ALL THAT GLITTERS:
Corporations, Robber Barons, and the Economics of the Gilded Age

U.S. History Honors
Marin Academy
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Essential Questions

What factors led to the economic expansion – and the economic crises – of the era?
What role did the government play in the economy?
How did this era change America’s distribution of wealth?
What echoes of this era can we identify in our time?
What event does the following scenario describe?

Spurred by surging economic growth, American industry is booming. Wealthy and middle class people alike are scrambling to get in on the action. Under the surface, though, the economic boom – rapid expansion of industry and employment, skyrocketing stock prices, an exploding real estate market, and increased consumption of luxury goods – are built on a shaky foundation. Evidence surfaces that some major corporations had built their fortunes on dubious accounting and corrupt relations with government. On the heels of a dip in the markets, a major bank cannot meet its obligation and goes bankrupt. This triggers a ripple effect of other banks recalling loans, and soon, panic spreads through the economy as seemingly stable institutions either fold or need bailouts from the government to stay afloat. The economy survives, but many small investors, millions of jobs, and billions in investments all disappear...

What event does the following scenario describe?

A. The Financial Crisis of 2008
B. The Panic of 1873
C. The Stock Market Crash of 1929
D. The Savings and Loan Crisis of the 1980’s/90’s
E. The Panic of 1893
F. The Panic of 1907
G. ALL OF THE ABOVE
What was the Gilded Age?

- Approx. 1870s–1890s
- Name from 1873 novel co-written by Mark Twain
  - “Gilded” =
- Arguably highest inequality & class tensions in all of USH
  - One historian: “Some industrial tycoons learned they could amass unprecedented profits not only through innovation and entrepreneurship but also through monopolization and exploitation of workers. In short, both democracy and free-market capitalism seemed, to many, to be imperiled by an epidemic of corruption, in which powerful special interests exploited their positions of influence in government and business to enrich themselves at the expense of the majority of the American people.”

Urbanization & Immigration

- From 1860–1914…
  - Chicago goes from 110,000 ==> 2,000,000
  - NYC goes from 850,000 ==> 4,000,000
- From 1880–1920…
  - U.S. goes from 20% urban to 68%
- From 1870–1920…
  - Almost 11 million Americans moved from farm to city
  - Another 25 million immigrants arrive in America
    - More on immigration in the classes to come…
The 2nd Industrial Revolution

Eric Foner: “Between the end of the Civil War and the early 20th century, the U.S. underwent one of the most rapid and profound economic revolutions any country has ever experienced.”

- By 1913, U.S. produced one-third of world’s industrial output
- Coal, iron, steel, oil and especially __________

Causes of the 2nd Industrial Revolution:
- Abundant natural resources
- Growing supply of labor
- Expanding markets
- Increasing capital for investments
- Explosion in technology (telephone, phonograph, light bulb…)

The Transcontinental Railroad

GOAL: Extend RR’s across the continent, linking Eastern markets & capital with Western resources => accelerate West’s development

- “Golden Spike” connects RR’s in 1869 => kicks off the Gilded Age
Pathway to a New Era: The Transcontinental Railroad

- **The Reality:** Much more complicated – RR was never truly transcontinental (went from Midwest to California)

- And, when they were proposed, there was really no need for them (West had not yet developed)

- **Another problem:** Congress authorized the creation of RR corporations in 1862...but no investors would finance them (uncertain profits, unclear goal, undeveloped West)

How do RR Corporations Work?

- **Corporations** = new form of business org. – no single owners – created by gov’t charter (state or federal) – and unlike other businesses, corporations had legal status and rights

- Run by Boards of Directors – shareholders divide ownership through stock, thus providing capital for operations – when the corporation made a profit, shareholders would receive dividends

- The Central Pacific (from the West) and the Union Pacific (from the East) won gov’t charters to build the RR...but initially couldn’t get any investors

- **The “Solution”**? Government backing – public dollars to promote private investment, which is ostensibly for the public good...
Benefits of the Transcontinental RR

• Reduced travel time between coasts from **months** to **days**

• Connected markets to consumers on a national scale – spurred rapid development of West in terms of urbanization, resources

• Encouraged the development of communication networks as **telegraph** – and later **telephone** – wires sprung up alongside railroad tracks

Costs of the Transcontinental RR

• Federal gov’t gives MASSIVE subsidies to railroad corporations – and, give RR owners **12,800 acres of land** for every mile built

  -Thus, RRs often build 1000’s of miles of unnecessary track

• Meanwhile, RR owners do everything they can to avoid investing their own money

• RR’s run “highly leveraged operations that depended on continual borrowing to meet their obligations” and depended on corrupt connections w/ Congressmen – who were often investors...
Costs of the Transcontinental RR

- Implications for NA’s? **Devastating** – federal gov’t “gave” their land to RR companies, then sent in the army any time conflict broke out => 25+ more years of war...

- Also serious **environmental costs**

- **Historian Richard White**: RR’s were built long before they were needed and without proper regulation, leading to huge problems

  “These corporations did spur innovations in production, but that was the problem. They built railroads that would have been better left unbuilt, and flooded markets with wheat, silver, cattle and coal for which there was little or no need. They set in motion a train of catastrophes for which society paid the price.”

Crédit Mobilier Scandal (1864–72)

- Instead of having a real bidding process to build the Union Pacific RR, Chief Exec. of the Union Pacific corporation **Thomas Durant** created his own construction company (**Crédit Mobilier**) and awarded it a lucrative contract to build 667 miles of road

- Durant financed construction by selling stock in the RR...then overcharged subcontractors to build the RR and kept the profits..

- By the time the deception had been uncovered, Durant had made **$23 million** – and left U.P. stockholders with worthless stock, wiping out many small investors

- **Question**: Why didn’t Congress or any members of the cabinets of Lincoln, Johnson or Grant investigate?
A Boom & Bust Economy

Gilded economy grows, but is also seriously unstable

Some call 1873–96 “The Long Depression”

Esp. acute from 1873–79

- Panic of 1873 – caused by collapse of another RR company
- 18,000 businesses and 10 states go bankrupt
- By 1876, unemployment is 14%
- Longest economic downturn in USH
- First truly global economic crisis

Another panic in 1893

But, economy soon recovers, 1900–10: 85% growth

Growing Inequality

Arguably highest inequality in U.S. History

By 1890, the richest 1% had…

- The same total income as the bottom 50%
- More wealth than the bottom 99%

Jacob Riis: Danish-American photographer

- How the Other Half Lives (1890) exposes shocking conditions for poor in NYC
- A quick video clip from “America: The Story of Us”

Economist & sociologist Thorstein Veblen publishes 1899 book on rise of “conspicuous consumption”
Key Business Leaders

- Individuals have *huge* impact on economy, politics
- Some prominent businessmen of the age:
  - Jay Gould – railroads (#9)
  - Marshall Field – department stores (#11)
  - Henry Ford – cars (#12)
  - Andrew Mellon – coal & aluminum (#14)
- Of the 30 wealthiest Americans in history, _____ lived during the Gilded Age

Key Business Leaders, II

- John D. Rockefeller – oil (#1)
- Cornelius Vanderbilt – shipping & RR’s (#5)
- Andrew Carnegie – steel (#6)
- J. P. Morgan – banking (and others) (#24)
- An enduring historical debate: were these men “Robber Barons” or “Captains of Industry”?
“Captains of Industry”

After Gilded Age, U.S. is richest country in the world
Industrialists provide essential goods to fuel this growth
- Revolutionize transportation & communication
- Railroads, steel & oil play key role in urbanization
- And, ruthless tactics often help drive down prices

Why the Wealth & Inequality?

1) Common theory: wealth is earned through hard work and ingenuity
   - E.g., Horatio Alger’s “rags-to-riches” stories

2) “The Gospel of Wealth”
   - Rich can better society through philanthropy
   - Carnegie: “The man who dies thus rich dies disgraced”

3) Social Darwinism
   - Applying Darwin’s idea of competition to race, class, companies
The Reality? Not Quite…

- A closer look at Social Darwinism
  - To hold true, gov’t needs to be *laissez-faire*
  - BUT, there’s a contradiction here…
- What about the “rags-to-riches” story?
  - True for Carnegie (13-year-old poor Scottish immigrant)…
  - *But*, as historian **Howard Zinn** states, “A study of the origins of the 303 textile, railroad and steel executives of the 1870s showed that 90% came from middle- or upper-class families. The Horatio Alger stories of ‘rags to riches’ were true for a few men, but mostly a myth, and a useful myth for control.”

More on Theories of Wealth

- What about the “Gospel of Wealth”?
  - Some wealthy donate generously
    - E.g., Carnegie gives away 95% of wealth before dying
  - Others give little to philanthropic causes…or nothing at all
  - And, virtually all pay and treat their workers poorly
- Many show remarkable ingenuity, risk-taking, efficiency
  - *But*, key to remember that most started wealthy – and all benefitted from gov’t support, ideal economic conditions
Rockefeller & Standard Oil

- **1870**: Rockefeller establishes **Standard Oil**
- **1880**: Standard Oil controls **90%** of U.S. oil industry

How? Rockefeller’s ruthless tactics:

- **Monopoly**: One corporation controls an entire industry
- **Horizontal consolidation**: Dominate one specific product
  - E.g., Rockefeller buys out some oil companies, undercuts others, and ultimately kills off all competition to create a monopoly
- **Vertical consolidation**: Control all parts of supply chain
  - Standard Oil oversees locating, drilling, transporting & refining of oil

How can these tactics **help** a company that uses them?

How can these tactics **hurt** the overall economy?

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**Horizontal Consolidation**

- The merger of competing companies in one area of business, like oil refining, was known as horizontal consolidation.

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<th>Independent Companies</th>
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<td>Refineries, pipelines, tankers</td>
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<td>Product Distribution</td>
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<td>Fuel, kerosene, oil, tar</td>
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Vertical Consolidation

- When a firm would strive to control all aspects of production from acquisition of raw materials to final delivery of finished products.

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Gilded America: Democratic?

- In some ways, definitely democratic
  - U.S. boasts high voter turnout (often 80+%)  
  - **France** and **Switzerland** only European countries with universal male suffrage  
  - U.S. has had this since 15th Amendment in 1870…right?

- But, America also quite undemocratic:
  - Political corruption in DC (e.g., **Crédit Mobilier**)  
  - Local politics often corrupt too (e.g., **Boss Tweed** and Tammany Hall in NYC)

- Big business has so much wealth and power, can often buy favors, avoid consequences & swing elections
Courts Back Big Business

1880s: Courts start interpreting 14th Amendment to protect the rights of big business

What was the original purpose of this amendment again?

After businesses win several big cases (esp. RR’s), nearly impossible for gov’t to stop businesses from...

- Creating monopolies and trusts
- Crushing strikes (before 1914, all strikes were illegal)
- Treating workers horribly
  - NY had passed law limiting work to 10 hrs/day or 60 hrs/week

Sherman Anti-Trust Act

1890: Congress passes Sherman Anti-Trust Act

- Hugely important law for preventing monopolies & cartels
- BUT, courts end up using to break up workers’ strikes!

S.C. Justice John Marshall Harlan a rare judge who supports the Sherman Act:

- He wrote of a “deep feeling of unease,” a widespread fear that the country “was in real danger of another kind of slavery that would result from the aggregation of capital in the hands of a few individuals.”

Next time: Worker’s lives, and the struggle to rein in corporate power and protect the rights of laborers
“Acres of Diamonds”

Russell Conwell: Baptist minister, orator – gives famous lecture “Acres of Diamonds” over 6,000 times:

“I say that you ought to get rich, and it is your duty to get rich… The men who get rich may be the most honest men you find in the community. Let me say here clearly…98 out of 100 of the rich men of America are honest. That is why they are rich. That is why they are trusted with money. That is why they carry on great enterprises and find plenty of people to work with them. It is because they are honest men.”

“I sympathize with the poor, but the number of poor who are to be sympathized with is very small. To sympathize with a man whom God has punished for his sins…is to do wrong…[L]et us remember there is not a poor person in the United States who was not made poor by his own shortcomings.”