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Government vs. Economy

The distinction between “market entrepreneurs” and “political entrepreneurs” is laid out early in Burton W. Folsom’s “*The Myth of the Robber Barons.”* He describes political entrepreneurs as those who “tried to succeed… through federal aid, pools, vote buying, or stock speculation”[[1]](#footnote-0) and market entrepreneurs as those who “tried to succeed... through creating… a superior product at a low cost.”[[2]](#footnote-1) Although no one fits perfectly into one or the other of these categories, Folsom fills his chapters with examples of the power and success of market entrepreneurs in the United States. He tells the story of Vanderbilt, with his cheap and quality transportation services rivaling the expensive, government subsidised ships. He recounts the success of Carnegie and Rockefeller, highlighting the strategies they used to achieve this success. Throughout this book, he shows how market entrepreneurship has always won out over political manipulation of the economy.

An early example of the power of market entrepreneurs was Cornelius “Commodore” Vanderbilt with his steamships. Just after the turn of the 19th century, Robert Fulton became the first American to operate a steamboat in New York waters. His steamboat business quickly became successful, and he was granted exclusive rights to operate steamboats in New York for thirty years. This monopoly was enforced by the state[[3]](#footnote-2). Vanderbilt, in association with Thomas Gibbons, thought he could break Fulton’s monopoly through the power of the free market. Against state law, Vanderbilt transported travelers to and from New York City at a fraction of the rate that Fulton charged. Vanderbilt was of course captured and the resulting court case made it to the Supreme Court. This court case became monumentally important to the future economic development of America; *Gibbons c. Ogden* decided that only the federal government could regulate interstate commerce, not state and local governments. This freed Vanderbilt and Gibbons to legally undercut Fulton and make huge profits from their steamships. They were so successful that Vanderbilt split off from Gibbons and started his own steamship line. Vanderbilt chased down steamship monopolies with fixed prices, and under the protection of federal law he undercut the competition and put immense economic pressure on them. Vanderbilt reduced rates often by over 75%, and sometimes down to nothing. The competitors would have no choice but to buy Vanderbilt out. One steamship line offered him “$100,000 plus $5,000 a year for ten years if he would promise to leave the Hudson River for the next ten years.”[[4]](#footnote-3) Many more market entrepreneurs saw what Vanderbilt had done and followed his lead. The monopolies could buy out Vanderbilt, but they could not buy out all who came after him.

Vanderbilt won the praise of the public. He had reduced fares for travelers and facilitated improvements on steamboat and transportation technology. *Harper’s Weekly* wrote “[Vanderbilt’s actions] must be judged by the results; and the results, in every case… have been the *permanent reduction of fares*”[[5]](#footnote-4) Vanderbilt’s success led him to expand into the trans-Atlantic market. This business was dominated by Cunard and Collins, both political entrepreneurs with subsidies from British and American government. Collins lobbied so successfully that he was given over $800,000 annually for his steamships. As was typical with government subsidized work, the product was shoddily constructed ships that needed repairs frequently. His steamships were luxurious but expensive and poorly maintained. Vanderbilt struggled when first entering the market: despite charging less for passage and cargo and having less expensive and more durable ships, competing against an government subsidy of that size was a challenge. Vanderbilt spent over half a million dollars making his own ship, named the *Vanderbilt*, that beat Collins’ ships. He continued to charge low rates and, just like in the rivers of New England, drove the political entrepreneurs out of business. Politicians reconsidered their subsidies and revoked Collins’ funding. Folsom points out that the same thing was happening in England: unsubsidized market entrepreneurs were beating out the lobbyists, cutting rates, and driving the technology forward. Vanderbilt later drew back from the steamship industry and focused on railroads, leading him to die the richest man in America.[[6]](#footnote-5)

Another example of someone who expressed the traits of market entrepreneurship was Charles Schwab. At a young age he found himself under the employ of William Jones, the mill superintendent at Braddock for Carnegie Steel. Jones took a liking to Schwab, who continually impressed him with his ability to not only innovate, but inspire others to innovate. Schwab rose through the ranks and met Carnegie himself. Carnegie also liked Schwab for his industrial spirit and capability.[[7]](#footnote-6) It was from Carnegie that Schwab learned a key principle he held in business: develop internal ability and promote from within. Carnegie, and later Schwab, would give bonuses and higher salaries to workers who innovated and made meaningful contributions to the industry. This proved to be the best way to keep workers efficient. After William Jones died in a mill accident, Schwab was the clear choice for superintendent.[[8]](#footnote-7)

As superintendent at Braddock, Schwab continued to grow closer to Carnegie. Carnegie taught Schwab not to trust political “pools” and to rely on providing a cheap and high quality product. In 1897, Schwab became president of Carnegie Steel and ran the company along with Carnegie. Under their combined leadership, Carnegie steel continued to grow and prosper. As Carnegie Steel grew, Carnegie himself retired and sold the company to J.P. Morgan for $480 million.[[9]](#footnote-8) Schwab was installed as the president of this new conglomerate company, U. S. Steel, but he was not in charge. Morgan had set up an executive committee that would set the policy of U. S. Steel. This executive committee did not like traditional market entrepreneurship, and opposed price cutting and innovation. Schwab was unable to affect change within the company, and resigned to Europe due to gambling and adultery.

Before Schwab left U.S. Steel, he purchased Bethlehem Steel, a struggling steel company under the leadership of the Packer family. Schwab took over the company, and switched from making rails to military equipment after securing a government contract. He continued his practice of promoting ability from within, and chose 15 steel workers to be the new executive partners to replace the Packer group.[[10]](#footnote-9) Schwab expanded the company and eventually removed its dependence on government contracts. It became a fierce competitor with U. S. Steel. Bethlehem Steel had the advantage of adopting new technology that reduced costs, and also bought better ore from Cuba, further reducing the cost per ton of steel. He also took a risk with the Grey beam, a new type of steel beam that could increase the strength of the beam at a lower cost.

Although Schwab was successful his entire life, and transformed a failing steel company into the “most efficient, profitable self-contained steel plant in the country,”[[11]](#footnote-10) he was unable to fight off the vices that nearly cost him his marriage. During the Great Depression, he did not reduce spending, and his gambling took over. He died $300,000 in debt.

Possibly the greatest example of market entrepreneurs in America is John D. Rockefeller. Rockefeller was born to a poor family but learned the value of hard work and honest business. He was extremely meticulous in all his business dealings. In 1865, he partnered with Samuel Andrews to jump into the booming oil industry.[[12]](#footnote-11) What ensued is one of the greatest American success stories.

When Rockefeller joined the oil business, he was appalled with the sheer amount of waste throughout the industry. Most oil refineries would discard the by-products of oil, only selling kerosene. Rockefeller, on the other hand, used as much of the products of distillation as he could. Kerosene was the bulk of his products, but he also sold gasoline, paraffin for candles, and lubricating oils. Rockefeller operated his refineries at extreme efficiency, which let him reduce prices. He reminded his employees that they should provide “the best...at the lowest price.”[[13]](#footnote-12) Rockefeller became extremely successful with Andrews, and together they started the Standard Oil company. Within a few years, Standard Oil was providing 90% of America’s oil. Vanderbilt made deals with Rockefeller to ship oil on his railroads, enticed by Rockefeller’s volume of business and reliability.[[14]](#footnote-13) These price cuts on transportation only helped Standard Oil grow. Once in his life, Rockefeller turned to political entrepreneurship. He joined a political pool of railroad companies in an effort to artificially fix high prices for his oil and hurt his competitors. He faced intense backlash from other oil companies and the legislation was repealed before any oil was shipped. This was the only time that Rockefeller attempted to use government regulation to aid him in business.[[15]](#footnote-14)

Rockefeller was not only extremely wealthy but extremely generous. He was the wealthiest man in American history, valued at over $900,000,000. He was also a devout Christian and practiced tithing. In total, he gave away over $550,000,000 during his lifetime, which was more money than anyone else had at the time. He believed in the Christian principle that he would receive what he gave.

Folsom’s book has shown the power of the free market; that success is most often achieved through quality products and services at the lowest price. His definition of market entrepreneurship embodies what Carnegie said: “watch the costs and the profits will take care of themselves.”[[16]](#footnote-15) His examples of political manipulation through taxes, tariffs, pools, and subsidies usually end in the downfall of the people and organizations involved. He shows that the most successful and respected businessmen in the United States have harnessed the power of the economy to win their success.

1. Folsom, Burton W. The Myth of the Robber Barons. Reston, VA: Young Americas Foundation, 2018. Page 1 [↑](#footnote-ref-0)
2. Ibid. page 1. [↑](#footnote-ref-1)
3. Ibid. page 2. [↑](#footnote-ref-2)
4. Ibid. page 3. [↑](#footnote-ref-3)
5. Ibid. page 5. [↑](#footnote-ref-4)
6. Ibid. page 15. [↑](#footnote-ref-5)
7. Ibid. page 64. [↑](#footnote-ref-6)
8. Ibid. page 65. [↑](#footnote-ref-7)
9. Ibid. page 67. [↑](#footnote-ref-8)
10. Ibid. page 70. [↑](#footnote-ref-9)
11. Ibid. page 73. [↑](#footnote-ref-10)
12. Ibid. page 84. [↑](#footnote-ref-11)
13. Ibid. page 83. [↑](#footnote-ref-12)
14. Ibid. page 87. [↑](#footnote-ref-13)
15. Ibid. page 88. [↑](#footnote-ref-14)
16. Ibid. page 65. [↑](#footnote-ref-15)