

Builders of America

I was a
steamboat and
railroad magnate,
and was once the
richest man in
America!

Cornelius
Vanderbilt

Meet Cornelius Vanderbilt

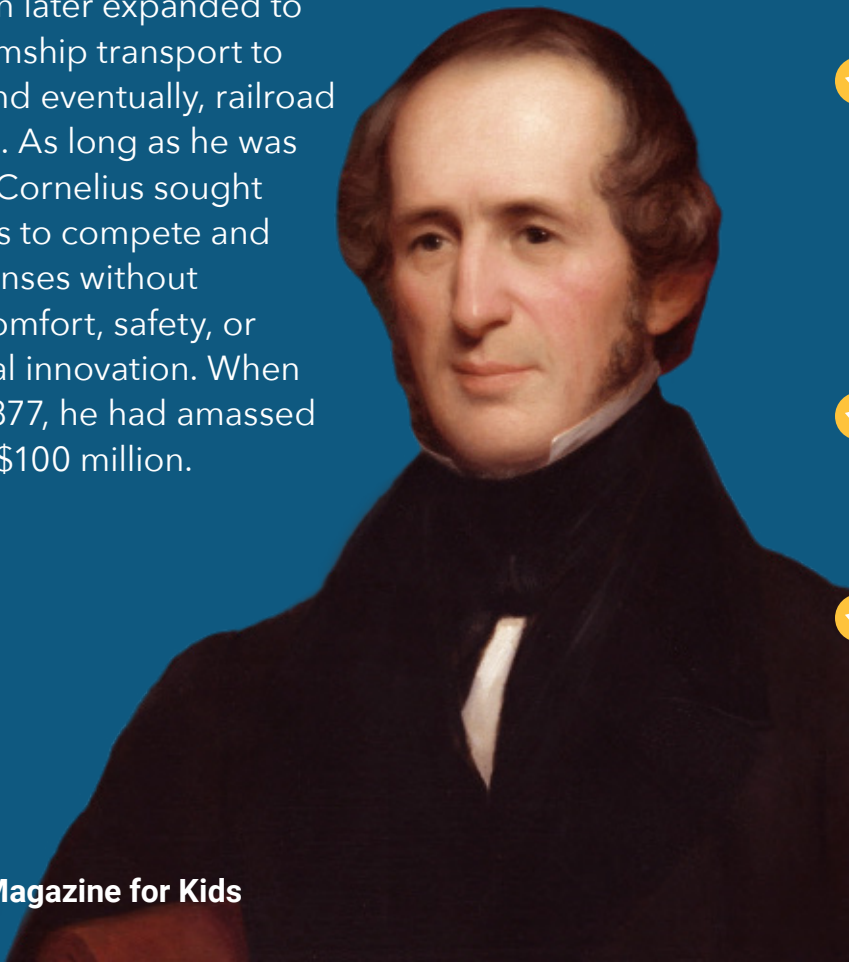
Cornelius Vanderbilt grew up on the waterfront as the son of poor farmers. At sixteen, he borrowed \$100 to buy a flat-bottomed sailboat, which he used to ferry passengers between Staten Island and New York City.

Cornele (short for Cornelius) quickly earned a reputation as an able boatman who provided reliable service, even in the most **inclement** weather. During the War of 1812, he transported provisions to strategic government outposts.

Cornelius later worked as a steamboat captain for Thomas Gibbons, and the two conspired to break a government-enforced monopoly by charging much lower rates. Their efforts would succeed, ultimately resulting in an 1824 Supreme Court case that struck down the **monopoly**.

Over the next decade, Cornelius established his own steamboat business in the Northeast, offering **unprecedented** luxury, service, and low fares. He was so successful that his competitors paid him to leave, and by 1846 he was a millionaire.

His operation later expanded to include steamship transport to California, and eventually, railroad construction. As long as he was in business, Cornelius sought creative ways to compete and reduce expenses without sacrificing comfort, safety, or technological innovation. When he died in 1877, he had amassed a fortune of \$100 million.



At-a-Glance

- ★ Born on May 27, 1794 in Staten Island, New York
- ★ A shipping and railroad **magnate** who became the richest man in America
- ★ Called “Commodore” because of his work in the boating industry
- ★ Recognized as a central figure in America’s industrial revolution
- ★ A classic market **entrepreneur** whose tactics spurred innovation and made travel more affordable for his customers
- ★ **Maligned** as a “Robber Baron” by many modern historians
- ★ Died on January 4, 1877 in New York, New York

A Humble Mooring

The fourth child of Cornelius Vanderbilt and Phebe Hand, Cornele grew up near the water at Stapleton on Staten Island. From their modest home, the family enjoyed views of the Narrows and Long Island, where they could observe a steady stream of boats traversing the harbor. From an early age, Cornele developed an eye for sailing vessels and could easily distinguish among them.

The Vanderbilt's farm produced meager crops, so Cornele's father worked odd jobs on the water to supplement the family's earnings. In his small sailboat, old Cornelius carried produce to sell at the city market.

Cornele learned to sail at an early age so that he could help his family. He was eager to take on even the

most demanding labor to avoid going to school. Under constant pressure to make ends meet, Cornelius depended on his son's help and did not insist on a formal education.

At age twelve, Cornele was entrusted with a complex mission: to remove the cargo of a wrecked vessel off Sandy Hook and bring it to New York. His success in negotiating with the teamsters and ferrymen during the mission won his father's confidence.

Cornele greatly respected his mother Phebe, a resourceful woman who tended to and sold her own crops, stashing the earnings in the old family clock. She frequently rescued the family from financial ruin with her hidden savings.



Cornele the Boatman

Just before his sixteenth birthday, Cornele shared his dream of becoming a sailor with his mother. Since he was not permitted to leave home until age 21, they made a special arrangement. Phebe would loan him \$100 to buy his own sailboat and he would repay the loan by carrying passengers between Staten Island and the city. Cornele was also required to earn the loan by plowing and planting an eight-acre parcel on his family farm.

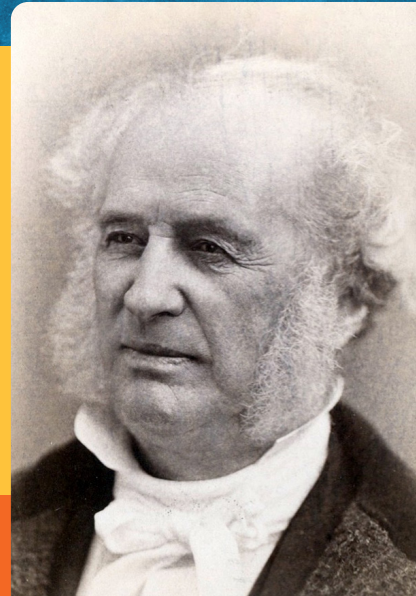
Cornele accepted the challenge with confidence and completed the farming task in one month, enabling him to buy the sailboat and launch his business. In addition to ferrying passengers, he accepted various freighting assignments, working day and night.

At the end of his first season, Cornele was so successful that he repaid the loan to his mother, plus an additional \$1,000. He gave his parents all of his daytime earnings and half of what he earned at night. His modest savings enabled him to buy two additional sailboats, expanding his operation in the harbor.



"I didn't feel as much real satisfaction when I made two million in that Harlem corner as I did on that bright May morning sixty years before when I stepped into my own [boat], hoisted my own sail, and put my hand on my own tiller."

Cornelius Vanderbilt





Building a Business

On December 19, 1813, Cornelius married Sophia Johnson. They welcomed the first of 13 children in their first year of marriage, propelling Cornelius to work even harder. Sophia's thriftiness in managing their household enabled him to reinvest his earnings in the business.

Cornelius hired other boatmen to manage his successful ferry business so that he could devote his energy to coastal trade. Leading merchants were eager to conduct business with him, and he increased his earnings by transporting their goods up and down the eastern coastline.

He continued to add vessels to his fleet and oversaw their design and construction, suggesting various innovations that came to be known as "Vanderbilt methods" and "Vanderbilt models."

By the end of 1817, Cornelius noticed that steamboats were appearing with greater frequency on New York waters. As his sailing profits began to decline, he realized that the future belonged to steam.

Fierce Competition

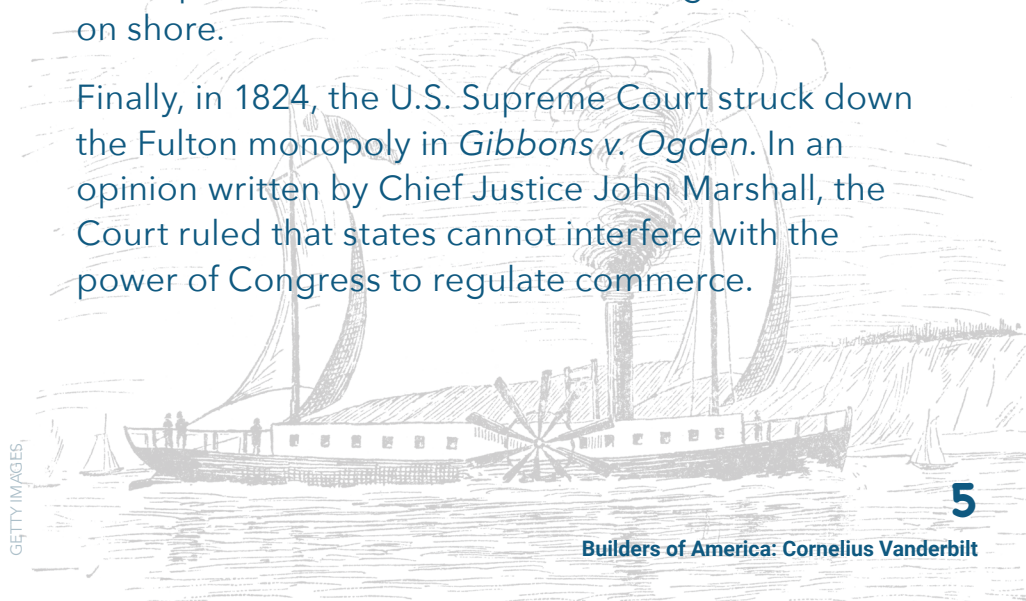
The first American to operate a steamboat on New York waters was Robert Fulton. In 1807, his famous steamboat, the *Clermont*, hissed and spurted four miles per hour up the Hudson River, transforming the boating industry. The New York government played an active role in establishing Fulton's business, granting him the right to carry all New York steamboat traffic for 30 years.

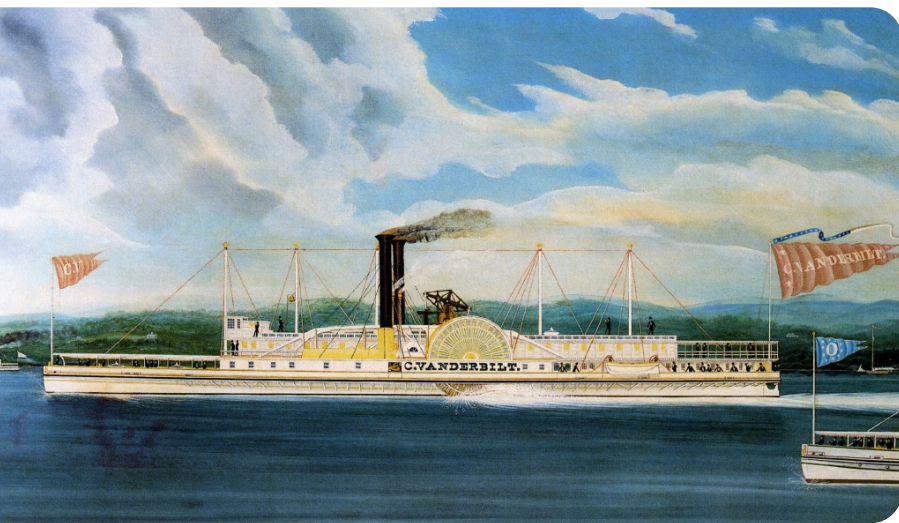
Thomas Gibbons, a New Jersey steamboat businessman, sought to break Fulton's monopoly and hired independent-minded Cornelius Vanderbilt to work as his captain. Cornelius accepted significantly less pay to learn the steamboat business from Gibbons, his first and only employer.

To crack the monopoly, Cornelius charged much lower rates, increasing the affordability of steamboat travel as well as his own popularity. However, by defying the monopoly, he was also breaking the law, and authorities attempted to arrest him for 60 consecutive days.

To avoid arrest, Cornelius devised several tricks. On the *Bellona*, he constructed a secret closet, accessed by a sliding panel. When police searched for him on board, he hid in the closet until one of his crew tapped on the panel, signifying that the officers had given up their search. The *Bellona* would mysteriously start up and leave the wharf, infuriating the officers on shore.

Finally, in 1824, the U.S. Supreme Court struck down the Fulton monopoly in *Gibbons v. Ogden*. In an opinion written by Chief Justice John Marshall, the Court ruled that states cannot interfere with the power of Congress to regulate commerce.





DID YOU KNOW?

Historians have long debated the effects of entrepreneurs on American commerce. The steamboat industry offers a snapshot of how entrepreneurs responded to various challenges, and how those responses did, or did not, contribute to growth.

Political entrepreneurs such as Robert Fulton relied on government aid to build their businesses through monopolies, **subsidies**, **price-fixing**, vote buying, or stock speculation. As a result, politics and business became corrupted and made America less competitive. Since Fulton didn't have to deal with any competition, he could raise prices on consumers, eating away at the money they worked hard to earn.

Market entrepreneurs such as Cornelius Vanderbilt succeeded on their own by providing a superior product at a low cost. They enabled new technologies to flourish and services to improve. Steamboat builders were free to invent tubular instead of heavy copper boilers. Fuel costs were reduced by 50 percent when engineers discovered that anthracite coal worked well under the new boilers. Cornelius passed on these savings to his customers, lowering fares from seven dollars to three dollars.

Full Steam Ahead

In 1829, Cornelius purchased two steamboats and went into business for himself, offering fast and reliable service at low rates. One of his largest competitors, the Hudson River Steamboat Association, tried to guarantee profits through a fixed three dollar fare. Cornelius challenged them by slashing the fare to one dollar, then to ten cents, and eventually to nothing. He counted on his 100 passengers buying at least two dollars of food on his boat to cover the daily \$200 operating cost.



The Steamboat Association offered to buy Cornelius out, giving him \$100,000 plus \$5,000 a year for ten years

if he would leave the Hudson River for the next ten years.

Cornelius invested his payoff money in bigger and faster ships. The New York Evening Post called him "the greatest practical anti-monopolist in the country" when he cut the New York City to Providence rate in half.

Subsidy on the Seas

To meet the demand for overseas trade, many steamship operators sought federal aid. The U.S. government hired Edward Collins to build five ships that would carry mail to California. He spent several years building four luxurious ships, using taxpayer money to create elegant saloons filled with marble tables, olive-wood furniture, and plush carpet. His costs were **exorbitant**, but with annual government aid of \$858,000, he had no incentive to reduce them.

Cornelius competed with Collins by slashing prices to carry mail and passengers, finding creative ways to cut expenses. Instead of paying high insurance rates, Cornelius hired

excellent captains and invested in well-built ships that required little maintenance.

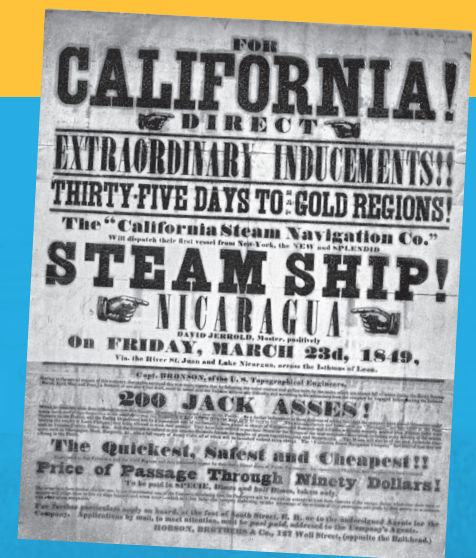
By contrast, Collins' ships cost more to build and were prone to leakage. By 1856, two of Collins' ships sank and killed almost 500 passengers. He spent over \$1 million of government money to build a replacement but it was so poorly constructed that it only made two trips before he sold it at a huge loss. As a result, Congress revoked Collins' aid and forced him to compete with Cornelius. He soon went bankrupt, making the Commodore the leading American steamship operator.

To California!

Two steamship operators were hired by the government to deliver mail to California in exchange for \$500,000 (later \$900,000) per year. Passengers paid \$600 to travel from New York to California via railroad over Panama.

From Cornelius' perspective, the subsidized California lines had been given an unfair advantage, so he devised clever tactics to compete with them. To shorten the route to California by 500 miles, Cornelius established a steamship line to take passengers to Latin America and a transit company to carry them through Nicaragua. He offered free mail delivery and a faster journey to California for a \$150 fare.

When Commodore later lost rights to the canal, he competed directly with the subsidized lines on the Panama route, reducing his fare to just \$100. His competitors were infuriated that their business was being undercut, so they offered to pay him 75 percent of their government subsidy if he promised to stop running ships to California. In 1858, Congress was shocked to learn about the payoff and ended the mail subsidies. Cornelius had successfully exposed the corruption of the subsidy system.

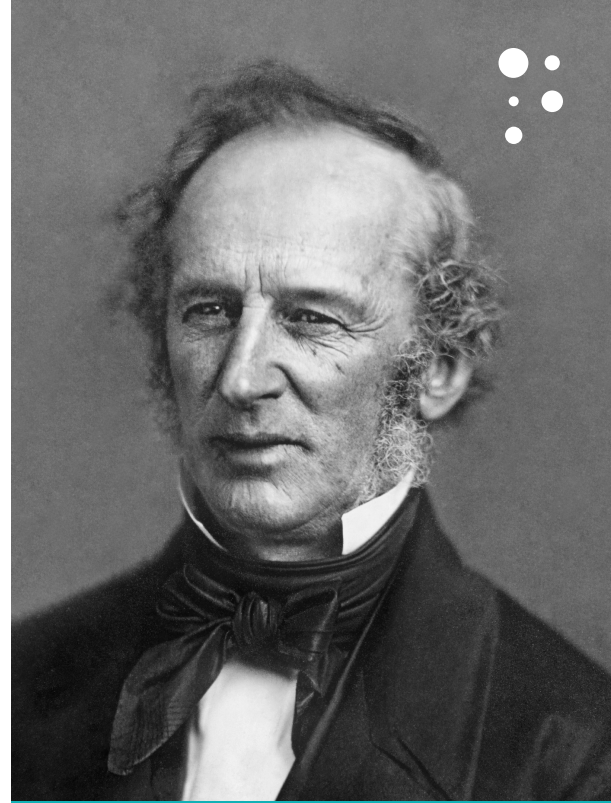


Fascinating Facts About Cornelius

- Cornele knew only basic math and was illiterate, relying on phonetics for spelling.
- In the most humiliating experience of his career, Cornelius' large 26-ton vessel, named *Dread*, capsized and sank.
- In his fight to break the Fulton monopoly, Cornelius raised a flag on the masthead of Gibbon's ship that read, "New Jersey Must Be Free!"
- Cornelius built a \$600,000 steamship he named the *Vanderbilt*, the largest ship on the Atlantic. He later donated the ship to the U.S. during the Civil War.
- Cornelius ordered the construction of Grand Central Depot in New York City, creating jobs for thousands who had become unemployed during the Panic of 1873.

Fill-in-the-Blank

1. Cornelius Vanderbilt was born on _____ to poor farmers, Cornelius Vanderbilt and Phebe Hand.
2. At age 16, Cornele received a \$100 loan from his mother to buy a _____, which launched his business.
3. Cornelius learned the steamboat business from his first and only employer, _____.
4. _____ relied on government aid to build their businesses while _____ succeeded on their own by providing a superior product at a low cost.
5. To compete with the government-subsidized California steamship lines, Cornelius built a canal in _____ that shortened his route by 500 miles.
6. When Cornelius died in 1877, he was the _____ man in America, worth \$100 million.



Sails to Rails

Cornelius had come a long way since he purchased his first boat in 1810. During the 1850s, he began investing in railroads, buying stock and ultimately acquiring multiple railroad lines in the Northeast.

After the Civil War, Cornelius sold his steamship fleet and focused exclusively on railroads, which had become extremely profitable. His New York Central railroad line extended over one thousand miles to Chicago and other midwestern cities.

Commodore Vanderbilt continued to manage his business interests until his death in 1877.

Word Scramble

1. TLARNIVDBE
2. TIPNACA
3. AEOTSBATM
4. TEENURPREEN
5. PLOONYMO
6. ISTVNE
7. DARLIROAS
8. ESIDBSSUI
9. ATNOVIRNO
10. ARENSSEGSP

The Profits Add Up!

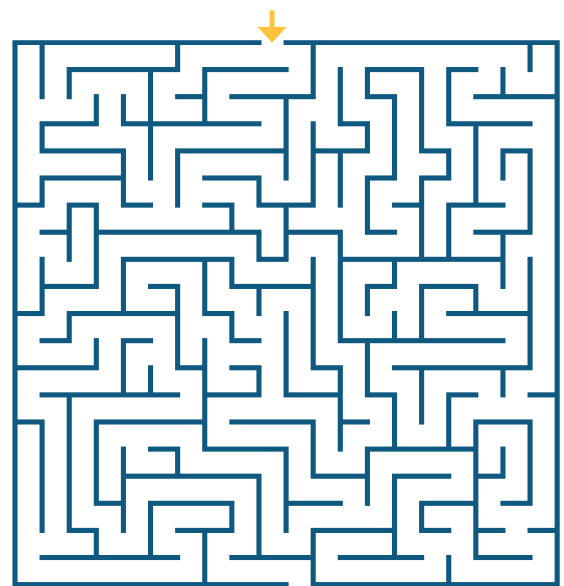
Help Cornelius calculate his earnings:

1. The Steamboat Association paid Cornelius \$100,000 plus \$5,000 a year for ten years to stop operating his steamboats on the Hudson River. How much did Cornelius earn?
2. When Cornelius challenged the California lines, his competitors offered to pay him 75 percent of their \$900,000 government subsidy to stop running ships to California. How much money did they pay him?



Lost at Sea

Help Cornelius ferry passengers from Staten Island to New York City.





Glossary

- **Entrepreneur:** A person who starts and operates a business, usually with substantial initiative and risk.
- **Exorbitant:** Going beyond what is reasonable in cost, quality, amount, or size.
- **Inclement:** Severe, rough, or stormy, usually referring to the weather.
- **Magnate:** A powerful or influential person, especially in business or industry.
- **Malign:** To make evil, harmful, and often untrue statements about someone.
- **Monopoly:** When one company has so much control over a certain type of good or service that no other companies can make money selling that good or service.
- **Price-Fixing:** An agreement between companies in the same industry on what the price of a certain good should be, which often raises the price for consumers.
- **Subsidy:** Money given by a government to a private person or company to support public programs or services.
- **Unprecedented:** Never before known or experienced.



GETTY IMAGES

Sources

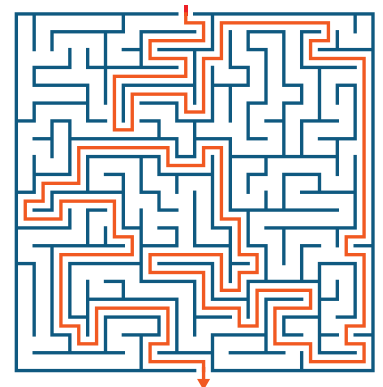
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FILL-IN-THE-BLANK KEY: 1-MAY 27, 1794, 2-SAILBOAT, 3-THOMAS GIBBONS, 4-POLITICAL ENTREPRENEURS, MARKET ENTREPRENEURS, 5-NICARAGUA, 6-RICHEST, WORD SCRAMBLE KEY: 1-VANDERBILT, 2-CAPTAIN, 3-STEAMBOAT, 4-ENTREPRENEUR, 5-MONOPOLY, 6-INVEST, 7-RAILROADS, 8-SUBSIDIES, 9-INNOVATOR, 10-PASSENGERS, THE PROFITS ADD UP KEY: 1-\$100,000 + (\$5,000 X 10) = \$150,000, 2-PART I: WRITE 75% AS A DECIMAL, 75 / 100 = .75 PART II: \$900,000 X .75 = \$675,000.