffs, and other political favors in return for campaign contributions, cheap stock, free goods and services, and even outright bribes.

The Gilded Age created a new class of business owners who wielded great power and lived in great luxury. These men collectively came to be known as "robber barons." Kansas farmers originally coined the term to describe ruthless railroad owners who controlled shipping routes and charged exorbitant rates, and the term was later applied more generally to the wealthy industrialists of the era. But the era's economic competition created

as many losers as winners. The robber barons built their business empires at the expense of workers who toiled long hours under difficult conditions and still struggled to make ends meet.

Railroad Expansion Spurs "Creative" Financing

Before the Civil War, the United States had few large corporations. In the 1850s, only a few factories existed that had more than $1 million invested in facilities and equipment. Railroads, however, needed huge amounts of investment. By 1859, investors had poured more than $1 billion into regional rail companies like the Erie, the Pennsylvania, the Baltimore & Ohio, and the New York Central. The transcontinental railroads were projects on another scale entirely, and they would change the nature of American finance. "They were enormous pools of capital," according to one historian, "undertakings so large that the modern institutions of the stock market and investment banking had to be created to make it possible to funnel so many millions into single enterprises."[1]

The American people demanded more railroads, and they were willing to invest in them. Like many road and canal projects before them, railroads often received government loans in the form of land grants and bonds. The ease of financing led to schemes where a corporation could create huge profits with little initial risk. First, a prospective railroad company would get a charter (a document granting rights) from the state, which was so eager to encourage new railroads that it would often bestow low-cost land grants along with the charter. The company would then use the land as collateral for a bond issue and use the bond sales to pay off the land grant (see "Stocks, Bonds, and Currency in the Gilded Age," p. 26). Sometimes the railroad would not even begin construction; chartering was enough to claim a route, and many of these "paper railroads" made a profit when sold off to a competitor. Other railroad companies were little more than investment scams, with new bonds issued to pay off old bond holders.

Railroad companies also used stock sales to make huge profits for little investment. After acquiring their charter and land, they could begin issuing stock (shares of partial ownership in the company) to investors. For instance, the "Big Four" financiers who headed the Central Pacific Railroad initially sold $8.5 million worth of stock in the company even though they had invested less than $200,000. After selling stock, companies sometimes spent

Stocks, Bonds, and Currency in the Gilded Age

During the Gilded Age, people had two main options when investing their money: stocks and bonds. Buying stock in a corporation made investors part-owners in proportion to the number of shares they held. By owning stock in a company, investors were entitled to a share of the company's profits, paid as dividends. They could buy or sell shares on a stock exchange, and stock prices rose and fell with the company's fortunes.

Investors could also purchase bonds: a guarantee by a government or corporation to repay a loan, usually with interest, at the end of a specified period of time. Bonds, especially government-issued ones, were considered less risky than stocks. The greater the risk of a borrower defaulting on repayment, the higher the interest rate bonds would promise. Like stocks, bonds fluctuated in value because they could be bought and sold.

Currency was a more complicated matter. Before the Civil War, there was no national currency in the United States. Banks chartered by individual states could issue their own paper money, and it did not have to be backed by silver or gold coins, called specie. The federal government, however, would only accept specie as payment, making the value of state bank notes unstable.

During the war, the federal government took steps to increase the money supply and create a national system of currency and banking. The Legal Tender Act of 1862 created $150 million in paper notes that were backed only by government guarantees, not specie. Because of the green ink used to print them, these notes were called greenbacks. This currency was accepted by the general public, although it was subject to inflation, meaning that its value declined over time in relation to the price of goods and services.

The Union passed two National Banking Acts during the war that created nationally chartered banks that issued a new national currency. Unlike greenbacks, these federal bank notes were redeemable in specie. The laws also taxed state-issued currencies, essentially removing them from use. By the end of the Civil War, most state banks had been converted to national charters, and the new national currency was widely accepted. The issue of how to handle the greenbacks that remained in circulation, however, remained contentious throughout the entire Gilded Age.

Source:

Office of the Comptroller of the Currency. "History." Available online at http://www.occ.treas.gov/about/history.html.

the bare minimum on actual rail line construction. After all, shoddy construction affected a railroad's future, not the current value of its stock.

Railroad owners and financiers became adept at other forms of stock manipulation as well. For example, companies needing extra money might simply issue more stock, even if it artificially inflated the company's worth. This practice was called "watering stock," a term borrowed from cattle drovers who watered their animals just before selling them so they would weigh more and bring a better price.

In addition to stock manipulations, railroad robber barons were not above using blackmail to increase their fortunes. A town without a railroad stop was at a competitive disadvantage, so some companies would threaten to move their tracks away from a town unless they received special compensation. In 1873, for example, the Denver and Rio Grande Railroad built its line

seven miles short of Cañon City, Colorado, and refused to build further until the company received $100,000 in bonds. When the town voted to pay $50,000 in bonds and $50,000 in real estate, the railroad finished the line—but it routed the track away from downtown, instead placing it on property owned by the railroad on the outskirts of town.

Land speculation was another popular moneymaking technique for railroads. The Atchison, Topeka and Santa Fe, for instance, was known for stopping a few miles short of existing towns and building its own settlements on lands that—prior to the arrival of the railroad—had been virtually worthless. Afterward, the railroad executives frequently blackmailed the existing towns into extending the tracks to their location.

To get the political influence needed to award charters, pass bond issues, and receive land grants, the robber barons often engaged in bribery of public

Chapter Five

THE RISE OF LABOR

If workingmen and capitalists are equal co-partners, why do they not share equally in the profits? Why does capital take to itself the whole loaf, while labor is left to gather up the crumbs? Why does capital roll in luxury and wealth, while labor is left to eke out a miserable existence in poverty and want?

—William Sylvis, founder of the National Labor Union

"Free labor," or the right to rise in wealth and status through hard work, had long been a tradition of American culture. During the Gilded Age, however, free labor increasingly became a myth, as independent artisans and entrepreneurs of the pre-industrial era were replaced by factory laborers working for daily wages. "The trade has been subdivided and those subdivisions have been again subdivided, so that man never learns the machinist's trade now," a mechanic testified before the Senate in 1883. "You simply go in and learn whatever branch you are put at, and you stay at that unless you are changed to another."[1] Between 1865 and 1900 the number of manufacturing workers tripled to 4.5 million and factory output multiplied by eleven times as the United States became the world's leading industrial power. But as unskilled laborers became interchangeable cogs in the industrial machine, their wages fell accordingly. In addition, they had little control over their working conditions. If a man refused to work twelve-hour shifts, six or even seven days per week, he could easily be replaced by one of the millions of immigrants arriving on U.S. shores every year.

As more manufacturers became corporate concerns rather than family enterprises, factory owners became distanced from their employees. The

wealthy moved to newly built suburbs and segregated themselves from the poorer classes by attending different churches, schools, and civic organizations. In 1892, one New York City newspaper counted over 4,000 millionaires in the United States, many of whom indulged in ostentatious displays of wealth. Financier Jay Cooke owned a fifty-two-room mansion outside of Philadelphia, while William K. Vanderbilt, grandson of Cornelius, built an opulent "Petit Chateau" on Manhattan's Fifth Avenue—one of seventeen large houses costing more than $1 million that various Vanderbilt heirs built before World War I. These lavishly appointed mansions hosted glittering society parties populated with guests who thought nothing of spending thousands of dollars on jewelry, clothing, or costumes (see "The Glitter of Gilded Age High Society," p. 166). Because corporations cut wages or jobs before dividends, even an economic depression did not halt the free-spending ways of their owners and top executives.

Life in the New Urban Slums

Although the industrialization of America created tremendous wealth for a few, it also turned life into a daily struggle for many others. One out of every three industrial workers was an immigrant. Many new arrivals to the United States formed ethnic enclaves in squalid city slums where population densities reached more than 300 people per acre. Relegated to difficult but poor-paying jobs in the nation's foundries and factories, immigrants and uneducated, native-born Americans often lived in dim, unventilated tenement buildings with inadequate sanitation and fire protection. Child mortality in the slums was two to three times higher than in middle-class areas, with diseases caused by unsanitary conditions causing one out of every three deaths (see "'The Problem of the Children' in New York City," p. 183).

While yearly wages rose between 1860 and 1890, few unskilled laborers got a full year's work, and wages remained the first things cut during economic downturns. Some workers were only paid in "scrip," a form of substitute currency that could only be used at company-owned stores, where prices were marked up. Others had little left once the company deducted rent for tools, machines, or company housing. In addition, working conditions in many late-nineteenth-century industries were uncomfortable and even dangerous, and employers provided no compensation for worker injuries or deaths. "The general trend of the Gilded Age was unmistakable," one historian noted. "The search for profit left workers without protection. The law of

New York socialite Mrs. W. K. Vanderbilt (right) and friends show off the latest fashions at a polo match.

supply and demand assured more goods and cheaper. It did not guarantee safer and better conditions in the workplace."[2]

Most Gilded Age millionaires felt little responsibility for the poverty and hardships experienced by workers, however. As one popular minister to the wealthy noted: "While we should sympathize with God's poor—that is, those who cannot help themselves—let us remember there is not a poor person in the United States who was not made poor by his own shortcomings, or by the shortcomings of some one else. It is all wrong to be poor, anyhow."[3] Not surprisingly, the growing economic divide between rich and poor became a source of great resentment in Gilded Age America. In his 1886 study *Progress and Poverty*, economist Henry George wrote: "There is a vague but general feeling of disappointment; an increased bitterness among the working classes; a widespread feeling of unrest and brooding revolution."[4]

Some frustrated Americans began exploring new political belief systems that held out the hope of a better life. These political philosophies included anarchism (a belief that society should have no government), communism (a belief that private ownership should be abolished and all wealth shared

equally within the community), and socialism (a belief that society should be organized for the benefit of all members, with state ownership of industry). Other struggling workers hoping to improve their pay and working conditions turned to a growing national movement: labor unions.

Early Labor Movements and Conflicts

Before the Civil War, unions were mostly localized groups of skilled or craft workers, and they often acted as benevolent societies rather than negotiating groups. During the Gilded Age, however, more unions grew into national organizations, including the National Typographical Union, the Iron Molders' Union, the Machinists and Blacksmiths, the Brotherhood of Locomotive Engineers, and the iron and steel workers of the Sons of Vulcan. Molder William Sylvis saw a need for all workers to band together to fight for their rights against powerful corporations. He joined with representatives from twenty trades to found the National Labor Union (NLU) in 1866.

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The NLU advocated creating a federal Department of Labor to oversee workers' rights, equal pay for equal work by women, and the eight-hour work day, which they felt could give workers time to educate themselves and become informed citizens. Responding to pressure from the NLU and other labor organizations, several states and cities passed eight-hour laws, and Congress passed one applying to workmen in federal arsenals and navy yards. The NLU even successfully lobbied for a proclamation from President Ulysses S. Grant in 1869 stating that any federal workers who had their hours reduced under the eight-hour law would not have their wages reduced. Nevertheless, employers found ways around these provisions, especially after courts ruled that employment contracts for ten- or even fourteen-hour days were legal. Many workers reluctantly signed these contracts, for they knew they would be replaced if they refused.

Sylvis had an inclusive vision for the NLU. He opened it to all workers, regardless of skill level or industry. Sylvis even wanted to include women and African Americans in the union, which was a radical idea in the nineteenth century. Although female and black representatives attended various NLU

Social Darwinism and Attitudes toward the Poor

In his 1859 work *On the Origin of Species,* English naturalist Charles Darwin first introduced the concept of natural selection. According to this theory, species evolve over time in ways that allow them to better adapt to their environment. In the late nineteenth century many people reduced Darwin's argument to the idea of "survival of the fittest," meaning that if certain species were not as successful as others, it was because they were not as advanced. Before long, this same concept was being applied to different socioeconomic and ethnic groups. Known as "Social Darwinism," it was used by wealthy whites to justify white domination over African, Asian, South American, and Southern European peoples. It was also employed by middle- and upper-class Americans to explain the growing divide between rich and poor in the United States.

Social Darwinism dovetailed with American ideas about self-improvement and upward mobility. In a democratic country with vast resources, according to popular wisdom, anyone willing to work hard should be able to succeed. This idea was so ingrained that even the Great Emancipator, Abraham Lincoln, noted that if people remained wage laborers, "it is not the fault of the system, but because of either a dependent nature which prefers it, or improvidence, folly, or singular misfortune." This attitude was also reflected in the Gilded Age novels of Horatio Alger, a popular children's writer. In many of Alger's works, a plucky young man lifts himself from poverty to success with just a little luck or friendly help. (Ironically, Alger himself died in poverty before his works were rediscovered in the early twentieth century.)

With their belief in Social Darwinism, many Americans were wary of laws that seemed to hamper natural competition. Laws that benefited one particular group, such as loans to homesteaders or the eight-hour day for industrial workers, were frowned upon by business owners as "class legislation." Yet these same business owners were quick to praise laws that helped fill their own pocketbooks, such as protective tariffs or railroad subsidies.

Source

Beatty, Jack. *Age of Betrayal: The Triumph of Money in America, 1865-1900.* New York: Alfred A. Knopf, 2007, p. 48.

under the Sherman Antitrust Act. Two years later, the Supreme Court also ruled that the Interstate Commerce Commission had no explicit authority to set railroad rates, further undermining government attempts at regulation.

The Supreme Court did issue several rulings against obvious monopolies or pools. The most notable such ruling came in the 1897 case *U.S. v. Trans-Missouri Freight Association*, which involved a group of eighteen railroads that pooled together to set rates. More often, however, U.S. courts weakened the ability of states to regulate railroad rates or pools. In the 1898 case *Smyth v. Ames*, also known as the *Maximum Freight Case*, the Supreme Court overturned a Nebraska law setting maximum freight rates for railroads in the state, arguing that excessive regulation deprived the railroads of property without due process.

Court rulings also favored business when dealing with labor disputes or labor regulations. Often judges took their reasoning from laws that had been designed to prevent business overreach, such as the Interstate Commerce Act and the Sherman Antitrust Act. The latter's provision outlawing "restraint of trade" was used to outlaw union meetings and justify the imprisonment of the ARU's Debs during the Pullman strike. As states passed more laws to expand the rights of workers and rein in corporate excess, an increasingly conservative court system kept overturning them. Courts often found state laws restricting working hours to be unconstitutional, calling them restrictions on workers' right to contract their labor as they saw fit. The Supreme Court did uphold a Utah law restricting hours for miners in 1898. Even then, however, the justices were careful to note that the dangerous nature of the work made it a special case, and that other state statutes limiting work hours remained unconstitutional. Another ruling overturned a congressional ban on "yellow-dog" contracts, which made workers promise not to join a union.

The End of the Gilded Age

Not long after McKinley's inauguration in 1897, the American economy began bouncing back from depression. As the country regained its economic strength, the government increased its involvement in international affairs.