

# US History

## Topic 1.1-1.3

Content Quiz: 8/29-30

Test- 9/5

Study the following for the quiz.

### What you need!

-1.1-1.3 Key Terms

-Reading questions—Due **Quiz** day!

## Topic 1.1-1.3 Key Terms

1. **Entrepreneurs**- people who build and manage businesses or enterprises in order to make a profit, often risking their own money or livelihoods
2. **Laissez-faire**- the absence of government control over personal and economic life
3. **Protective tariffs**-taxes on imported goods making the price high enough to protect domestic goods from foreign competition
4. **Patent**-official rights given by the government to an inventor for the exclusive right to develop, use, and sell an invention for a set period of time
5. **Bessemer process**-method developed in the mid-nineteenth century for making steel more efficiently
6. **Time zones**-any of the 24 longitudinal areas of the world within which the same time is used
7. **Mass production**-production of goods in large numbers through the use of machinery and assembly lines
8. **Cash crop**-crop grown for sale
9. Free enterprise
10. **Corporation**-company recognized as a legal unit that has rights and liabilities separate from each of its members
11. **Monopoly**-exclusive control by one company over an entire industry
12. **Cartel**-association of producers of a good or service that prices and controls stocks in order to monopolize the market
13. **Horizontal integration**-system of consolidating many firms in the same business
14. **Trust**-group of separate companies that are placed under the control of a single managing board in order to form a monopoly
15. **Vertical integration**-system of consolidating firms involved in all steps of a product's manufacture
16. **Social Darwinism**-the belief held by some in the late nineteenth century that certain nations and races were superior to others and therefore destined to rule over them
17. **Interstate Commerce Commission (ICC)**-first federal agency monitoring business operations, created in 1887 to oversee interstate railroad procedures
18. **Sherman Antitrust Act**-1890 law banning any trust that restrained interstate trade or commerce
19. **Sweatshops**-small factories where employees have to work long hours under poor conditions for little pay
20. **Company towns**-communities in which residents rely upon one company for jobs, housing, and buying goods
21. **Collective bargaining**-process in which employers negotiate with labor unions about wages, hours, and other working conditions
22. **Socialism**-system or theory under which the means of production are publicly controlled and regulated rather than owned by individuals
23. **Knights of Labor**-labor union that sought to organize all workers and focused on broad social reforms
24. **American Federation of Labor (AFL)**-labor union that organized skilled workers in a specific trade and made specific demands rather than seeking broad changes

## Gilded Age Questions

### Section II

1. What is a basic premise of business with regard to government funding?
2. During the Gilded Age, what was the “number one top dog big cheese all-encompassing” industry in America?
3. What was the Credit Mobilier scandal?
4. Briefly describe a typical Jay Gould railroad scam.
5. Who did Cornelius Vanderbilt state had “the power?”
6. How did Vanderbilt consolidate his holdings?

### Section III

7. Who was Herbert Spencer?
8. Briefly describe “Social Darwinism” as it applied to wealthy American businessmen.
9. In what business did JD Rockefeller make his fortune?
10. What was the name of Rockefeller’s company?
11. What is a rebate?
12. What is vertical integration?
13. How was Rockefeller able to control his competitor’s shipping prices?
14. Define the following:
  - a. A monopoly

b. The cartel

c. The trust

15. What was the Sherman-Anti Trust Act (1890) designed to do?
16. Why was the Sherman Anti-Trust Act a flop?
17. In what industry did Andrew Carnegie make his fortune?
18. What is the Bessemer Process?
19. What does the term “economies of scale” mean?
20. How can a businessman make money while *lowering* his price?
21. What was the overall effect of Carnegie’s operating at economies of scale?
22. What was the *Gospel of Wealth*?
28. What was JP Morgan’s occupation?
29. What was the effect of Morgan’s stock purchases on the value of the stock?
30. Why did companies seek Morgan as an investor in their stock?
31. Describe how Morgan’s version of the “corporate takeover” worked.
32. What was the difference in Morgan’s holdings and those of Vanderbilt, Rockefeller, or Carnegie?
33. What was Morgan’s greatest achievement?
34. What company did Morgan form with his steel holdings?
35. What is horizontal integration?

This is known as a widening of the **socio-economic** gap (you know, the pyramid).<sup>7</sup> Now, a substantial American middle class will emerge during the Gilded Age, but initially it is neither large enough, nor upwardly-mobile enough, nor motivated enough, nor politically powerful enough to act as a barrier between the two other classes . . . yet.<sup>8</sup> Revolutions are born this way.

**The centralization and consolidation of economic control within a narrowly-defined faction results in an uneven distribution of wealth, featuring amazing amounts of wealth in one extreme, and a disproportionate absence of wealth in the other.** Since it really sucks to be poor, lower class working people aren't gonna play this game for very long before they become fed up with it. As a result, this widening socio-economic gap will result in growing social dissent (lots of POPPs here: Pissed Off Poor People) and will introduce a trend towards the socio-political ideals of socialism<sup>9</sup> and its ultimate consequence, communism. It won't be pretty, either.

**Number five** . . . what is going to happen when very rich dudes who desperately want to stay rich come into contact with politicians who have the power to do just that? **During this period of industrialization those lovely folks in Washington DC, particularly congressmen, will embrace (and manipulate, see Credit Mobilier) the Hamiltonian-Clay American System and favor the growth and stability of big business at the expense of other aspects of the economy (such as agriculture, small business, etc.)** Duh; wonderwhy?

**At last, number six.** During this time, it is obvious that with the advantages of government help and centralized individual control, American business is going to grow rapidly, and I mean human growth hormone-style growth: getting really big really fast. As a result, the size and scope of America's economy will grow in proportion with the size to the size and scope of American business. In other words, "what's good for American business is good for America." Of course, that may not be necessarily good for every aspect of American society, because obviously, in this sort of arrangement, not everyone can share the wealth; therein lies a problem. After all, for every queen bee there has to be a hive full of worker bees, all of whom work for the welfare of the hive. In any event, the dynamic of national and corporate economic growth will provide the foundation for the greatest economic leviathan the world has ever seen. Does this division of management and labor work? Ever stuck your hand inside one of these beehive bad boys without a glove?

Ah, there's one more little jewel. The worst that could happen to a prospective business tycoon (think of the little dude on the Monopoly board) was if that infernal national government began sticking its nose where it didn't belong: YOUR BUSINESS!! To address this potentiality **businessmen and their Republican Party supporters who guided the consolidation of American business developed and advocated a political-economic policy known as *laissez faire*, which simply meant that the less the government regulated business the better off the country's economic health would be. The level of and extent to which *laissez faire* has been employed as the guiding philosophy of the national economy has determined party politics ever since. You need to be VERY familiar with this term: *laissez faire*, which means no government interference with business.** Hard to argue with the logic . . . who knows best how to run American business: successful businessmen or the government?

## Section II. The First Barons

OK, a historic basic premise of business, and I mean any business at anytime, anywhere: anytime you have wads of available government money in the form of federal subsidies for startup and operating capital floating around, you will have expanded opportunities for corruption and scandal (again, Credit Mobilier is the prime example) The more money, the more opportunities. OK, time to use your deductive powers: since the railroads were the number one top dog big cheese all-encompassing overall business of businesses of the era, to what business do YOU think the bulk of federal money was made available? OK, here's another one. Because of the ease with which any goober could grab a share of this federal money bonanza, there were (to say the least) a lot of questionable

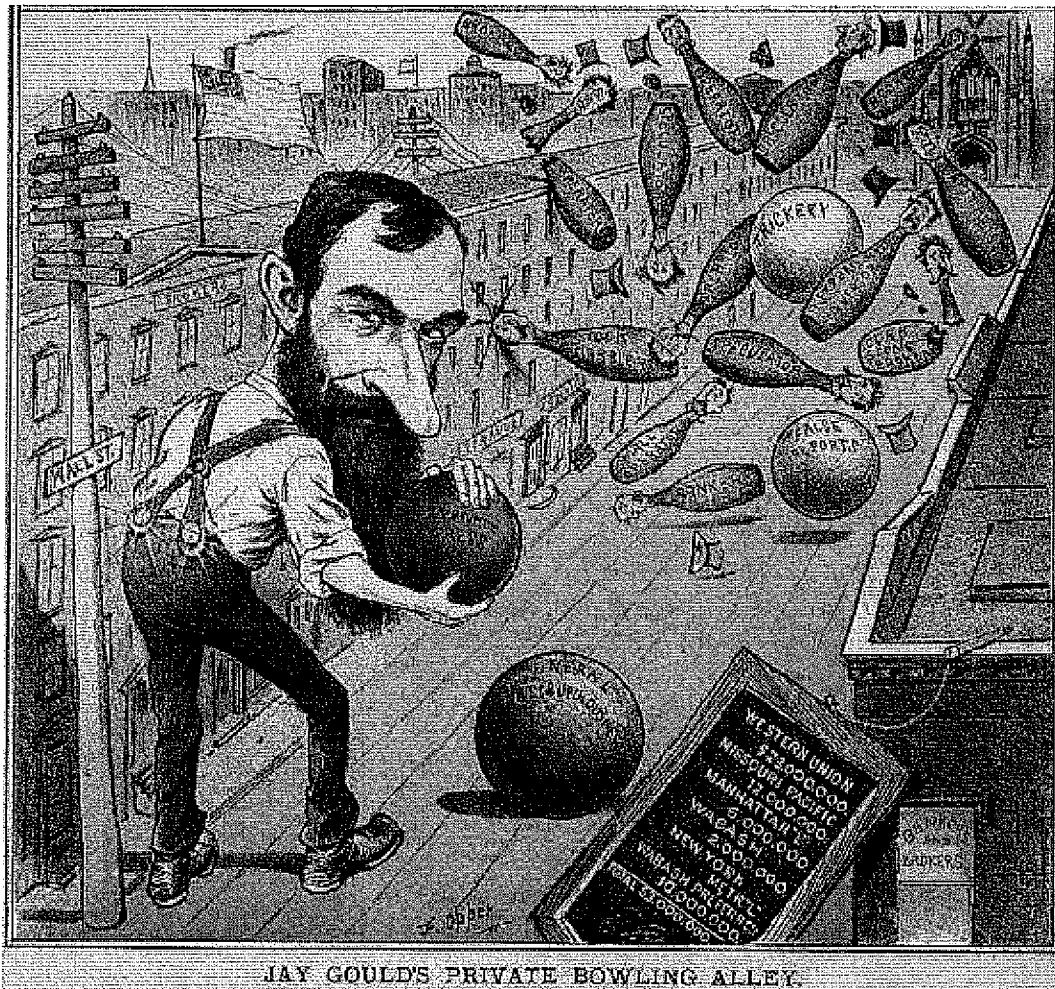
<sup>7</sup> Socio-economic class simply means basing the members of a society's personal status on how much wealth they have . . . or don't have. You know, the "have's" and the "have nots." Or like some teachers, the "have no lives."

<sup>8</sup> It is important to remember that a solid, mobile, consumer middle class is the basis for any successful capitalist economic system.

<sup>9</sup> LOTS more on this later, but as a VERY simplistic point of reference socialism is a political-economic system that stresses public ownership of business, rather than private ownership. Because of the sheer size of industrial society and economy, socialism typically comes in various forms depending on the amount of social integration of the economy.

(and I'm being kind here) business dealings. Because of these, uh, "innovative" dealings, some of these guys became known by their nickname: The **Robber Barons**. By all means some were, but were they all?

**\*The Credit Mobilier Scandal.** Yeah, I know we've already read about this, but in the context of Gilded Age corruption it bears a revisit because it shows how the system was manipulated. First of all, Credit Mobilier was a railroad consulting/construction company formed, owned, and supported by wealthy investors (something's smelling bad here), including a few members of Congress (WOAH!!! REALLY BIG STINK NOW!!) These bastions of the public trust used their congressional influence to help Credit Mobilier obtain federal railroad construction contracts (ah, the stench of internal improvements . . . Jackson warned us about this when he vetoed the Maysville Road), most significantly the Transcontinental Railroad, which had oodles of federal funding. Now, after receiving the contract, Credit Mobilier would use sub-standard materials, near-slave immigrant labor, and any measure to cut costs, while all the while over-charging the government. Were they successful? Well, they charged the Union Pacific Railroad \$94 million for a job that actually costs \$44 million. Fifty million profit? Not bad for a day's graft. Still, these guys couldn't hold a candle to this next dude, the king of the railroad crooks: Jay Gould.



**Jay Gould Had His Hands in Almost Every Scam You Can Imagine**

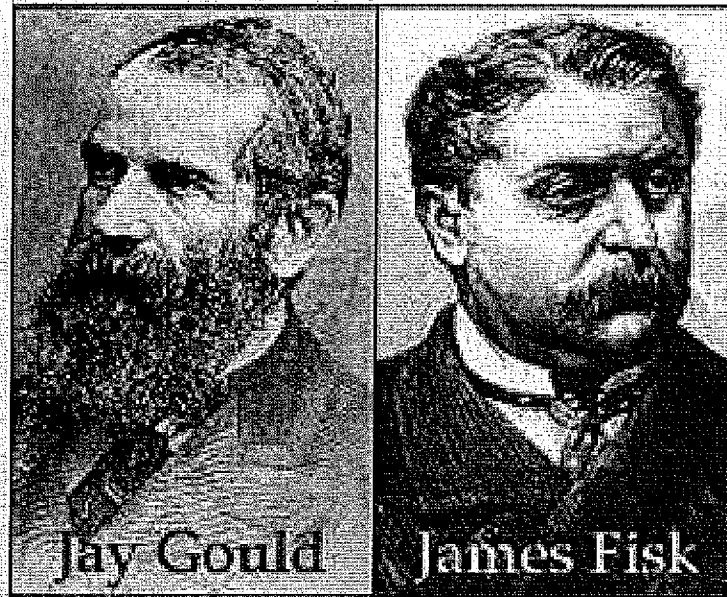
**\*Jay Gould . . .** was a crook, no dancing around it. Here's how one of his successful railroad scams worked:

1. Buy old, run down, worthless, money-losing funky railroads whose owners wanted to cut their losses and get out of the business . . . and there were many.
2. Make cosmetic improvement; in other words, paint them, install new cushions, spray it with "New Railroad Smell" scented Febreeze, hang little pine tree air fresheners . . . everything but actually repair that which made them worthless in the first place.

3. Advertise that you are offering stock in the greatest financial opportunity of the day. Just imagine Bret Favre drawling “Don’t get left out! Don’t be a doofus! Why be an ordinary slob when now you can own a railroad and get rich quick! Call “1-800-YER-A-SUCKER” NOW!!!!!!<sup>10</sup> If you call within the next 10 minutes we will send you free of charge the Nostril-Damus, the all new personal grooming device that trims that runaway nose hair and clears nasal congestion while predicting the future.”
4. When someone buys stock, they will receive a proportionate part of the company’s profit back in something called a **dividend**, in other words their share of the profit. The more shares of stock you hold the larger your dividend will be. Conversely, of course, no profit, no dividend. Also, no profit, and stock owners try to sell their stock, and it becomes less valuable. Gould was able to get federal funds to improve his crappy railroads, but instead of repairing his trains with this money he paid *dividends* out of them. See what he’s doing? He is making his stockholders think he is (and they are) making a profit (due to their receiving dividends) and thus driving up the value of the stock. When other yokels see this, guess what? **THEY WANT SOME OF THE ACTION, AND ALSO BUY GOULD’S STOCK**, which is, obviously, absolutely worthless in real value. It only appears valuable because of the dividend payments coming from phony profits, which are actually federal subsidies. Gould only did this to drive the value, and hence the price, of his stock up (which attracted more investors), and when he reached the end of his federal money (which only he knew) he would sell the entire railroad, lock, stock, and barrel at the phony inflated price driven high by the phony dividend. The poor suckers who bought the stock were left to realize that they owned a worthless, crappy railroad with fresh paint and new upholstery . . . one in which they could never recover their losses. By the time the investors realized they had been cheated, Gould was a million miles away, laughing all the way to the bank.
5. Oh yeah, the inevitable question: did Gould ever get caught? Oh yes, dozens of times. But give him a little credit here, anyone this brilliant isn’t going to stay caught for long. Gould simply reached deep into his pockets and avoided prosecution by bribing government investigators and law enforcement officials. Since a Gould bribe was often more than a poor cop was making in a year, Ol’ Jay paid the man and merrily went along his way.
6. **Gould, Jim Fisk, and the Great Gold Conspiracy.** In 1869, Gould found that the one legitimate railroad of which he maintained control, the Erie, lost money every time the price of gold dropped on the national monetary market. See, as long as gold sold at a rate of \$400.00 to \$450.00 paper dollars for every 100 gold dollars Midwest grain shippers shipped tons of grain on the Erie RR to foreign markets.<sup>11</sup> Consequently, it was in Gould’s best interest that gold prices stayed high, so . . . how could he guarantee that? Well, Gould knew the laws of supply and demand, so he made a *highly-public* display of his (as well as his cronies) buying all the gold they could get their hands on. See where this is going? When speculators saw Gould buying, they also bought gold, which consequently drove the price artificially high . . . higher demand equals higher prices. After about a year Gould’s railroad was making a butt-load of money off of the inflated . . . not actual . . . value of gold. Now, alarmed that the fluctuating price of gold might cost him money, he and partner Jim Fisk conspired to corner the gold market with the intention of controlling the available supply, and thus controlling its price. The pair spread the rumor that the government was prepared to flood the market with gold (result of the Resumption Act) which had the effect of driving the price down. Gould and Fisk, of course, bought up as much as they could at the lower prices before being ratted out by Grant’s brother-in-law. How was Gould able to wiggle out of this mess? When he heard that federal investigators were closing in, he kept the news to himself as slowly began to sell his holdings to his partner, Fisk, who assumed that the smart move was to keep buying. When the Feds closed in, Fisk got

<sup>10</sup> Well, yes, they did have telephones back then, but no 800 service. No internet, however, which explains the absence of [www.Yourasucker.com](http://www.Yourasucker.com). Just part of a pathetic joke on my part; get used to them. They are all I have.

<sup>11</sup> When American grain farmers produced a surplus of grain they typically flooded the American market with grain; however too much grain and the surplus would cause the price to drop. Consequently they would either ship the surplus to Europe or let it rot in the fields. When gold, which was the currency of international trade, sold between \$400-\$450/100 gold dollars, European markets would take advantage of the favorable rate and buy this surplus American grain. Global economy, dudes.



### The Gold Barons: Gould and Fisk

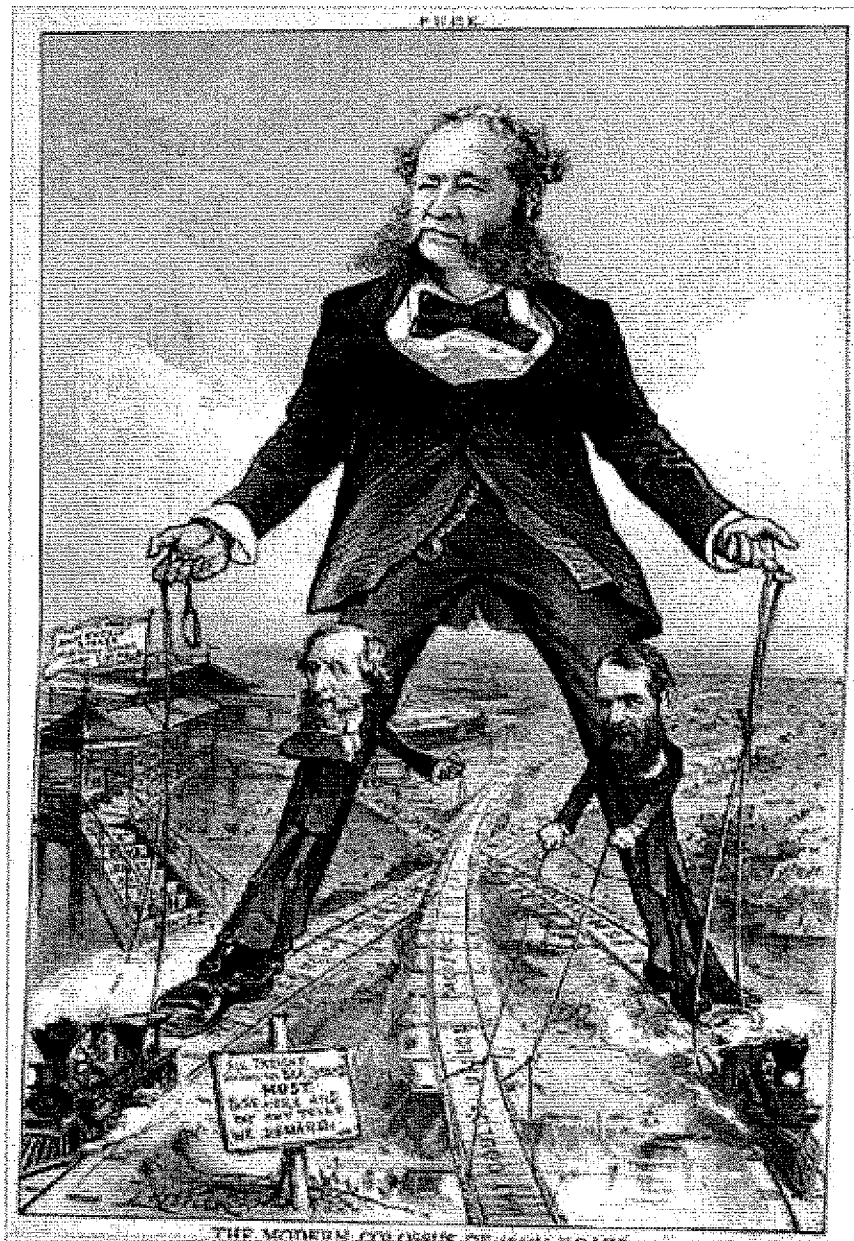
nailed, and Gould was in the wind, gone. Fisk was able to bribe his way out of trouble, but in 1872 he was shot by a jealous client while exiting the hotel room in the Grand Central Hotel in Manhattan that he shared with said client's wife. Gould was able to stay hidden and died in 1892, filthy stinkin' rich. In the world of Robber Barons Jay Gould was truly one of the greats, and while many argue about whether all of these business giants were legitimate or not, no one can argue that Jay Gould was an out-and-out crook: a true Robber Baron who knew how to manipulate the *laissez faire* system and doofus presidents like Grant to optimum effect.

**\*Commodore Cornelius Vanderbilt.** Want some insight into the ol' Commodore: "The law? What law? Who has time for the law? Ain't I got the power? Damn right I have the power!" Ok . . . at least everyone knew where the Commodore stood on the issue of the law. Vanderbilt made his first fortune in steamboat shipping before the Civil War, but because of the war switched to railroads. Why? Well, because (a) most rail lines were safely located in the North, and (b) unlike steamships, trains didn't sink. Anyway, once Vandy discovered the unlimited possibilities of making money through the railroads, he jumped at the concept of **consolidation** or the combining of several individual companies in order to create one huge company.<sup>12</sup> See, Vandy used the consolidation of several different rail lines into a larger whole to corner the early railroad market. Did it work? By 1900 two-thirds of all American railroad mileage was controlled by only seven companies, and five of those were owned in various forms by Commodore Cornelius Vanderbilt. You tell me if it worked. Ah, but was it legal? Absolutely, there were no laws against this type of consolidation. The shady area arose from the methods by which Vanderbilt would was able initiate this consolidation, whether by buying out his competition or forcing them out of business.

Remember this axiom: **Competition is the key to capitalism, and the ethics of business cares not about consolidation per se, it only cares about its effect on competition . . . which always benefits the consumer (that's us, folks). When consolidation (monopolies, trusts, etc) threaten competition, then you have a problem.**

<sup>12</sup> Today we call this a "corporate merger," as in Time Warner or Exxon Mobile. Same animal, different name. Ethical? Not always. Legal? Yep. Lucrative? Oh my God yes!





The Commodore.

Notice Jay Gould (right) trying to pull some of Vanderbilt's railroads away from him?

### Section III: Robber Barons or Captains of Industry?

\***Social Darwinism.** Before we even get to the real heavy hitters, we have to understand their motivation, the "WHY?" of their endeavors. Yeah, I know, all signs point to unabashed avarice as the major incentive to these guys, but as in most things historical greed in and of itself is a far too simplistic motivator; there has to be something else . . . and in Gilded Age America, there was: a deeper psychological reason running through their minds known as **Social Darwinism**.

In 1859, Charles Darwin changed human thought with the publication of his classic *On the Origin of Species*.<sup>13</sup> Darwin hypothesized that life on earth had evolved through the ages through a process of natural selection, in which living beings either adapted to their environment and hence continued to grow or died off as

<sup>13</sup> With his theory of evolution and its premise of natural selection Darwin also guaranteed that preachers all over the world would always have a Sunday morning sermon topic: Evolution versus Creationism. The debate goes on.

other, more robust species took their place. In other words, either adjust and adapt or someone else will come and take your cookies (I can't buy this; how do you explain the continued existence of freshmen?). In 1894, an Englishman named Herbert Spencer applied Darwin's respected theory to his own pseudo-science known as **Social Darwinism**. Spencer declared that, like animals in nature, human beings in society also evolved in line with natural selection. Consequently, the upper classes in society were successful because they were stronger and fitter than the weaker, lower classes. They worked harder, were smarter, and were more willing to do whatever it took to get ahead, while the weaker souls were consigned to be the worker bees and let someone take care of them. In other words, **huge sums of wealth and power were a natural result of "survival of the fittest"** (a term Spencer himself coined). Not surprisingly, industrialists embraced Spencer's theory, as it simultaneously legitimized and moralized their claims to social and economic domination. In addition, the policy of *laissez faire* fit nicely into the Social Darwinist concept; any attempt by government to regulate business would also serve as a social leveling agent. Consequently Social Darwinists believed that *laissez faire* guaranteed the proper social station for the haves and the have-nots.

**John D. Rockefeller: Oil.** When it comes to downright cutthroat businessmen, you need look no further than John D. Rockefeller, the Pit Bull of the Gilded Age. Rockefeller realized the potential of oil at an early age, and in 1870 formed the Standard Oil Company of Ohio, today known as Exxon. Operating within a *laissez faire* economic environment in which **there existed no federal regulation or other controls over business practices**, Rockefeller built a diverse business empire whose effects still resonate in the 21<sup>st</sup> century.



John D Rockefeller