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The Legend of the Robber Barons

BETWEEN business history, which has concentrated attention upon the administration of the firm, and general social or economic history, which has frequently omitted business processes altogether, there is a broad, vacant area. In this twilight zone lie the relations of business leaders with similar men in other firms, the interactions of businessmen with society as a whole, and the economic effects of business decisions. Scholars viewing this area have seen such a host of related problems that a group composed of representatives from some of the East Coast universities has given the study a special name: entrepreneurial history.¹ In defining this field, the term entrepreneur has not been restricted to the conventional American textbook meaning of one who risks capital in enterprise. Rather, the older French definitions of Cantillon and Say have been re-expressed in broader language to make entrepreneur roughly equivalent to business executive. In the research of the group, the function of entrepreneurship, or business leadership, is conceived as operating in a broad socio-economic setting.

The systematic pursuit of a new interest of this kind requires a series of assumptions as to what should be examined, some tentative hypotheses about relationships and dynamics, and then historical

¹ A Research Center for Entrepreneurial History at Harvard, organized by Arthur H. Cole, is one result of the deliberations of the East Coast group.

facts against which to test and expand the original concepts.² The major assumption of entrepreneurial history is that it requires the exploration of the economic and social roles played by the entrepreneur: how he did his job, and what doing his particular job meant from the standpoint of his personality, his interests, and his other social roles. To gain adequate perspective, these explorations should take place in various historical settings.

What is such study likely to mean for history of the social sciences? For one thing, it will correct the elimination of man from most current economic theorizing. The necessity for including the human factor in economic equations is very obvious when we take a look at the history of a country like Venezuela. Venezuela has all of the factors usually assumed to be necessary for rapid industrial development. It has oil and iron ore, both readily available to water transportation; it has been populated for many years by people who have known of European technology; and one finds it hard in studying its history to discover any conventional economic reason for the failure of these people to develop their resources. Yet Venezuela remained a backward farming country until American oil companies began to develop it following the concessions granted in 1921, and its iron resources remained unexploited until the United States Steel Company entered the picture at a somewhat later date. The answer obviously is that the general culture of Venezuela was not such as to encourage entrepreneurship; or to carry this a step further, economic growth does not depend simply upon a population and a given body of resources and transportation facilities; it depends upon the whole cultural complex that may or may not lead to enterprise, savings, reinvestment of capital, and further development.

The economists, of course, have recognized the importance of entrepreneurship abstractly; but they have failed to make any satisfactory use of this factor in setting up their equations or developing their theories. The inclusion of this factor in economic history, for example, will unquestionably reorient it in the direction of anthropological and sociological knowledge. It will not necessarily make the businessman a hero, but it will affirm the necessity of seeing economic growth in cultural terms.

² It is worth noting that although data may vary in age from six months to five hundred years, any that can be collected are necessarily historical.

For the general historian, it will mean a re-evaluation of the roles and importance of business leaders, particularly in countries such as the United States. Our present history generally has seen business leaders as parasites on a deterministic process. Historians who are in no other way determinists nevertheless seem to assume that our economic development would have gone along in good and productive paths if left to itself, whereas grasping and unscrupulous business leaders deflected this natural progress into antisocial lines for their own advantage. The corrective needed is not a eulogy of business, but real understanding of the social processes which have channeled the economic life of the nation.

An analysis of the period in which many American historians have discussed the businessman, the age of the "robber barons," will illustrate the reinterpretation that may come from entrepreneurial history. The "robber barons" are usually selected from among the railroad, industrial, and financial leaders of the period from about 1865 to 1900, and more often than not are the only businessmen who appear in college textbooks covering this period. According to the present historical mythology, they are seen as "bad" or unusually grasping and unscrupulous types in our culture against the background of a "good" public. The interest in discussing them is to illustrate business malpractices, and, presumably, to convey moralistic warnings against such activities, rather than to understand the business process in society.

In distinction to this pathological approach, the entrepreneurial historian is interested in the culture patterns and social structures which have produced these assumed types, and in whether or not the types have been correctly delineated. In pursuing such a study, the first thing is to decide what some of the major cultural themes were that guided or sanctioned the roles of these men. I think we can pick out three about which there will be little controversy: the concept of the autonomous economy that was self-adjusting; the idea that progress came through competition and the survival of the fittest; and the belief that profit or material gain was the only reliable incentive for action. These themes operated throughout the society as a whole. The truckman delivering dirt for railroad construction was as much motivated by profit and as firm a believer in these themes as was the "robber baron" who was building the road. The

dissident element in the society, those who denied the value of these major themes, seem during these years to have been a relatively small, or at least uninfluential, portion of the population. Therefore, if value judgments are to be formed, they should be applied to this type of society or culture. It is rather futile to assert that the culture would have been all right if it were not for the kind of people and activities that resulted directly from its major themes.

If one accepts the additional and continuing American theme that material growth is a reliable index of progress, and its usual corollary that rapid progress is desirable, one question that may be asked of the culture as a whole is whether such progress could have taken place faster if other beliefs had prevailed. Since it is impossible to conceive deductively what the United States would have been like if built up on some other system, such a decision requires the establishment of a comparative standard. But if recourse is had to the history of another nation in order to observe the application of different cultural patterns to economic development, none seems like the United States to offer satisfying parallels. It is interesting, however, to note that in one of the somewhat similar economic situations, that of Australia, where railroads and frontier development went on through more state enterprise, about the same things were complained of that commentators here in the United States blamed upon private enterprise. In other words, a number of the difficulties seem to have been inherent in the rapid development of a pioneer area rather than in the particular means by which the development went on.

Avoiding, therefore, such unanswerable questions, and concentrating on a better understanding of the operation of American culture, let us examine the historical legend of the "robber baron" by analyzing the "case history" of Henry Villard. Villard is an interesting "robber baron" because he was brought up outside the American culture in a German bureaucratic or official family. His father was a German lawyer and judge, who ultimately became a member of the Supreme Court of the Kingdom of Bavaria. Villard, after attendance at three European universities, decided to come to the United States to try his fortune. Supported to some extent by family money, he entered journalism and built himself a successful career as a correspondent for European and American newspapers. The Civil War,

particularly, gave prestige to young Villard. He was able to interview Lincoln and to offer many interesting and penetrating views of contemporary events. In the early seventies he went back to Germany, and through his family connections came to know the chief financial men of Frankfort and Munich. These contacts led to his being sent over as a representative of German bondholders in the Oregon railroad and steamship enterprises that had fallen into difficulties during the depression following the panic of 1873.

It is interesting that when Villard was placed in the position of having to make judgments regarding what should be done on the unfinished Oregon and California Railroad and in regard to the river navigation projects, he readily assumed the entrepreneurial role in just about the same form as men who had been brought up in business. In other words, the entrepreneurial role seems to have been so much a part of the cultural pattern of America, and possibly of middle class Germany, at this time, that there was no great gulf between the attitude of the professional intellectual or journalist and that of the businessman. Villard identified himself quickly with the development of the Oregon area, and, instead of advising liquidation and withdrawal for his German clients, he counseled rather the investment of still more capital in order to complete the enterprises. In this way his essential role was that of attracting foreign capital to a frontier development. It is not clear that he was ever deeply interested in problems of technology and management—that is, in just how the capital was applied for productive purposes; rather, he became a public relations man for the area, and an over-all or general entrepreneurial supervisor of where the capital should be allocated.

One factor of great importance in the Villard story is that he started new activities at just about the bottom of the deep depression that lasted from 1873 to 1879, and his ventures from then on, or at least from 1877 on, were first on a gradually rising market, and finally, from 1879 to 1882, on a market that boomed.

Villard saw quickly that the Northern Pacific Railroad, which was being built across the country from Duluth and St. Paul, would have to make, or at least should make, an agreement to connect with whatever road occupied the Columbia River valley. With this long-range plan in mind, he secured foreign and domestic help for the building of the Oregon Railroad and Navigation Company up the

Columbia, at a time when Northern Pacific construction was moving very slowly into eastern Montana.

It is from this point on that the most interesting differences occur between the dramatic "robber baron" explanation of Villard's activities and the more sober and socially complex explanation offered by entrepreneurial history. The "robber baron" story is, that as Villard found the Northern Pacific management nearing the Columbia valley but unwilling to agree to make use of his facilities—that is, threatening to build either a parallel line or to cross the Cascade Mountains to Tacoma and Seattle—he decided that he must get control of the Northern Pacific. So great was his prestige for successful operation by this time that he had the boldness to ask a group of his friends in Wall Street to put up \$8,000,000 for some project that he would not reveal to them. And, as the story went, he had no difficulty in more than raising the first payment requested for this "blind pool," money which he used secretly to buy control of the Northern Pacific Railroad. The "robber baron" analogy is, of course, obvious and exciting. The "robber baron," Villard, seizes control of a strategic pass and then exacts tribute from the railroad that represents a great, nationally subsidized enterprise.³ Villard's blind pool has all of the trappings of high drama and shady financial dealings. The "robber baron" story then goes on to assert that Villard robbed the Northern Pacific and his other properties in the course of construction in such a way so that by 1883 they were bankrupt, while he himself had become very rich.

As usual, the actual story is not so dramatic. What appears to have happened is, that when the Northern Pacific secured Drexel Morgan financing in the latter part of the year 1880, and the Drexel Morgan-Winslow Lanier syndicate learned that Frederick Billings, the president of Northern Pacific, was planning to build duplicate facilities to the coast without regard to the already existing Oregon Railroad and Navigation Company, they became worried over the economic loss involved in constructing nearly parallel lines. The bankers, not sharing in the loyalties to individual companies that presidents and other officers almost inevitably develop, could see no reason why Northern Pacific and O.R. & N. could not get together in one co-operating line. But some of the officers of Northern Pacific, particularly Billings,

³ The Northern Pacific had the largest land grant of any of the western railroads.

regarded the railroad as their greatest life work; they felt that to compromise and make the final road a joint venture between the "upstart" Villard and the great Northern Pacific enterprise was a personal defeat. Whereupon Morgan, at least, decided that the only way of bringing about a compromise and preventing unnecessary construction was to establish a common control for the two companies. Since Villard, who had, from the financial standpoint, acquitted himself well as receiver for Kansas Pacific, was now anxious to get this joint control, and assured Morgan that he independently had the resources to do so, the syndicate gave him their blessings, and even offered him their help. The "blind pool" was, therefore, chiefly a product of Villard's love of drama, of doing things in a spectacular fashion. Had he been willing to forgo these dramatic frills, control could quietly have been bought through the syndicate over about the same period. Of course, it cannot be overlooked that successfully doing the job himself gave Villard great personal prestige in Wall Street.

The difficulties from 1881 on to the completion of the road in 1883 seem to have been to some extent inevitable, and to some extent to have resulted from the usual overoptimism of American promoters. Villard formed a holding company, called the Oregon and Transcontinental Company, which was to own stocks in his various enterprises, make the construction contracts, and generally conduct the building which would weld Northern Pacific and O.R. & N. into one system. Undoubtedly, the Oregon and Transcontinental Company stock was a source of large profit for Villard; in fact, it seems probable that all the money Villard made in connection with these enterprises came from floating, buying, and selling the securities in Wall Street. It may be that Villard profited from the construction contracts, but there is no clear evidence of this, and it is quite possible, by analogy to similar situations, that the profits of construction went largely to local contractors in the West. At all events, the major difficulty was a lack of sufficient traffic to warrant the high construction cost of building railroads through the Rockies and the Oregon coastal regions. The completion of the through-line in August of 1883 was almost simultaneous with the beginning of a steady recession in general business that ended in a crisis the following March. As a result, the difficulties that the system would have experienced in

paying returns under any circumstances were accentuated. When the companies were not able to pay dividends and their securities declined, Villard, temporarily losing the confidence of the banking syndicate, was forced to retire from the control of the various enterprises.

One way, therefore, of looking at this whole story is that Villard, a relatively inexperienced entrepreneur, took hold of a series of frontier developments at the bottom of the business cycle, carried them along through his connections and personal enthusiasm during the rise of the cycle, completed them just at the peak of the boom, and was then unable to steer them through the ensuing depression. Viewed from this angle, the whole development was a normal and repetitive one in both big and small business. The general history of even a small retail store or factory enterprise was often just about the same; if the enterprise started at a favorable time in the business cycle, it could last until a major depression. Then, unless it has had farsighted and unusually able management, or had been lucky in making more profit than was possible for most young enterprises, it lapsed into bankruptcy and had to be reorganized with the injection of new capital. The roles that Villard played extremely well were those of a mobilizer of capital resources for pioneer investments, and effective public relations for the development of an area. The roles that he played poorly were those of an expert railroad builder and conservative business forecaster.

What do entrepreneurial historians expect to gain from such a study? In the first place, the study of outstanding examples such as that of Villard may be instructive for the study of the normal practices and operations of business. A detailed study of the Villard enterprises will show more exactly the nature of such practices as the strategic type of entrepreneurship that went into railroad building. The seizing of the transportation route down the Columbia River is merely a dramatic example of the general type of planning done by all western railroad builders. The strategic occupation of territory was like a great game of chess. Each leading entrepreneur had to guess where his rivals were likely to build next, how he could forestall their entrance into an area by throwing a line of track through some valley or across some river, often planning these moves a decade or more ahead. Little is known of the local economic and social results

of this process beyond the fact that it extended railroad transportation at an extremely rapid rate.

Trying to assess the larger economic and social effects of Villard's activities, we might note that he mobilized about \$60,000,000 in capital, and applied it to western development at a social cost of perhaps one or two million dollars. That is, he may have made more money than that, but the one or two million dollars represent an estimate of what he actually spent on living and personal durable goods during these years. His other money came and went in stock-market operations, and presumably represented a transfer of capital from one set of holders to another. The question remains: granting that this was not a high rate of commission to pay for the mobilization of so much money, was the long-run effect of the development for which the money was spent economically and socially desirable? Undoubtedly, this particular development of transportation was premature, and it was carried on at the cost of some other types of goods or services that could have been produced with the same expenditure. But this in turn raises another question from a purely nationalistic standpoint: could the foreign capital have been attracted for more prosaic and routine operations? To the extent that foreign money was invested unprofitably in western development, it was an economic loss to Germany and the other investing nations, but a net gain to the United States. As to the loss of domestic resources in these developments, it can be noted that, at least, this is what the men of the culture apparently wanted to do with their economic energy. Villard noted in his promotion activities that the word "Oregon" had a kind of popular magic to it in the seventies and early eighties. Then it was the promised land of the American West, and it stimulated the imagination of Americans along entrepreneurial lines. The historian should try to assess the extent to which the dramatic development of natural resources may actually raise the rate of saving in the community, and may increase output of energy in the population as a whole. These are, of course, very difficult and intangible problems, but yet they are just as much a part of the picture of economic development as the old stand-by of assessing the value of natural resources and the cost of getting them to market.

There is a cultural paradox involved in all of this that makes it difficult for the unwary investigator. At the same time that Ameri-

cans were saving at a high rate for development purposes and investing in railroad securities, they had a distrust of the railroad operator and were inclined to make the railroads a scapegoat for many of their ills. In other words, there was a kind of national Manichean heresy, whereby people were willing to sell themselves to the devil, to worship evil, as it were, but at the same time were not ready to forget the fact that it was really the devil and not good that they were supporting. This whole problem of ambiguity of attitude toward business leaders, and the reactions it led to on the part of the executives themselves, is one of the most fruitful fields of American cultural history.

This leads directly to the problem of social sanctions: what codes of conduct, ethics, mores, and folkways were recognized by the railroad entrepreneur? The "robber-baron" approach has implied that there were few sanctions recognized, that these men operated on the basis of nearly complete expediency. To anyone familiar with the study of cultures, this is obviously a very questionable assertion. Actually, there were many but varying sanctions operative upon the business leaders of the period. They varied with types of activity—horse-trading, for instance, having one set of ethics, banking quite another; with the conditioning of the entrepreneur, whereby a man brought up in the strict and staid business community of Philadelphia would have different ethics from one brought up in a less rigidly structured society; and with the geographical region—the frontier, in general, being an area of greater opportunity and larger adherence to the "end-justifies-the-means" philosophy than more settled areas—the mining town of Virginia City and Boston, perhaps, illustrating extreme poles.

Let us take a particular type of social sanction and see how it operated on the basis of these differing situations. One of the most important ones was the feeling of a fiduciary obligation toward stockholders and bondholders—the recognition of the fact that managers were trustees for the real owners of the property. From this standpoint, the distinction between men and regions may be brought out by analyzing the promotion of an extension up the Mississippi River by the directors of the Chicago, Burlington & Quincy Railroad.

But before proceeding to the details of these operations, it is necessary to understand some of the culture patterns of pioneer develop-

ment and railroad building. The ultimate growth and welfare of the community was a rationalization that to the Westerner justified almost any means that he might employ—particularly in the handling of Easterners' capital. Added to this was the fact that railroad companies were not fitted to do their own construction work and had to let local contractors do the building. That the construction work was not done by contract simply to rob the stockholders is abundantly illustrated by the facts that the most mature and best-managed companies continued to build through contractors, even though they might readily have undertaken the work themselves, and that railroad contractors sometimes bankrupted themselves by bidding too low. The difficulties were that building was a specialized enterprise for which the railroad had no regular staff, that it was occasional rather than continuous and, therefore, did not justify the maintenance of a specialized staff, and that often the work was remote from the railroad offices and could not readily be supervised by the chief executives. In order to facilitate such large-scale work by local interests, it would often be necessary for the road itself, or the directors or large stockholders of the road, to put up cash to assist the local contractor. This would be done by buying stock in a construction company of which the operating executive would usually be a local builder. The construction company took its pay in railroad stocks or bonds, which might in the case of an old road be almost as good as cash, but in the case of many young roads might be of very speculative and dubious value. The par value of securities taken for construction work, therefore, is not a safe guide to the amount of profit actually realized by construction companies. But there is little question that a great deal of eastern stockholders' money went west into construction companies and stayed there as profit to local entrepreneurs, including subcontractors all the way down the line, and even to the owners of local sandbanks and hardware stores. Sometimes the eastern directors and stockholders who had advanced money for construction company stock made handsome profits; at other times, as in the case to be discussed, they lost what they had put in; but in any case, the local people were likely to make a profit. As John Murray Forbes, Boston railroad promoter and conservative financier, put it, "My feeling is . . . that the Landowners and R. Road contractors are the ones who too often get the whole benefit

of the money that Capitalists put into the West.”⁴ Charles E. Perkins, long-time president of the C. B. & Q., went even further: “Iowa people make more money in farms and other industries including contracting and building than in railroads . . . and it is only the eastern capitalist who cannot use his money to advantage at home who is willing to risk it in western railroads and take the low average return which he gets, a return very much lower than the average of other investments in this state [of Iowa].”⁵

This background is necessary to an understanding of the contracts for the so-called River Roads that were to go up the Mississippi from Clinton, Iowa, ultimately to Minneapolis and St. Paul. The central western city involved in this development was Dubuque, Iowa, and the local entrepreneur who undertook to do the construction was J. K. Graves. He was a small-scale, general entrepreneur interested in banking, building, and all the wide range of local enterprises usual to the small-city capitalist. In order to undertake construction on these roads, he persuaded a group of the C. B. & Q. directors, headed by ex-president James F. Joy, to put up about half a million dollars cash in return for securities of the construction company. They then entered into a contract with the two railroad companies that were to own and operate the lines after they had been built, whereby the construction company took pay partly in stocks and bonds. The rest of the bonds of these companies were to be marketed to the holders of C. B. & Q. bonds and stock, who would buy them readily because of the endorsement of their own directors; this would in turn provide additional capital that could be used to pay for the construction.

Some of the members of the C. B. & Q. board, particularly John Murray Forbes and J. N. A. Griswold, were not told at the time they endorsed the sale of the bonds that their fellow directors were actually interested in the stock of the construction company. It seems probable that this knowledge was withheld because Joy and the directors who did buy such stock recognized that Forbes would not approve of their being involved in this kind of relationship. In other words, there appears to have been a difference in the business

⁴ John Murray Forbes to Charles S. Tuckerman, Apr. 14, 1880. President's Letters, Chicago, Burlington & Quincy Archives, Newberry Library, Chicago, Illinois.

⁵ Charles E. Perkins to James W. McDill, Jan. 26, 1885. President's Letters, Chicago, Burlington & Quincy Archives, Newberry Library.

morality or sanctions recognized by James F. Joy, a western businessman, and those recognized by old, conservative, upper-class Easterners like Forbes and Griswold.

The working out of the pattern has much in common with the Villard story; Graves may or may not have been a good railroad builder. Examination of hundreds of letters to and from Graves, and letters discussing the situation among C. B. & Q. directors, has failed to provide conclusive information on this point. At least, he held the confidence of Joy and the other interested directors right up to the final failure of the enterprise. The contracts were let in the boom of 1871, and, when the depression hit after the panic of 1873, the roads had not been completed. With revenues of all kinds falling off, Graves started borrowing from the funds of the unfinished River Roads to support his other local enterprises. The result was a slowing down of construction, a default on the bonds of the River Roads, and a financial situation that would not bear close scrutiny by accountants. In all this it is very hard to pass moral judgments. Graves had undoubtedly thought that he was doing the best thing possible for Dubuque and the surrounding country by trying to build up many enterprises at once. He had made no plans for a break in the boom and the coming of depression. As a result, he found himself hopelessly involved in ventures that could not all be kept going; yet the abandonment of any one of them then meant a postponing of all or most of the benefit that was expected to accrue from it. In this situation he tried to borrow from Peter to pay Paul, hoping that Peter would raise additional funds. The same kind of situation has turned pillars of society into scoundrels time and time again in American business history.

In the case of the River Roads, when the default occurred, Forbes and Griswold became interested in investigating the situation and soon found out the identity of the construction company's stockholders and the nature of the contracts. Forbes denounced Joy, and when the latter refused to assume personal responsibility to the C. B. & Q. investors for the interest in the River Road bonds—a procedure which would have been highly unusual—Forbes decided that Joy and certain other directors involved must be put off the C. B. & Q. board. Forbes succeeded in doing this in a proxy battle at the next stockholders' meeting and the River Roads passed ulti-

mately into the hands of the Chicago, Milwaukee and St. Paul. This, in the long run, turned out to be a great mistake, as a decade later C. B. & Q. had to build a parallel line under less advantageous circumstances.

The quarrel was due to a conflict in sanctions based upon differences in situation. As one of Joy's followers in the matter, J. W. Brooks, a C. B. & Q. director who had had much experience in the West, put it, "Loosely as these things were done [branch-line contracts and construction in general] they as a whole have proved the salvation of the C. B. & Q. . . . we do not claim to be immaculate beyond expediency, but are content with right intentions and the good results obtained on the whole. . . ."⁶

Perhaps the above examples have demonstrated the difficulty in regarding any particular group of business leaders as "robber barons" without careful analysis of the situation involved, the popular and local codes of ethics, and the general pressure for "justification by profit" that ran all through American culture.

These illustrations have shown only limited aspects of entrepreneurial history. They have touched on, but not elaborated, the political science of the business corporation and the analysis of power within the corporation, showing only in the latter case that it is not easy to put one's finger on the exact location of control in any given instance. Real control over a situation may rest with some contractor or underling in the West, despite the façade of power in the eastern executive officers. Many other relations have not been brought out at all in these two accounts—for example, the relation of business roles to other social roles, which carries with it the discussion of the role of the business elite in relation to cultural leadership. Many railroad men, for example, were active leaders in national or state politics; others were patrons of the arts, or supporters of education. To what extent were these attitudes outgrowths of general social mores, to what extent did business sanctions indicate that these supplementary roles should be played, and to what extent were they peculiarities of the individuals?

Comparative studies need to be made of the place of entrepreneurship in varying national cultures. There seems little doubt that such

⁶ John W. Brooks to James F. Joy, Mar. 11, 1875. Joy Collection, Michigan Historical Collections, Ann Arbor, Michigan.

studies will go further toward explaining the economic progress of different regions than will any assessment of potential natural resources. It is these cultural elements, to a very large extent, that determine who will become entrepreneurs (the quantity and quality of the supply of entrepreneurship), and also the likelihood of entrepreneurial success in various types of endeavor. A culture with feudal standards of lavish living or the support of elaborate ceremonial organizations of church and state will obviously not have the capital to invest in economic development that will be available in a culture where frugal living, saving, and work are the custom.

The resources in theory and scope of interest of all the social sciences may be applied more readily to historical problems in the study of special roles and functions, such as entrepreneurship, than in the general study of the enormous conventional fields of economic, social, political or intellectual history. To learn more about how human beings behave and have behaved in history, it is wise to start with a manageable and definable group of human beings performing certain functions, rather than with the activities of the society as a whole.

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