



Robber Barons? Then and Now

The term “Robber Baron” originally referred to medieval German lords who collected tolls on primitive roads crossing their lands and from vessels passing on the Rhine River. However, the term is more commonly used as a pejorative in reference to Cornelius Vanderbilt, Andrew Carnegie, J.P. Morgan, John D. Rockefeller and other Titans of America’s Gilded Age. They are branded with this derogatory label having become incredibly wealthy through what some writers and politicians of that era viewed as ruthless and unscrupulous business practices. Interestingly, the same unflattering moniker is now being applied to Bill Gates, Jeff Bezos, Warren Buffett, Elon Musk, and Mark Zuckerberg, among others.

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By Bill Spitz, Principal

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To make this point, here are the titles of several recent media articles:

“Robber Barons in the New Gilded Age” *Tablet Magazine*

“Will Americans unite against modern-day robber barons?” *Reno Gazette Journal*

“New-tech moguls: the modern robber barons?” *The Observer*

I have been fascinated with the Gilded Age Robber Barons for many years and have read multiple biographies of each of them. Rather than rehash their stories, I think the more interesting topic is a comparison with the current crop of mega-capitalists. Just how rich were the vintage Robber Barons versus the staggering wealth that has been amassed by the current group which has been nicknamed the “Silicon Sultans?” Are there similarities in the way both groups accumulated their wealth and power? Is it fair to describe them as ruthless monopolists who exploited consumers and workers and mercilessly vanquished competitors? Would the U.S. economy be a great deal different if it were not for their business success? Finally, did their philanthropy atone for their alleged sins? The simple answer to all of these questions is: It’s complicated!



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FOLLOW THE MONEY

The best place to begin a discussion of Robber Barons is with an analysis of their wealth since both sets of moguls were or are at the top of the economic pyramid. While the numbers are not precise because of the volatility in stock prices, publications such as the Forbes 400 list make it relatively easy to estimate the wealth of today's Titans. More interesting is a comparison of the relative wealth of the original and New Gilded Age moguls, but experts employ different methodologies to convert 1870's to 1930's wealth into today's dollars. And, these various methods result in huge dispersion in the estimates. An additional challenge is the difficulty in determining the exact net worth of some of the original Robber Barons. The methodology that seems to make the most sense is to compare the estimated wealth of each Gilded Age Robber Baron with the size of the overall economy during his lifetime and then use that figure to estimate his wealth in current terms given the size of today's economy. Here are the results using that approach:

ESTIMATED NET WORTH

Gilded Age Robber Barons

| Name | Death | Adjusted Net Worth |
|----------------------|-------|--------------------|
| John D. Rockefeller | 1937 | \$346B |
| Cornelius Vanderbilt | 1877 | \$281B |
| Andrew Carnegie | 1919 | \$110B |
| Henry Ford | 1947 | \$110B |
| Leland Stanford | 1893 | \$74B |
| JP Morgan | 1913 | \$40B |

Current Titans

| Name | Net Worth |
|-----------------|-----------|
| Elon Musk | \$180B |
| Bill Gates | \$136B |
| Larry Ellison | \$120B |
| Mark Zuckerberg | \$118B |
| Warren Buffet | \$116B |
| Jeff Bezos | \$114B |

Given the lack of precision in this exercise, I would not make too much of this information other than to say that when properly adjusted, the wealth of the Gilded Age Titans was clearly in the same league as the vast sums accumulated by today's moguls that engender blaring headlines and Populist anger.

John D. Rockefeller deserves extra attention in that he was America's first billionaire, not in adjusted terms but in the actual dollars of his day. He is considered the wealthiest person in American history with a net worth that was estimated at \$1.4 billion. I have only considered American Titans here, but another interesting sidelight is that the world's wealthiest person today is Bernard Arnault, the founder and CEO of luxury goods company LVMH. LVMH owns more than 75 prestigious brands including Tiffany, Christian Dior, Givenchy, Louis Vuitton, Sephora, Bulgari, and the Belmond chain of luxury hotels. Arnault, who is French, has an estimated net worth of \$211 billion and his aggressive deal making has earned him the nickname "the wolf in cashmere."

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in some ways.*

Another interesting consideration in evaluating wealth is the issue of inequality. Economists use a statistic known as the Gini Coefficient to measure the degree of income and wealth inequality across various countries and within a given country through time. The coefficient ranges between zero and one with a score of zero representing perfect equality and one maximum inequality. As a frame of reference, the greatest inequality today is found in several Latin American and African countries with coefficients such as .54 in Columbia and .63 in South Africa which is the world's most unequal country. At the other end of the spectrum are a number of Northern European countries including Iceland, Belgium, Denmark, Finland, and Sweden. Their coefficients range from .26 to .3. The U.S. is the most unequal of the major industrialized countries at .49. The interesting point for this discussion is that the U.S. coefficient in 1928 was identical to today's figure. However, with the growth of the American middle class and the institution of progressive tax rates, our coefficient declined to .35 in 1980 before beginning the steady climb to today's level. In all fairness, there are some who argue that the government statistics used to calculate the Gini Coefficient do not adequately capture all forms of income and tax payments with the result that the degree of inequality in the U.S. is overstated. Moreover, there will and should always be inequality in a free-market system which makes it quite difficult to opine on the "right" level of income and wealth dispersion. I will leave these heavy questions to others, but I do believe that the two Gilded Ages are indeed comparable in some ways.

AT THE CENTER OF THE ECONOMY

How did the Gilded Age Robber Barons make their fortunes and are there parallels to the success of current magnates? The best way to begin to answer these questions is to review the critical factors that fostered the Industrial Revolution in the U.S. which began in roughly 1850. Economic historians point to five primary enablers:

- 1 Abundant natural resources
- 2 Abundant labor (The U.S. population tripled between 1860 and 1910, largely due to immigration)
- 3 Railroads
- 4 Technological advances such as petroleum, electricity, the Bessemer steel process, and the assembly line
- 5 Pro-business government policies including low tax rates and minimal regulation

Now, consider the primary means by which the Gilded Age Robber Barons accumulated their fortunes:

Cornelius Vanderbilt—Railroads and shipping

Andrew Carnegie—Steel including the ownership of most of the raw materials used in the steel making process. Carnegie Steel was a major producer of rails that were critical to the national expansion of railroads

John D. Rockefeller—Petroleum, ownership of forests, barrel manufacturers, and means of transporting petroleum products

Leland Stanford—Railroads

Henry Ford—Automobiles including the creation of the assembly line

JP Morgan—Banking, control of a significant portion of the country's railroad mileage, and the creation of U.S. Steel

The key point is that all were right at the center of the major developments driving the industrialization of the U.S. and its concomitant economic growth. Critics argue that they unduly benefited from monopoly positions in petroleum, railroads, and steel; the opposing point of view is that they essentially created these industries. I will provide more discussion on this debate later.

Now, let's turn to today's moguls. Klaus Schwab of the World Economic Forum posits that there have been three major industrial revolutions and that we are now transitioning to the fourth. They are:

- 1 1784—Steam, water, mechanical production equipment
- 2 1870—Division of labor, electricity, mass production
- 3 1969—Electronics, IT, automated production
- 4 Today—Cyber/physical systems such as artificial intelligence, robotics, nanotechnology, biotechnology, and universal connectivity

Once again, today's Titans are positioned at the crossroads of economic development.

Whether it is Microsoft's operating system, Amazon's cloud computing and storage capability, ecommerce, search engines, social media, or big data, Gates, Bezos, Ellison, Zuckerberg, Page, Brin, and Musk are at the center of the third and fourth industrial revolutions. As was the case with the previous generation, they not only benefit from key trends but actually created them. And, while Buffett is not a technologist per se, it is important to note that Finance is the largest contributor to U.S. GDP, and our large financial markets clearly make possible and support the continued development of these technologies.

One commonality of the past and present moguls is the successful achievement of economies of scale. As a result of the development of the assembly line, Henry Ford was able to cut the price of a Model T from \$850 in 1908 to \$360 in 1916. Bill Gates understood the power of what is now an installed base of 225 million personal computers in the U.S., and Brin and Page used the search engine to create a massive opportunity for advertising. Another key to success for both groups has been vertical integration. In addition to blast furnaces and other steel making equipment, Andrew Carnegie owned iron, coal, and lime deposits, ships, ports, and railroads. When John D. Rockefeller was unable to negotiate an acceptable price to ship his petroleum products, he purchased railroads and built pipelines. Microsoft and Google offer both hardware and software and Apple controls its business all of the way from the manufacture of computer chips to the operation of retail stores.

FAIR OR FOUL?

So, were/are these mega-capitalists ruthless, aggressive businessmen who vanquished competitors, engaged in unfair pricing, and used other predatory tactics to gain monopoly power? Or, were they incredibly energetic, visionary entrepreneurs who developed entire industries, created millions of jobs, improved the standard of living for all Americans, and played an important role in developing the country that we know and enjoy today? The answer is **yes!**

The Gilded Age was characterized by unbridled business practices such as stock watering, stock pools, wash sales, kickbacks, rebates, bribes, the creation of trusts, and collusion. Most of the Robber Barons engaged in these tactics to a greater or lesser extent although it is important to note that they were legal at the time. However, as a result of public outcry, many were outlawed by the Sherman Anti-Trust Act of 1890, the Federal Trade Commission and Clayton Acts of 1914, and the Securities and Exchange Act of 1933.

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In order to achieve dominance, the Robber Barons exerted control over natural resources, undercut competitors in order to acquire them, rigged markets, and received generous and often unfair government support as a result of intense lobbying. In addition to direct lobbying, they attempted to shift public opinion in their favor through the ownership of newspapers. Supporting the assertion that they were monopolists, John D. Rockefeller controlled 90% of America's petroleum refining and pipelines, Vanderbilt owned 40% of American railroads, and Andrew Carnegie controlled roughly 70% of the steel industry. With respect to bare-knuckle competition, Vanderbilt once said "Gentlemen: You have undertaken to cheat me. I won't sue you, for the law is too slow. I'll ruin you." The Gilded Age Robber Barons were also accused of hardball labor practices including paying subsistence wages and ignoring worker safety. The major exception to these questionable labor practices was Henry Ford who materially raised wages and created the 40 hour work week although critics suggest that his motivation was to reduce employee turnover rather than altruism. Both Carnegie and Rockefeller were indirectly associated with violence in suppressing union activity in the form of the Homestead Strike and Ludlow Massacre.

Most historians agree that the Robber Barons were fierce competitors who engaged in unsavory tactics to achieve great wealth. However, there is little doubt that they were also critical to the development of American industry and their business acumen greatly benefited the lives of all Americans. U.S. manufacturing output increased twenty-eight fold between 1859 and 1929. Real GDP grew by 233% and real GDP per capita by 90% between 1870 and 1900. Real wages grew 53%, and the prices of food, clothing, and home furnishings fell approximately 70% during the same period. In the final three decades of the 19th century, the price of kerosene, which was the primary product produced by Standard Oil, declined by two-thirds due to the company's scale and efficiency. These statistics raise the question of whether the Robber Barons really exercised monopoly power since monopolies are normally characterized by restricted output that results in price increases to consumers. Once again focusing on the 1870 to 1900 period, illiteracy fell 46%, life expectancy rose 12.5%, and infant mortality declined by 17%. So, despite their alleged ill-treatment of workers, it seems that the Robber Barons had a role in improving the quality of life for the average American. While I am not an apologist for them, I believe it is fair to say that these industrialists also played a major if not primary role in the transition of the U.S to an industrial society and created the fundamental infrastructure of our current economy. I also believe it is only fair to assess their behavior through the lens of common practice at the time. Therefore, rather than Robber Barons, perhaps a better moniker for this group is Aggressive Entrepreneurs?

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What are the parallels with today's tech magnates? Critics argue that the original Robber Barons controlled the critical chokepoint of the economy which were the railroads whereas today's tech moguls control an equally critical chokepoint which is commercial networks and information. In other words, they are alleged to have a stranglehold on the vital infrastructure of today. In support of that point of view, Microsoft Windows operates 74% of the world's desktop PCs, Google accounts for 93% of the world's web site visits, Facebook represents 53% of social media site visits, and Google and Apple provide 90% of smartphone operating systems. Of course, the fundamental question is whether they achieved these dominant market positions as a result of predatory tactics or simply because they offer superior products and services. Once again, the picture is cloudy and there are many nuances. One concern with the current mega-tech companies that was not present in the Gilded Age is privacy. Given vast databases as well as the moguls' diversification into a wide array of products and services, there is the real possibility that they will be involved in virtually every aspect of our lives.

Just as the Gilded Age moguls stimulated popular resentment resulting in the Sherman Anti-Trust Act of 1890, the current Titans have been and are the subject of many legal challenges asserting unfair business practices. The U.S. Department of Justice brought an action against Microsoft in 1998 arguing that its practice of bundling software applications with its operating system created a monopoly at the expense of companies such as Apple, Netscape, Lotus, and Linux. The judge ruled in favor of the government and further ordered that Microsoft be broken into two separate entities. While the latter order was overturned on appeal, the initial findings were upheld resulting in a settlement in which the company changed some of its business practices. More recently, private lawsuits as well as a challenge by the Federal Trade Commission are seeking to block Microsoft's acquisition of game maker Activision. Nine states have joined the Department of Justice in a lawsuit against Google alleging that it has illegally dominated online advertising. California is suing Amazon alleging that the company stifled competition and caused higher prices for consumers through anticompetitive contracting practices. Facebook has settled class action suits alleging the company illegally shared users' personal data without their consent. And, Elon Musk has a variety of ongoing legal issues focused primarily on employee matters as well as compliance with SEC disclosure regulations. Finally, a bipartisan bill titled The American Innovation and Choice Online Act has been pending in Congress since 2021. It would prevent large tech companies from "abusing their market power to harm competition, online businesses, and consumers."

The primary arguments in favor of the "Silicon Sultans" are: their products and services are thoroughly integrated into and highly valued by contemporary society, these products and services will result in dramatic improvement in the productivity of our economy, the cost of many of these services and the advertising that supports them has fallen dramatically in the past decade, they have created infrastructure that is critical to the operation of a modern economy, they reinvest their wealth in a variety of productive enterprises, and they have created both directly and indirectly millions of jobs.

"...the main lesson I draw from my research on Robber Barons is that history is chock-full of gray areas."

PHILANTHROPY

Reasonable people can have divergent views on the behavior of both sets of Robber Barons, but the positive impact of their philanthropy on the world is undeniable.

Among the Gilded Age Robber Barons, Cornelius Vanderbilt was arguably the least generous. As an alumnus and long-time employee of Vanderbilt University, I am grateful for his \$1 million founding gift in 1873. However, that gift represented less than 1% of his net worth and he is not known to have made any other significant charitable donations. In memory of his son who died tragically, Leland Stanford created Stanford University with a gift of approximately \$40 million. The dollar value of JP Morgan's philanthropy is unknown because many of his gifts were made anonymously. However, he donated art collections to the Metropolitan Museum of Art, American Museum of Natural History, American Academy in Rome, and Yale University. He also donated his personal book collection to what is now the Morgan Library and Museum. Andrew Carnegie donated roughly \$350 million, or more than 90% of his net worth, to a variety of charities including the construction of more than 2,500 libraries, the creation of Carnegie Corporation of New York, Carnegie Mellon University, the Carnegie Endowment for International Peace, Carnegie Hall, and many others. He famously said "The man who dies thus rich dies disgraced." Finally, John D. Rockefeller and his son together donated roughly \$1.1 billion to a wide variety of benefactions including the Rockefeller Foundation, Rockefeller University, the University of Chicago, the Baptist Church, and many, many more institutions.

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The Silicon Sultans are also incredibly generous. First, all of those listed in the table above with the exception of Jeff Bezos have signed the Giving Pledge in which they promise to donate the majority of their wealth to charity. While not a signatory, Bezos has also promised to donate most of his wealth and has apparently made actual gifts of about \$2.4 billion to a variety of causes. Interestingly, his ex-wife, MacKenzie Scott, has given away \$14 billion since their divorce in 2019. Unless they are public regarding their gifts, it is difficult to know the extent of their philanthropy but reasonable guesses are that Mark Zuckerberg has donated roughly \$400 million, Larry Ellison \$800 million, and Elon Musk \$5.7 billion.

One of the two most visible donors in the group is Warren Buffett with lifetime donations of \$48 billion, primarily to five foundations, most notably The Bill and Melinda Gates Foundation. And, the Gates themselves have donated more than \$50 billion since 1994.

MY TWO CENTS

The Robber Barons and Silicon Sultans can be characterized as aggressive businessmen, ruthless competitors, and even monopolists. However, they also were or are great visionaries, determined risk takers, entrepreneurs, and generous philanthropists. Collectively, they changed the world. In order to write this paper, I did a great deal of reading including articles in the popular media, editorials, and serious historical treatises. I found that there were very few balanced pieces; most expressed very strong points of view on the past and current business Titans, either pro or con. And, it was fairly obvious that their positions were based on either preconceived notions or a political or social agenda. In contrast, the main lesson that I draw from my research on Robber Barons is that history is chock-full of gray areas. I think this lesson can be broadened to state that when evaluating important historical figures, balance, nuance, and an understanding of the times in which they lived are essential to fair and enlightened perspective.

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