From the Historians: The Robber Barons

Don't Know Much About History (199-202)
1. How was the concentration of wealth changing in the late 1800s (late nineteenth century)?

2. How did Credit Mobilier of America manage to get overpaid by $50 million?

3. Who were the Robber Barons? Why did they have this name?

4. How did J.P. Morgan make his money?

5. How did Andrew Carnegie revolutionize steel production in the United States?

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Don't Know Much About History (202-205)
7. How did John D. Rockefeller make his fortune? How did he eliminate the competition?

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From the Historians: The Robber Barons

The Free and the Unfree – “The New Industrial Economy” (260-263)

11. What was Rockefeller’s vision for the future?

12. How much of the nation’s oil refining ability did Rockefeller control? How did he manage to gain such a large share?

13. How did workers respond to this new concentration of corporate power?

14. What happened at Haymarket Square in 1886?

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A People’s History of the United States (250-253)

16. How much of the nation’s railroad did JP Morgan control by 1900?

17. How did Rockefeller drive out competition?

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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'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 cheap labor; Andrew Carnegie provided the steel. And J. P. Morgan, the banker's banker, 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 Credit 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 Credit 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 Credit Mobilier shares, including some to 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 was censured by Congress for his role, but got no university out of the deal.

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.

Grant's two terms were boom times for the corruptible. Besides the Credit 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 great thieves of the generation, the so-called Robber Barons—Jay Gould, Vanderbilt, Morgan, Carnegie, and Rockefeller. 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 (1836–1892), 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 pages 343–346) attempted to manipulate the gold market, using an unwitting President Grant for their purposes. Slow to catch on to the scheme, 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.

With corruption and monopoly at the core of the railroad systems, and the depression unleashed by the “Black Friday” panic, the railroads were ripe for disaster. By the 1890s, many of the lines were nearly bankrupt from intense competition and poor economic conditions. In stepped J. P. Morgan (1837–1913).

The son of a banker, Morgan had not only avoided fighting in the Civil War, but had profited handsomely from it. 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 were 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—$492 million—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 commissions. When oil was found on a property he owned, Carnegie moved into the oil industry and later into iron and steel. Utilizing 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 work force and surrounded the plant with barbed wire and hired Pinkerton guards to protect the strikebreakers 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 antitrust laws. The idea was soon copied in other industries, and by the early 1890s, more than 5,000 separate companies had been organized into 800 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. 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 (1822–1893) became President because of a fraudulent election that stole the presidency from Democrat Samuel J. Tilden, resulting in a compro-
mise with Southern Democrats that killed congressional Reconstruction and any hope for civil rights in the South. 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 Anti-Trust 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.”

American Voices


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 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 it was being acquired through massive corruption. The epidemic of greed didn’t begin or end with Washington and the great captains of industry. It extended to the local level, most notoriously in New York, the seat of power of William Marcy Tweed (1823–1878), the infamous “Boss” of Tammany Hall. The word Tammany was a corruption of the name Tammany, 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 many fraternal societies that adopted Indian names in post-Revolution days. Unlike the Society of Cincinnatus, 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 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 City Democratic clubhouse, he
railroads stretched from the Atlantic to the Pacific. Rivers of steel flowing from east to west, from north to south, had created a national economy by 1876.

In the 1860s, the major industries had been regional, servicing an agricultural society. They processed the farmers’ crops and provided the farmers with tools, clothing, and other supplies. The raw materials were furnished locally, and the finished goods were sold within their separate regions. But the fantastic growth of the railroads provided a huge market for industrial producers. Iron, steel, coal, and lumber were in direct demand for the railroads. These industries in turn made it possible for regional specialization to be linked to the national economy. The forests of Michigan, Wisconsin, and Minnesota, of Washington, Oregon, and California, could provide lumber for the whole nation. Minerals from the mines of the Rocky Mountains could easily be brought east. So could cattle from Texas and the northern plains and wheat from Minnesota and hogs from Illinois. Factories in Boston, New York, Pittsburgh, Cleveland, Detroit, and Chicago could supply markets in the far reaches of the South and West.

To hold together a railroad network spread across the country required a new form of organization—the corporation. Railroad companies became the first major private bureaucracies. It took a hierarchical structure comparable to an army to mobilize and utilize efficiently the energies of the tens of thousands of men employed by the railroads. The corporation thus patterned itself on the Union army, the first major public bureaucracy. The company was composed of several major divisions. Under the leadership of a general staff, the heads of the corporate divisions, like the military generals, possessed considerable autonomy. These private divisions were broken down into smaller units comparable to regiments, battalions, companies, and platoons. Each had its own leadership linked in a chain of command up to the president of the company and his staff, the chief company officers and the board of directors.

This first modern private company made a fetish of Time. The railroads ran by timetables. All railroad employees had their railroad watches synchronized to keep the company schedules. The railroad’s large-scale, professionalized, bureaucratized management established the model for other burgeoning industries. The captains of industry who were creating companies to produce for the national market—men like Gustavus Swift in meats, Charles Pillsbury in grain, Henry Havemeyer in sugar, Frederick Weyerhauser in lumber, John D. Rockefeller in oil, Andrew Carnegie in steel, James Duke in tobacco—all divided their businesses into autonomous departments of marketing, processing, purchasing, and accounting, and they all delegated great authority to the heads of these divisions.

The vision of the 1876 Centennial—the idea of a productive national economy, smoothly and efficiently integrating the physical power of the machine with the social power of a machinelike institution, the corporation—served to inspire men like John D. Rockefeller. By 1870 Rockefeller had rejected the idea of a nation of free and equal producers, of a marketplace of small and autonomous competitors. He envisioned an America in which a few gigantic corporations dominated production. He saw a marketplace of huge, integrated companies, cooperating to avoid competition. The virtue of this new form of production, for Rockefeller, was its efficiency. The movement to consolidate small companies into large companies, he wrote, “was the origin of the whole system of modern economic administration. It has revolutionized the way of doing business all over the world. The time was ripe for it. It had to come, though all we saw at the moment was the need to save ourselves from wasteful conditions. The day of combination is here to stay. Individualism has gone, never to return.”

To achieve consolidation in oil, Rockefeller went to war against his competitors. He built pipelines to force railroads to give him rebates if they were to carry his products. With rebates, he could undersell his rivals. Then he set out to eliminate competition: they could sell out to him at his price; they could become his agents; or they could be destroyed. The Panic of 1873 facilitated his effort to buy out or ruin rival companies. Ohio was the scene of his first takeovers, where Rockefeller had begun his refining business. Refiners in New York and Pennsylvania were his next target. By 1880, the superior size and organization of his militant company made it possible for him to control 90 percent of oil refining in the nation. The victory, he said, came because “we had taken steps of progress that our rivals could not take. They had not the means to build pipe lines, bulk ships, tank wagons; they couldn’t have their agents all over the country; couldn’t manufacture their own acid, bungs, wicks, lamps, do their own coopsing—so many other things; it ramified indefinitely. They couldn’t have their own purchasing agents as we did, taking advantage of large buying.”

Small businessmen approached the state and national governments for help in fighting the new corporate giants. But William
Vanderbilt, testifying before a congressional committee in 1879, warned politicians that they could not control them. "Yes, they are very shrewd men," he insisted. "I don't believe that by any legislative enactment or anything else, through any of the states or all of the states, you can keep such men down. You can't do it! They will be on top all the time."

Many of the small businessmen threatened by the Robber Barons saw the problem in a limited way. They did not see the larger, more profound revolution that would place the corporations in control of the economy by 1900. Hence they did not organize political opposition to stop the trend of monopolization in the key areas of industrial production.

The first economic groups to grasp the full implications of the corporate revolution were the workers in the craft unions. Organized labor had expanded dramatically immediately before and during the Civil War. Union leaders usually regarded owners of small factories with ten to twenty workers as fellow producers and considered small industry no threat to the open economy. But by 1869, the organizers of the National Labor Union were aware of the danger to their independence if they became industrial soldiers dominated by a rigid hierarchy of managers. William Sylvis, the president of this new group, saw monopoly, inequality, and plutocracy as the major trends of the day. "So long as we continue to work for wages," he declared, "so long will we be subjected to small pay, poverty, and all of the evils of which we complain." His answer then was cooperation. The workers must form producers' and consumers' cooperatives. They could preserve political and social democracy only if they engaged in economic democracy.

The National Labor Union grew rapidly until 1873, when a depression and widespread unemployment made it easy for employers to ruin them. There was a constant influx of unskilled labor from Europe and from rural America, and advancing technology enabled employers to use unskilled workers to replace the skilled workers who were most likely to belong to unions. Workers despaired at the destruction of their unions and sometimes formed underground organizations, one of which was the "Molly Maguires" in the coal mines. Irish miners used guerrilla tactics against their employers, but their organization was infiltrated by company spies. A young Irish immigrant, James McParlan, a Pinkerton detective, became an official of the Molly Maguires and informed on his fellows. On his testimony, ten were hanged.

Railroad workers throughout the country rebelled against pay cuts in 1877. They rioted in Baltimore, Altoona, Reading, Scranton, Buffalo, Toledo, Louisville, Chicago, St. Louis, and San Francisco. Everywhere the authorities summoned government troops to end the riots. In Reading, for example, eleven were killed in the streets; in Pittsburgh, twenty more were shot down.

When prosperity returned in the 1880s and full employment gave the workers more bargaining power, there was a dramatic resurgence of union efforts. Two or three hundred thousand workers had joined the National Labor Union. Now almost a million joined the Knights of Labor. The new organization's president, Terence V. Powderly, announced that its aim was "to make each man his own employer." All productive Americans were invited to join the Knights; only parasites, professional gamblers, stockbrokers, prostitutes, lawyers, bankers, and liquor dealers were barred.

By 1890, however, the position of the worker had not much improved. Factories were growing larger. The majority of industrial workers seemed to be passive wage-earners. Twenty years of labor agitation had failed to create a viable cooperative alternative to the corporation. Though some workers considered violent revolution as the only way to overthrow the corporation, the establishment proved equally effective in the use of force. In 1886, as thousands of workers in Chicago went on strike for shorter hours, some of the union radicals began to act. On May 3, a bomb exploded in Haymarket Square during a confrontation between police and strikers. The police arrested eight known anarchists, of whom seven were condemned to death, although there was no evidence to link them with the bomb.

In 1893, a major economic crisis again encouraged employers to slash salaries and reduce the power of the unions. When the Pullman Company in Chicago reduced wages, it did not lower the rents it charged in its model town. A strike by the angry Pullman workers expanded rapidly into a major walkout of railroad employees headed by Eugene V. Debs. President Cleveland then sent federal troops into Chicago, and the army killed more than thirty people in a confrontation.

Debs and other strike leaders had been sent to prison for "conspiracy" against the government, and it was then that Debs converted to socialism. He could no longer believe in the restoration of a pre—Civil War America run by free and equal capitalist producers. But neither could he accept those socialists who called for a violent
the great railroad magnates to assemble at Morgan’s house, No. 219 Madison Avenue, there to form, in the phrase of the day, an iron-clad combination. ... a compact which would efface competition among certain railroads, and unite those interests in an agreement by which the people of the United States would be bled even more effectively than before.

There was a human cost to this exciting story of financial ingenuity. That year, 1889, records of the Interstate Commerce Commission showed that 22,000 railroad workers were killed or injured.

In 1895 the gold reserve of the United States was depleted, while twenty-six New York City banks had $129 million in gold in their vaults. A syndicate of bankers headed by J. P. Morgan & Company, August Belmont & Company, the National City Bank, and others offered to give the government gold in exchange for bonds. President Grover Cleveland agreed. The bankers immediately resold the bonds at higher prices, making $18 million profit.

A journalist wrote: “If a man wants to buy beef, he must go to the butcher... If Mr. Cleveland wants much gold, he must go to the big banker.”

While making his fortune, Morgan brought rationality and organization to the national economy. He kept the system stable. He said: “We do not want financial convulsions and have one thing one day and another thing another day.” He linked railroads to one another, all of them to banks, banks to insurance companies. By 1900, he controlled 100,000 miles of railroad, half the country’s mileage.

Three insurance companies dominated by the Morgan group had a billion dollars in assets. They had $50 million a year to invest—money given by ordinary people for their insurance policies. Louis Brandeis, describing this in his book Other People’s Money (before he became a Supreme Court justice), wrote: “They control the people through the people’s own money.”

John D. Rockefeller started as a bookkeeper in Cleveland, became a merchant, accumulated money, and decided that, in the new industry of oil, who controlled the oil refineries controlled the industry. He bought his first oil refinery in 1862, and by 1870 set up Standard Oil Company of Ohio, made secret agreements with railroads to ship his oil with them if they gave him rebates—discounts—on their prices, and thus drove competitors out of business.

One independent refiner said: “If we did not sell out... we would be crushed out... There was only one buyer on the market and we had to sell at their terms.” Memos like this one passed among

Standard Oil officials: “Wilkerson & Co. received car of oil Monday 13th... Please turn another screw.” A rival refinery in Buffalo was rocked by a small explosion arranged by Standard Oil officials with the refinery’s chief mechanic.

The Standard Oil Company, by 1899, was a holding company which controlled the stock of many other companies. The capital was $110 million, the profit was $45 million a year, and John D. Rockefeller’s fortune was estimated at $200 million. Before long he would move into iron, copper, coal, shipping, and banking (Chase Manhattan Bank). Profits would be $81 million a year, and the Rockefeller fortune would total two billion dollars.

Andrew Carnegie was a telegraph clerk at seventeen, then secretary to the head of the Pennsylvania Railroad, then broker in Wall Street selling railroad bonds for huge commissions, and was soon a millionaire. He went to London in 1872, saw the Bessemer method of producing steel, and returned to the United States to build a million-dollar steel plant. Foreign competition was kept out by a high tariff conveniently set by Congress, and by 1880 Carnegie was producing 10,000 tons of steel a month, making $1.5 million a year in profit. By 1900 he was making $40 million a year, and that year, at a dinner party, he agreed to sell his steel company to J. P. Morgan. He scribbled the price on a note: $492,000,000.

Morgan then formed the U.S. Steel Corporation, combining Carnegie’s corporation with others. He sold stocks and bonds for $1,300,000,000 (about 400 million more than the combined worth of the companies) and took a fee of 150 million for arranging the consolidation. How could dividends be paid to all those stockholders and bondholders? By making sure Congress passed tariffs keeping out foreign steel; by closing off competition and maintaining the price at $28 a ton; and by working 200,000 men twelve hours a day for wages that barely kept their families alive.

And so it went, in industry after industry—shrewd, efficient businessmen building empires, choking out competition, maintaining high prices, keeping wages low, using government subsidies. These industries were the first beneficiaries of the “welfare state.” By the turn of the century, American Telephone and Telegraph had a monopoly of the nation’s telephone system, International Harvester made 85 percent of all farm machinery, and in every other industry resources became concentrated, controlled. The banks had interests in so many of these monopolies as to create an interlocking network of powerful corporation
directors, each of whom sat on the boards of many other corporations. According to a Senate report of the early twentieth century, Morgan at his peak sat on the board of forty-eight corporations; Rockefeller, thirty-seven corporations.

Meanwhile, the government of the United States was behaving almost exactly as Karl Marx described a capitalist state: pretending neutrality to maintain order, but serving the interests of the rich. Not that the rich agreed among themselves; they had disputes over policies. But the purpose of the state was to settle upper-class disputes peacefully, control lower-class rebellion, and adopt policies that would further the long-range stability of the system. The arrangement between Democrats and Republicans to elect Rutherford Hayes in 1877 set the tone. Whether Democrats or Republicans won, national policy would not change in any important way.

When Grover Cleveland, a Democrat, ran for President in 1884, the general impression in the country was that he opposed the power of monopolies and corporations, and that the Republican party, whose candidate was James Blaine, stood for the wealthy. But when Cleveland defeated Blaine, Jay Gould wired him: “I feel . . . that the vast business interests of the country will be entirely safe in your hands.” And he was right.

One of Cleveland’s chief advisers was William Whitney, a millionaire and corporation lawyer, who married into the Standard Oil fortune and was appointed Secretary of the Navy by Cleveland. He immediately set about to create a “steel navy,” buying the steel at artificially high prices from Carnegie’s plants. Cleveland himself assured industrialists that his election should not frighten them: “No harm shall come to any business interest as the result of administrative policy so long as I am President . . . a transfer of executive control from one party to another does not mean any serious disturbance of existing conditions.”

The presidential election itself had avoided real issues; there was no clear understanding of which interests would gain and which would lose if certain policies were adopted. It took the usual form of election campaigns, concealing the basic similarity of the parties by dwelling on personalities, gossip, trivialities. Henry Adams, an astute literary commentator on that era, wrote to a friend about the election:

We are here plunged in politics funnier than words can express. Very great issues are involved. . . . But the amusing thing is that no one talks about real interests. By common consent they agree to let these alone. We are afraid to discuss them. Instead of this the press is engaged in a most amusing dispute whether Mr. Cleveland had an illegitimate child and did or did not live with more than one mistress.

In 1887, with a huge surplus in the treasury, Cleveland vetoed a bill appropriating $100,000 to give relief to Texas farmers to help them buy seed grain during a drought. He said: “Federal aid in such cases . . . encourages the expectation of paternal care on the part of the government and weakens the sturdiness of our national character.” But that same year, Cleveland used his gold surplus to pay off wealthy bondholders at $28 above the $100 value of each bond—a gift of $45 million.

The chief reform of the Cleveland administration gives away the secret of reform legislation in America. The Interstate Commerce Act of 1887 was supposed to regulate the railroads on behalf of the consumers. But Richard Olney, a lawyer for the Boston & Maine and other railroads, and soon to be Cleveland’s Attorney General, told railroad officials who complained about the Interstate Commerce Commission that it would not be wise to abolish the Commission “from a railroad point of view.” He explained:

The Commission . . . is or can be made, of great use to the railroads. It satisfies the popular clamor for a government supervision of railroads, at the same time that that supervision is almost entirely nominal . . . The part of wisdom is not to destroy the Commission, but to utilize it.

Cleveland himself, in his 1887 State of the Union message, had made a similar point, adding a warning: “Opportunity for safe, careful, and deliberate reform is now offered; and none of us should be unmindful of a time when an abused and irritated people . . . may insist upon a radical and sweeping rectification of their wrongs.”

Republican Benjamin Harrison, who succeeded Cleveland as President from 1889 to 1893, was described by Matthew Josephson, in his colorful study of the post–Civil War years, The Politicos: “Benjamin Harrison had the exclusive distinction of having served the railway corporations in the dual capacity of lawyer and soldier. He prosecuted the strikers [of 1877] in the federal courts . . . and he also organized and commanded a company of soldiers during the strike . . .”

Harrison’s term also saw a gesture toward reform. The Sherman Anti-Trust Act, passed in 1890, called itself “An Act to protect trade and commerce against unlawful restraints” and made it illegal to form a “combination or conspiracy” to restrain trade in interstate or foreign commerce. Senator John Sherman, author of the Act, explained the