Lesson 4

Robber Barons or Captains of Industry?

Words, Terms, and People ✓✓✓✓	
monopoly	a single company that has exclusive control of production, distribution, and sale of a product or service
trust	business association with a board of directors that holds stock or trust certificates in all member companies. This allows the trust to control member companies, set prices, and eliminate competition.
Andrew Carnegie	founder of the Carnegie Steel Company
John D. Rockefeller	founder of the Standard Oil Trust
plutocrat	one who is powerful because of wealth
vertical integration	a company's expansion into all parts of an industry, from raw materials to finished products
egalitarianism	belief in the equality of people

Many business leaders were both admired and hated by Americans. Americans admired them because of their great wealth. They respected them because of the numbers of jobs their industries created for working men and women. But, Americans also hated and feared some of these same men because they took advantage of workers by forcing them to work long hours for very low wages in unsafe factories. So, on the one hand, Americans admired these wealthy men and thought of them as **Captains of Industry**. But on the other, Americans hated and feared them and thought of them as **Robber Barons** who used corrupt and devious business practices to monopolize their industries and amass enormous power.

Andrew Carnegie

One of the captains of industry of 19th century America, Andrew Carnegie helped build the formidable American steel industry, a process that turned a poor young man into one of the richest entrepreneurs of his age. Later in his life, Carnegie sold his steel business and systematically gave his collected fortune away to cultural, educational and scientific institutions for *the improvement of mankind*.

*C*arnegie was born in Dunfermline, the medieval capital of Scotland, in 1835. The town was a center of the linen industry, and Andrew's father was a weaver, a profession the young Carnegie was expected to follow. But the industrial revolution, that would later make Carnegie the richest man in the world, destroyed the weavers' craft. When the steam-powered looms came to Dunfermline in 1847, hundreds of handloom weavers became expendable. Andrew's mother went to work to support the family, opening a small grocery shop and mending shoes.

"I began to learn what poverty meant," Andrew would later write. "It was burnt into my heart then that my father had to beg for work. And then and there came the resolve that I would cure that when I got to be a man."

An ambition for riches would mark Carnegie's path in life. However, a belief in political **egalitarianism** was another ambition he inherited from his family. Andrew's father, his grandfather Tom Morrison and his uncle Tom Jr. were all Scottish radicals who fought to do away with inherited privilege and to bring about the rights of common workers.

But Andrew's mother, fearing for the survival of her family, pushed the family to leave the poverty of Scotland for the possibilities in America. She borrowed 20 pounds she needed to pay the fare for the Atlantic passage and in 1848 the Carnegies joined two of Margaret's sisters in Pittsburgh, then a sooty city that was the iron-manufacturing center of the country.

William Carnegie secured work in a cotton factory and his son Andrew took work in the same building as a bobbin boy for $1.20 a week. Later, Carnegie worked as a messenger boy in the city's telegraph office. He did each job to the best of his ability and seized every opportunity to take on new responsibilities. For example, he memorized Pittsburgh's street layout, as well as the important names and addresses of those he delivered to.

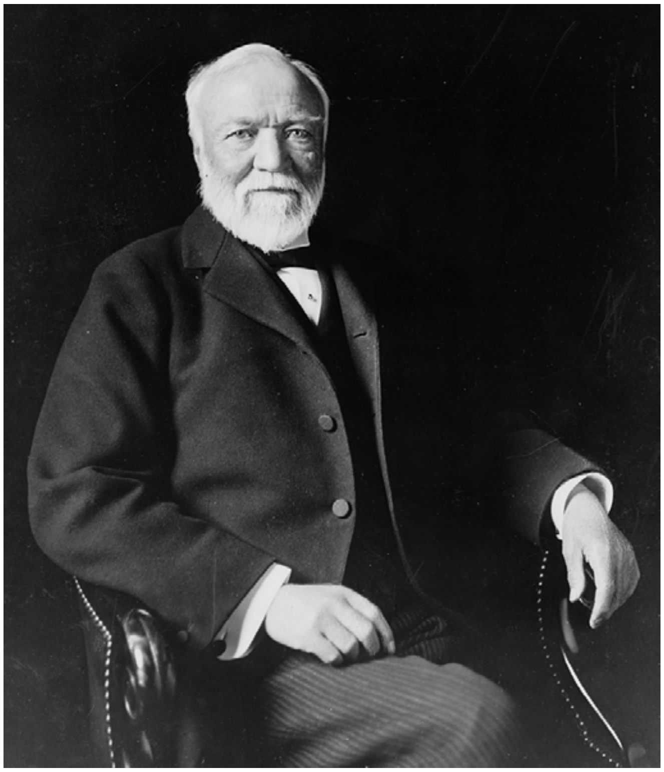
Carnegie often was asked to deliver messages to the theater. He arranged to make these deliveries at night—and stayed on to watch plays by Shakespeare and other great playwrights. In what would be a life-long pursuit of knowledge, Carnegie also took advantage of a small library that a local benefactor made available to working boys.

One of the men Carnegie met at the telegraph office was Thomas A. Scott, then beginning his impressive career at Pennsylvania Railroad. Scott was taken by the young worker and referred to him as "my boy Andy," hiring him as his private secretary and personal telegrapher at $35 a month.

"I couldn't imagine," Carnegie said many years later. "what I could ever do with so much money." Ever eager to take on new responsibilities, Carnegie worked his way up the ladder in Pennsylvania Railroad and succeeded Scott as superintendent of the Pittsburgh Division. At the outbreak of the Civil War, Scott was hired to supervise military transportation for the North and Carnegie worked as his right hand man.

The Civil War fueled the iron industry, and by the time the war was over, Carnegie saw the potential in the field and resigned from Pennsylvania Railroad. It was one of many bold moves that would typify Carnegie's life in industry and earn him his fortune. He then turned his attention to the Keystone Bridge Company, which worked to replace wooden bridges with stronger iron ones. In three years he had an annual income of $50,000.

However, Andrew expressed his uneasiness with the businessman's life. In a letter to himself at age 33, he wrote: "To continue much longer overwhelmed by business cares and with most of my thoughts wholly upon the way to make more money in the shortest time, must degrade me beyond hope of permanent recovery. I will resign business at thirty-five, but during the ensuing two years I wish to spend the afternoons in receiving instruction and in reading systematically."



Andrew Carnegie 1913 photo by Theodore C. Marceau

Carnegie would continue making unparalleled amounts of money for the next 30 years. Two years after he wrote that letter Carnegie would embrace a new steel refining process being used by Englishman Henry Bessemer to convert huge batches of iron into steel, which was much more flexible than brittle iron. Carnegie threw his own money into the process and even borrowed heavily to build a new steel plant near Pittsburgh. Carnegie was ruthless in keeping down costs and managed by the motto "watch costs and the profits take care of themselves."

"I think Carnegie's genius was, first of all, an ability to foresee how things were going to change," says historian John Ingram. "Once he saw that something was of potential benefit to him, he was willing to invest enormously in it."

Carnegie was unusual among the industrial captains of his day because he preached for the rights of laborers to unionize and to protect their jobs. However, Carnegie's actions did not always match his rhetoric. Carnegie's steelworkers were often pushed to long hours and low wages. In the Homestead Strike of 1892, Carnegie threw his support behind plant manager Henry Frick, who locked out workers and hired Pinkerton thugs to intimidate strikers. Many were killed in the conflict, and it was an episode that would forever hurt Carnegie's reputation and haunt the man.

Still, Carnegie's steel juggernaut was unstoppable, and by 1900, Carnegie Steel produced more of the metal than all of Great Britain. That was also the year that financier J. P. Morgan mounted a major challenge to Carnegie's steel empire. While Carnegie believed he could beat Morgan in a battle lasting five, ten, or fifteen years, the fight did not appeal to the 64-year old man eager to spend more time with his wife Louise, whom he had married in 1886, and their daughter, Margaret.

Carnegie wrote the asking price for his steel business on a piece of paper and had one of his managers deliver the offer to Morgan. Morgan accepted without hesitation, buying the company for $480 million. "Congratulations, Mr. Carnegie," Morgan said to Carnegie when they finalized the deal. "You are now the richest man in the world."

Fond of saying that "the man who dies rich dies disgraced," Carnegie then turned his attention to giving away his fortune. He did not like charity, and instead put his money to use helping others help themselves. That was the reason he spent much of his collected fortune on establishing over 2,500 public libraries, as well as supporting institutions of higher learning. By the time Carnegie's life was over, he gave away 350 million dollars.

Carnegie also was one of the first to call for a *league of nations* and he built a *palace of peace* that would later evolve into the World Court. His hopes for a civilized world of peace were destroyed, though, with the onset of World War I in 1914. Louise said that with these hostilities her husband's heart was broken. Carnegie lived for another five years, but the last entry in his autobiography was the day World War I began.

Analysis

1. Describe Andrew Carnegie's early life including two of his early jobs.

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2. How did his early life and these first jobs influence his future ambitions? What was the impact of the Civil War on his business decisions?

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3. What did he mean when he said, “Watch costs and the profits take care of themselves”?

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4. Carnegie often spoke in favor of workers’ rights to organize. Would you have wanted to work for him? Explain your reason for your choice.

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5. What did J. P. Morgan pay for Carnegie’s steel business? ___________________________

6. Why did he give so much of his fortune away and why did he do it by establishing 2,500 libraries?

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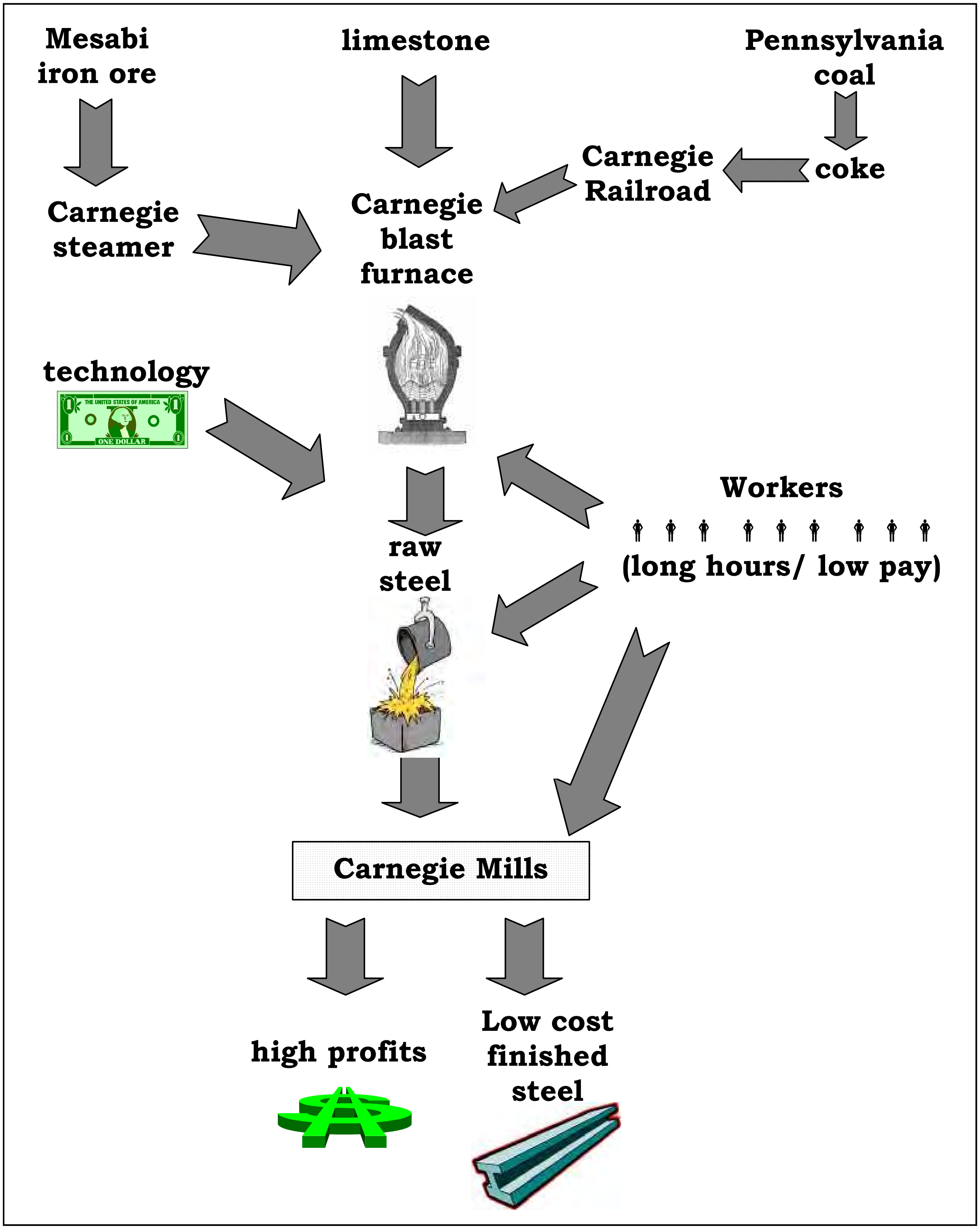
Vertical Integration of Carnegie Steel (It’s called vertical integration because Carnegie controls every facet of steel production from top to bottom.)

Study the flowchart on the next page. It shows the process Carnegie used to make low-cost steel and high profits. While you study the chart, remember his motto, *Watch costs and the profits take care of themselves*. But also remember that he “threw his own money into the [Bessemer] process and even borrowed heavily to build a new steel plant. . . .”

Vertical Integration of Carnegie Steel



Flowchart Analysis

7. What three materials were put into the blast furnace?

8. Who owned the steamers and railroads that brought the raw materials to the blast furnace?

9. What was produced in the blast furnace? ______________________________

10. What does the dollar bill under the label *technology* in the flow chart represent?

11. Carnegie was very concerned about keeping his costs low. Why was he willing to spend large amounts of money on technology?

12. Explain how did he kept his transportation, manufacturing, and payroll costs low?

Critical Thinking

13. Based on your answers to the flowchart questions, explain in a short essay how Carnegie's methods enabled him to produce low-cost finished steel and earn high profits. Be sure to start with a topic sentence. If you have access to a computer and printer attach your final essay to this lesson.

Checklist: Make necessary revisions before continuing.

✓ Did you support your topic sentence adequately?
✓ Did you end with a good conclusion?
✓ Did you use correct social studies terminology?
✓ Did you proofread for spelling, sentence structure, and punctuation?

John D. Rockefeller, Sr.

The Standard Oil Company was created by John Davison Rockefeller, the son of a New York State patent-medicine salesman. The Rockefeller children learned from their Scot mother that "willful waste makes woeful want" and were taught to work hard, save, and give to charitable causes. When John Rockefeller was a very small boy, his parents gave him his first job. He was told to discover where a hen turkey was hiding her eggs and was rewarded with the chicks to raise and sell. At twelve he made a first loan out of his savings, loaning $50.00 at 7% interest. He quickly learned the possibilities of putting money to work for him.

In 1853, the family moved to the Cleveland, Ohio, area where John entered high school. As a student he was known for his abilities in math, particularly in mental arithmetic, and he also joined the debating team. He left school after two years to take a business course. After finishing the six-month course in three, he found work as an assistant bookkeeper for a firm that dealt in hay, grain, meats, and other goods. With $1,000 in savings as well as $1,000 borrowed from his father, Rockefeller and a partner opened a similar business in 1859.

Rockefeller at 18 years old.

The first oil well was drilled in western Pennsylvania that same year, and Rockefeller began to see new possibilities. He and two partners went into the oil refining business in 1863. In 1865, Rockefeller bought the refinery for $72,500. The new firm of Rockefeller and Andrews had the largest oil refinery in the Cleveland area. Rockefeller devoted all his time to the new business.

Rockefeller remembered his mother's maxim "willful waste makes woeful want" and paid close attention to every aspect of the oil refining business. His attention to detail led him to seek control of the various resources needed. For instance, the oil business required barrels. Rockefeller bought white-oak timberland for wood for the barrels, then built his own barrel making (cooperage) shop. To decrease transportation costs for moving the lumber to the cooperage shop, he built kilns on the timber tracts to dry the lumber before shipment. The cost of one barrel was cut in half. It is said that Rockefeller was alert to any economy that would save a fraction of a cent per barrel. He knew that a fraction of a cent per barrel multiplied by a large number of barrels would mean large profits, a concept known as *economy of scale*. Rockefeller also carefully avoided waste by finding uses for materials that other refineries considered waste products. While other refineries were secretly dumping gasoline, for instance, Rockefeller used it for fuel.

In 1870, Rockefeller organized the Standard Oil Company with capital of $1,000,000. Rockefeller himself owned thirty percent of the business. At the time of its formation, Standard Oil controlled ten percent of the oil business. In 1870, it did not require much capital to enter the oil refining business – the field attracted many small businesses. Rockefeller, however, believed that in their attempt to compete, the small businesses acted unpredictably and drove down the price of oil. His plan for Standard Oil involved building a larger firm, well managed, that would eliminate the smaller, unpredictable businesses. In 1871, Rockefeller began buying out the competitors in Cleveland. He offered each one Standard Oil stock for the value of their business. Some asked for cash and received it. Within six months Standard Oil controlled nearly all the refineries in the Cleveland area. Rockefeller began looking farther away. By 1872, Standard Oil controlled twenty-five percent of the refineries in the country and continued to buy up plants, docks and ships.

One way Standard Oil eliminated competition was by its arrangements for secret rebates [deductions; discounts] from railroads. In her *History of the Standard Oil Company*, Ida M. Tarbell said that in order to control prices, Standard Oil sought "a control of oil transportation giving special privileges in rates." The price arrangements meant that smaller refineries could not compete. One refiner testified that he had asked the advice of the New York Central Railroad after Rockefeller had approached him about selling out. He said he was told, "You better sell – you better get clear – better sell out – no help for it." And he sold out. Tarbell concluded from her study that Rockefeller "employed force and fraud to obtain his end." Rockefeller had gained control of ninety percent of the oil business of the United States by the late 1870s.

Standard Oil Trust was formed in 1882 with capital of $70,000,000 merging all the holdings. The Trust was run by a group of trustees who controlled the stock of the companies involved and thus controlled the industry. The Trust was dissolved by an Ohio court decision ten years later. The companies involved in Standard Oil Trust formed the Standard Oil

Company under New Jersey law because that state allowed a parent company to own the stock of other companies. In 1911, the U.S. Supreme Court found Standard Oil Trust to be in violation of new anti-trust laws and ordered it to be dissolved. The thirty-eight companies involved were separated as individual firms.

Rockefeller retired from day-to-day involvement in Standard Oil in 1896 at the age of 57. He then turned much of his energy to careful giving of his wealth to various charities. In fact, Rockefeller had given a portion of his wealth to charities all his life. He was now, however, as businesslike about giving away the fortune as he had been in building it. He hired experts to advise him. "I believe it is every man's religious duty to get all he can honestly and to give all he can," wrote Rockefeller.

In 1889, the American Baptist Education Society decided to establish a college in Chicago. Rockefeller offered to give $600,000 of the first million dollars if the remaining $400,000 was pledged by other donors within ninety days. This was the beginning of the University of Chicago. Rockefeller gave millions to it over the next twenty years. Rockefeller's usual method of giving large amounts of money was to set up a charitable corporation with separate funding, trustees, and officers. In 1901, he founded the Rockefeller Institute for Medical Research to discover causes, methods of prevention, and cures of disease. This institution is now Rockefeller University. The General Education Board, founded in 1902, was charged with "promotion of education within the United States of America without the distinction of race, sex, or creed." When it was dissolved in 1965, it had given $325 million to improve education at all levels. The Rockefeller Foundation was established in 1913 to "promote the well-being of mankind throughout the world." The Foundation has contributed to public health, social research, medical education, increasing food production, scientific study, the arts, and other areas worldwide.

John D. Rockefeller Sr. and Jr. in 1915

In 1912, Rockefeller's fortune was estimated to be $900,000,000, but he had already given away hundreds of millions of dollars. When he died at 97 in 1937, his estate was worth a little more than $26,000,000. He had given most of his fortune to heirs and various charities.

Analysis

14. Describe Rockefeller's early life and two of his early experiences with money.

15. Describe Rockefeller as a businessman.

16. What were some of the business practices that earned Rockefeller the reputation of being ruthless?

17. Rockefeller's company practiced *economy of scale*. How did this concept help Standard Oil?

18. Describe the organization of the **trust** he and his partners established.

19. Like Carnegie, Rockefeller also became a philanthropist after he retired. What types of philanthropy did he support? Why did he give so much of his fortune away?

Drawing Conclusions

20. Use the following grid to compare and contrast Rockefeller and Carnegie.

Industrialist	**Positive Characteristics** (Captain of Industry)	**Negative Characteristics** (Robber Baron)
Andrew Carnegie		
John D. Rockefeller		

21. Using the information from this lesson and the chart you prepared, compare and contrast the work of Rockefeller and Carnegie in a short essay. Remember to begin with either a topic sentence or a thesis and support your ideas. If you have access to a computer and printer, you may attach your final work to this lesson.

Checklist

- ✓ Have you adequately supported your topic sentence or thesis?
- ✓ Do you have a good conclusion?
- ✓ Have you proofread for spelling, punctuation, and sentence structure?

GOOD JOB!

End of Lesson 4