As the story goes, the tragic Johnstown Flood of May 1889 almost sunk the ascendancy of future monopolists Andrew Carnegie and Henry Clay Frick. Both were members of the infamous South Fork Fishing and Hunting Club that factored heavily in the history of the tragic flood that claimed the lives of over 2,200 unsuspecting residents of Johnstown and Woodvale, Pa. Those towns bore the brunt of the onslaught of raging waters when a dam broke upstream. The dam was constructed to create a lake for use by the private club where many of the industrial tycoons of the day from Pittsburgh could rough it and relax. Unfortunately, the earthen dam was badly rebuilt and maintained by the club, including allowing the lake waters to rise to within a few feet of the brim of the dam as well as blocking the safety spillway with fencing intended to keep the big bass in the lake for members to catch.

In the aftermath of the flood, government investigations were commenced and lawsuits were brought, including against the club itself, but not its members. Not a single penny was ever recovered in the lawsuits. The investigation found fault and cast blame but no person was really ever held accountable. The public and press outcry was terrific. While the club was in their crosshairs, the members of the club were able to keep a safe distance. Carnegie generally talked about the flood but not his membership in the club, which was not disclosed until months later. Fellow club member Frick never made any public statement about the flood then or ever. Frick and Carnegie had their hands full at the time trying to quash union organizing at their Pittsburgh coke and steel plants, including the infamous Homestead labor riot in 1892 where workers were killed by hired Pinkerton guards in a shootout.

Fellow Americans rushed to the aid of the victims of the flood, raising over $3.6 million in relief. The people of Pittsburgh gave $560,000, Philadelphia anted up $600,000 and New York residents raised another $516,000. In marked contrast, Frick gave $5,000, and Carnegie, who later gave away $300 million before he died, posted just $10,000 in relief for the victims. He and his wife did visit Johnstown after returning from a visit to the Paris World’s Fair and agreed to build a replacement library in Johnstown. Attorney Philander Knox of Pittsburgh was also a member of the club. He was later attorney general under President Teddy Roosevelt and played a prominent role in the trust-busting of J.P. Morgan and others, discussed in the first article in this series, published Sept. 8 in The Legal, “A History of American Monopolists: Lessons Not Easily Learned.” Not surprisingly, as David McCullough wrote in his iconic book “The Johnstown Flood,” “That the members of the club were never required to pay for their mistakes infuriated everyone in Johnstown and left a feeling of bitter resentment that would last for generations.” Ironically, the very month of the flood, Carnegie was writing an article titled “The Gospel to Wealth,” in which he proclaimed, “The man who dies thus rich dies disgraced.” Prophetic words that, in time, Carnegie would make good upon by building libraries across the country and constructing the famous Carnegie Hall in New York City. But, in 1889, only one such library had been built and steel magnate Carnegie, with coke supplier Frick, was fully absorbed in building his industrial empire, eventually capturing 42 percent of the steel market. He would one day sell it to J.P. Morgan, with the help of his man Charles Schwab, for the unheardof sum of $480 million. That historic sale in 1901 would later lead to the formation of U.S. Steel. The deal of the century made Carnegie, with a personal takeaway of $225 million, the richest man in the world at the age of 65.

Americans expect their entrepreneurs and industrialists to be good corporate citizens. That is because Americans cheer the underdog, are willing to support the risk taker and reward the winner, whether on the fields of sports or business. However, there are rules and the rule of law is held sacred. There are lines that cannot be crossed. There are consequences for bad
behavior to be equally applied, not excused for the select few. Mistakes are forgiven if lessons are learned and responsibility is freely admitted. There are usually two sides to every story and everybody deserves their day in court. Innocent until proven guilty by a jury of your peers based on proven facts is the watchword. Competition should be rigorous but Americans tend to favor David over Goliath unless the power of the big guy is rightfully earned and properly worn. If so, such power is deemed worthy and deserving of being maintained and sometimes increased as long as the monopolist, as discussed in the first two articles of this series, continues to provide societal gain, not selfcentered advantage. As the second article, “A History of American Monopolists: Remembering One’s NonMonopoly Roots,” published Oct. 6 in The Legal, detailed about the rise of Henry Ford, obtaining, maintaining and increasing monopoly power without causing antitrust backfire necessitates, first and foremost, abiding by the antitrust laws if those laws are clearly defined by Congress, the courts and the enforcement agencies. Second, monopolists like Ford were able to maintain and increase market power because they generally continued to provide innovative products, stellar service, fair treatment of employees and charge prices to consumers consummate with the quality of those products and services. Trying to dominate the market by quashing the competition while providing inferior products and lousy service is a recipe for antitrust disaster.

In addition, Americans are at once more supportive and even forgiving of companies and their leaders who are also good corporate citizens. That means giving back to society some of what you have taken. Call it dispensing charity, exhibiting philanthropy, providing pro bono service, rendering a mitzvah or almsgiving, or displaying menschkeit with others whether perceived or better, real, it is part of the equation for success. It is also a good investment to keep the antitrust demons at bay all things being equal. Even a deserving monopolist will travel a harder road if perceived as not being a good, giving corporate citizen. The more you acquire, the greater the expected return or you risk being branded as greedy, entitled and arrogant. And, most importantly, such branding carries the consequence of being deemed not deserving or worthy of maintaining and increasing monopoly power.

Some corporate titans learn this fundamental lesson early on, others learn it along the way, some never learn it and still others learn it too late to make a real difference. Some try to polish their tarnished legacy at the end by employing transparent public relations sleight of hand. Blue smoke and mirrors. John D. Rockefeller Sr., who rebuffed Frick’s overture to buy Carnegie Steel, handed out dimes, polished by servants, to thousands to create, in a small way, a favorable impression after years of being vilified by Ida Tarbell and other muckrakers. He eventually gave away $540 million before his death in 1937, surpassing Carnegie, who Rockefeller said was his philanthropic inspiration. Some scoffed at Rockefeller’s philanthropy, claiming he was only using tainted money to try to obtain absolution after years of anticompetitive misdeeds. Others said his trusts had been busted up and he and his progeny had given back to society big time with the building, for example, of the stillgrand Rockefeller Center complex in the midst of the Depression with private money. Was it too little too late? Was it good deeds belatedly rendered with tainted funds? Perhaps, but societal gain nonetheless. Would it have been of better service to society and perceived as such if the Rockefellers had started this serious philanthropy earlier, during the years of monopoly ascendency, thereby lessening the antitrust woes the Rockefellers endured earlier when their trusts were being busted up? If the long view had been taken when the empire was being built, antitrust troubles might have gone easier. Rockefeller may have underestimated the American public, who were willing to reward an innovator but also expected to see a good corporate citizen in return. In time, that perception would change but not before much trustbusting.

Therefore, in 1889, should Carnegie and Frick have stepped up, particularly considering their circumstances as members of the vilified club, and joined in with the other good citizens across the country to help the victims of the flood in a manner consummate with their ability to give? Would that forwardthinking have lessened the antitrust, labor and other challenges they faced in the years ahead? If they had not hesitated to do the right thing when the perfect opportunity presented itself, would the road ahead been smoother? Frick got richer, even after a huge falling out with Carnegie, but was almost shot dead in his office by an anarchist. Frick retired to New York City where he surrounded himself with great art, eventually gave $50 million to various charities, and lived out his last days in his grand home that cost $5.4 million in 1914. He said he wanted to build a house that would make Carnegie’s house down the block “look like a miner’s shack.” The mansion was later donated by his heirs to the city, designated a national historic landmark, and became part of his legacy.

Carnegie pursued a different path. He built Carnegie Hall for $2 million right down the street from Frick’s house, which has served the public ever since. Carnegie also built 3,000 libraries around the world, 30 in New York City alone, costing $60 million. He even gave 8,000 organs to churches to the tune of $6 million. The list
of generous contributions, charitable trusts and large endowments goes on and that is part of his legacy. Was it too little too late? Carnegie would likely have been better served by being the good corporate citizen on his ascendency to monopoly power rather than, or even while, cutting wages, quashing unions and squeezing railroads and suppliers. Indeed, looking back, how would history have treated Carnegie if the Johnstown Flood and Homestead union riots occurred today in the age of 24/7 media coverage? How would the sale of Carnegie Steel with 42 percent of the market and formation of U.S. Steel with an even larger market share had gone down under the current microscopic merger review environment in Congress, the courts and regulatory agencies?

Fast forward to today. What lessons can be learned by corporate America from the adventures of Carnegie and Frick about being a good corporate citizen? Plenty. Give early and often on the way up and not transparently on the way down in a desperate attempt to achieve salvation, absolution and redemption. Blue smoke and mirrors just doesn’t cut it anymore. Carnegie was partially right, “The man who dies thus rich dies disgraced.” Stay tuned.

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