Chapter One

MORGAN CALLS THE TUNE

ON THE evening of the 12th of December, 1900, two gentlemen of New York gave a large dinner to Charles M. Schwab, the energetic young president of Andrew Carnegie's great steel company.

The dinner was private and unpublicized; as one turns the yellowed and brittle pages of the *New York Times* of the following morning, one finds no mention of it whatever. The two most striking events of December the twelfth, 1900, to judge from the front-page headlines of the *Times*, were an advantage gained by DeWet, the Boer general, over the British in the war in South Africa, and an accident in a six-day bicycle race in Madison Square Garden. Yet the Schwab dinner at the University Club on Fifth Avenue was one of those events which direct the destinies of a nation.

For at this dinner John Pierpont Morgan, by common consent the leader of the financial forces of the day, sat at Schwab's right hand; and it was Schwab's irresistible persuasiveness as an after-dinner speaker which convinced Morgan that the time had come to organize the United States Steel Corporation, and thus to strike the resounding keynote of the theme of American financial and economic life for more than thirty years to come.

A new century was beginning; but more than that, a new era for America was beginning. The dragging business depression which had blighted the country after the panic of 1893 had come to an end in 1897; bumper wheat crops in the United States and simultaneous crop failures in Europe had turned the tide that summer-almost precisely as they had turned it in 1879, at the end of a previous span of lean years. (Here is an ironical circumstance for the contemplation of those who preach the economic interdependence of nations: that recovery in America should twice have been hastened by catastrophic conditions abroad!) New industrial processes were ready for development; the age of mass production, the electrical age, were on their way. The amiable William McKinley sat in the White House; Senator Mark Hanna, to whom the welfare of big business and the welfare of the country

were almost indistinguishable, stood behind McKinley, ready with encouragement and advice; business men felt sure that the affairs of the United States would be managed with a conservative regard for the rights and privileges of property. The boom which began in 1897 was only momentarily interrupted by the outbreak of the Spanish War. Prosperity had returned.

But it had returned to a very different country from the America of the eighties and early nineties.

The frontier had now for many years been closed. No longer could Americans depend upon hopeful expansion into the free lands beyond the plains as a safety-valve for the pressure of industrial competition. Two alternatives confronted a nation accustomed to restless growth: conquest beyond the seas, and intensive economic development within its natural boundaries.

The idea of outward conquest had been given a powerful impetus by the *opera-bouffe* victory in the Spanish War, which had bestowed upon a surprised country a group of islands across the Pacific. The troops were hardly back from Cuba, the echoes of “There’ll Be a Hot Time in the Old Town Tonight” were still floating on, the air, and Admiral George Dewey was still the nation’s adored hero, when Rudyard Kipling wrote “The White Man’s Burden,” and its lines became familiar almost overnight. To many enthusiastic citizens it seemed as if American shoulders were built for that burden. President McKinley told a group of Methodists that we must accept sovereignty over the Philippines “to educate the Filipinos, and uplift and civilize and Christianize them”; to another less pious audience he said that the Philippines offered a “commercial opportunity to which American statesmanship could not be indifferent.” Early in 1900 Senator Beveridge was proclaiming that America must follow the judgment of the Master: “Ye have been faithful over a few things; I will make you ruler over many things.” It is true that a considerable body of American opinion was very dubious about our sacred duty to our “little brown brother” and hated the whole imperial conception; but McKinley and his mentors chose “expansion” as the issue of the 1900 campaign against Bryan, and it was a winning issue. The mood of the day was confident; in the flush of victory most Americans probably believed that their country could easily assume dominion over palm and pine if she chose to take the trouble.

As it happened, no further direct expansion of American territory was

destined to take place; but the new and intoxicating idea that America was now an imperial power, fit to assume the obligations of a great force in world affairs, had striking financial and economic effects. For the first time in history, America was now lending money to Europe in quantity: between 1899 and 1902, New York took over two hundred million dollars of the British Exchequer loans to finance the Boer War. American foreign trade was growing, the captains of industry had begun to dream extravagant dreams of the capture of foreign markets, and on both sides of the Atlantic there was talk of the possibility that New York might displace London as the financial center of the world. The national ego was enlarging. America was enjoying the responsibilities and releases of maturity.

Meanwhile, however, the intensive development of the national economy was proceeding still more rapidly. In the three or four years immediately preceding that dinner at the University Club when Morgan and Schwab sat cheek by jowl, the organization and character of American business had been undergoing a profound change, with consequences which were to reach into the daily lives of millions.

This change had been in preparation for a very long time. To understand the nature of it and the reasons for it we must go back to the days when the name of Pierpont Morgan was unknown outside of Wall Street and Charles M. Schwab was a little boy playing about his father's livery stable in a village in the Alleghany Mountains.

2

In the eighteen-seventies and eighteen-eighties the accepted principle of American business was free competition. Almost everybody believed in laissez-faire; the ideal economic order, it was generally thought, was a sort of endless game which anybody could enter, with the government serving as referee and intervening only to prevent flagrant holding and roughing. At the beginning of this period most businesses were small, few did business on a national scale; and if a competitor became crippled in the game, there were always other fields in the West where he could begin again unhandicapped. The standards of fair play were low, for the referee was often not only absent-minded but venal: the economic history of those years is full of stories of piratical methods in the fight for business advantages and markets. But the

ideal of free competition was not seriously disputed.

In business as in a game, however, the score does not always remain at a tie; and in this particular game there were sometimes so many players and the play was so fierce that heads were broken. During the eighteen-eighties competition among the railroads, for example, got completely out of hand; it was easy for daring and unscrupulous plungers to build new lines simply as a form of economic blackmail—in order to be bought off by their competitors in self-defense; at one time there were five lines bidding against each other for the traffic between New York and Chicago, two more were under construction, and the passenger fare for the through trip had been beaten down to the ruinous figure of one dollar. During the oil boom in Western Pennsylvania some years earlier, so many fortune-seekers had rushed to sink oil wells that the price of oil dropped to the depths, carrying men down with it to bankruptcy. In such situations, some device for limiting competition seemed to be necessary. It was provided, not by the law, but by agreements among groups of the competitors themselves—agreements to share privileges, maintain prices, and choke off cut-throat attacks on the part of their rivals.

In the oil industry the control of competition was provided by a severe young man named John D. Rockefeller, who had run his little refining business in Cleveland with such calculating efficiency, had bought out his immediate competitors with such boldness, and had wrung secret privileges from the railroads with such shrewdness, that shortly he was able to dictate to the industry. No impartial referee would have sanctioned some of the practices which had enabled Rockefeller to gain supremacy. Early in the eighteen-seventies his Standard Oil Company and a number of others had joined forces in setting up an association euphemistically known as the South Improvement Company, and had thus secured from a number of railroads (by threatening to take their freight business elsewhere) not only rebates on their freight charges but what were known as “drawbacks”; in other words, the Rockefeller group had forced the railroads to hand back to them secretly not only a part of the freight charges which the Rockefeller group themselves had paid (in accordance with the published rates), but also a part of what their competitors had paid! No competitor could long exist under such a crushing handicap. The South Improvement Company was short-lived, for when its devices were discovered there arose a howl of protest which echoes to this

day; but by that time the pious Mr. Rockefeller had become too mighty a force in the oil industry to be resisted. He had the market in his grip; presently he had a large number of refining companies at his mercy; and by 1879 he was ready to deal the principle of free competition a thumping blow.

A lawyer named Samuel C. T. Dodd provided him with the means of doing it. Dodd invented a way of bringing forty separate oil companies into a compact group under unified management. The shareholders in all these forty companies turned their stock over to a group of nine trustees, consisting of Rockefeller and his associates, and received, in return, trust certificates which entitled them to their dividends. The nine trustees, thus having full voting power over each of the forty companies, could do exactly as they pleased with the direction of each, operating them as a gigantic but flexible unit and confronting their competitors with their colossal collective power. Ordinary trade agreements between business rivals on prices and on the division of markets were usually made only to be broken; as a big industrialist testified many years later, they often lasted only until one of the conferees could get to a telegraph office or a telephone; but the decisions of these trustees were unbreakable. The first trust had been born.

Now if there was one thing which American public opinion, devoted as it was to the ideal of free competition, would not tolerate, it was monopoly; and when the truth about this trust leaked out—which of course it did, despite the bland statements of Rockefeller and his associates that they were not connected with any oil concern but the Standard Oil Company of Ohio—there was a great public outcry. The small business man saw with acute dread the possibility that some day he might be forced out of business by such a trust. Consumers realized that trusts might be able to force upward the prices of essential commodities and thus take toll of a helpless population. Lovers of fair play were outraged by the spectacle of an economic game in which one player appeared to be a giant equipped with brass knuckles. During the eighteen-eighties a great many other trusts were formed, for the instinct of self-preservation and the acquisitive instinct combined forces to draw men into such combinations; soon there appeared a sugar trust, a rubber trust, a butcher trust, a whiskey trust, a cottonseed oil trust, and many more; but the outcry grew to such volume that in 1888 all the political parties denounced the trusts in their platforms, and in 1890 Congress passed, with only slight opposition, an act prohibiting "combination in restraint of trade"—the

famous Sherman Act.

Shortly afterward the Standard Oil Trust was forced to dissolve (or rather, to appear to dissolve).

Apparently the Dodd form of industrial combination, a rather awkward form at best, was doomed. But the desire for combination remained and became intensified. The score in the game of business refused to remain at a tie. The trend of American economic life was in the direction of integration and consolidation. Business units were becoming larger; more and more businesses were becoming national in scope. How could it be otherwise, with the transportation and communication systems of the country binding Maine and California ever more closely together, and with banks and private fortunes growing, and business ambition rampant? And, as it happened, already a way of achieving combination legally was at hand.

3

In the year 1888 the Governor of New Jersey, becoming concerned over the finances of the state, had consulted a New York lawyer named James B. Dill. What could New Jersey do to bring more income into the state treasury? Dill suggested passing a law which would permit companies incorporated in New Jersey to hold the stock of other corporations. Such a law was duly passed, to the immense benefit of the state treasury, which fattened—as other state treasuries were later to fatten—on the fees resulting from an extension of the privileges of property. Thus, even before the passage of the Sherman Act, holding companies were given legal sanction. (Heretofore it had generally been held illegal for one corporation to own the stock of another except by special legislative permission, and only a few scattered companies had secured such permission.)

If a man wanted to bring forty companies under a central control, he now no longer had to attempt personally to buy 51 per cent of the stock of each (a colossal task). He could induce the owners of the various companies to exchange their shares for the shares of a newly-formed New Jersey holding corporation (or to sell their properties to it); he could induce the public to buy stock in the holding corporation; and thus, with financial assistance from the public, he could bring the forty concerns into an effective centrally-administered unit. Whether such a holding company would be adjudged a

conspiracy in restraint of trade by the Federal Government under the Sherman Act was uncertain; but the Government was apparently not taking the enforcement of the Sherman Act very seriously, and anyhow the holding company device was secure against interference by the New Jersey authorities. Presently there was a rush to New Jersey to form holding companies.

It was not necessary for these companies actually to conduct their business in the state; their legal domicile within the boundaries of New Jersey was usually one of those painstaking fictions beloved of lawyers. A corporation needed only to hang its hat there, so to speak: to appoint someone in a trust company in Hoboken or Jersey City as its agent, and to hold its annual stockholders' meetings in his office. The rush to Hoboken was somewhat delayed by the depression which began in 1893, but by 1897, when the skies cleared, it was under way again in dead earnest. Already other states, jealous of New Jersey's new-found source of revenue, had moved to emulate her. Combination through the medium of the holding company—or through the medium of a company which bought the properties of its constituents instead of buying their shares—became the order of the day. And thus began that new industrial era which was to approach its maturity on the night when Morgan and Schwab dined together.

It began recklessly and flamboyantly. For not only did the increasing pressure and ferocity of competition make capitalists eager to join forces; the discovery had also been made that the formation and financing of holding companies offered the easiest way to get rich quickly that had ever legally existed in the United States. Accordingly a new species of financier appeared upon the scene, a man part economic statesman and part gambler—the promoter. The promoter made a business of bringing together the owners of competing concerns. He persuaded them to exchange their stock (on very generous terms) for the shares of a new holding company; he distributed the rest of the bonds and shares of the holding company to an eager investing public; and then he often so manipulated these shares on the stock exchanges as to reap fortunes for all those on the inside, including himself (for generally the promoter was assigned a goodly portion of the stock of the holding company for his services in bringing about the alliance).

Many of the promoters had no special knowledge of the industries in which they intervened as matchmakers. A man might bring together a group

of steel companies in January, a group of woolen companies in August, and a group of match companies in December. What he needed was not specialized knowledge, but persuasive salesmanship, coupled with the ability to command the millions and the investment-sales machinery of a large banking house, and to command also the services of astute corporation lawyers and stock-market operators. Having launched his holding company, pocketed his stock, and arranged to distribute part or all of it through the stock market, the promoter might pass on to fresh woods and pastures new.

What made these enterprises vastly profitable to the promoters and also to the owners of the various companies which were combined was the lavish way in which it was possible to do the financing. Obviously, the owners of successful businesses would not sell out unless they received a very handsome price. But they need not be paid this price in cash; they could be paid it in stock of the new holding company. Common stock was issued in huge quantities and exchanged on inflated terms. For instance, when the Consolidated Steel and Wire Company (itself a combination of steel companies) was taken over by the American Steel and Wire Company of Illinois, the holder of a single hundred-dollar share of Consolidated Steel was handed $175 worth of preferred stock and $175 worth of common stock of the new company—a total of $350 worth; and when the new company in its turn was taken over by a yet larger combination, the American Steel and Wire Company of New Jersey, the stockholder received (for these same shares) $175 worth of preferred and $315 worth of common in the New Jersey concern. His hundred-dollar certificate had in a brief space of time been converted by the legerdemain of the promoter into certificates of a face value of four hundred and ninety dollars!

Now obviously there must have been a joker in such a deal, and there was. It lay in the nature of the "face value" of the certificates. Logically it should have made no difference whatever whether a man held "one hundred dollars' worth" of stock or "four hundred and ninety dollars' worth" of stock, provided they represented the same proportionate share in the earnings of the industry. Money is not thus manufactured out of thin air—at least in the realm of logic. But in point of fact the cash gain could be made actual and substantial. For the new combination *might* be able to earn enough, through the economies and the bargaining power which it was able to bring to its members, to make real the promise implied in that optimistic face value; at

any rate, there was always the hope that it might, and at certain rosy seasons hope can be sold for cash in the speculative markets; and anyhow, to a large investing public the phrase “$100 par value” on a certificate meant something a good deal more solid than pure fancy. In the realm of fact, you could sell $490 worth of shares for a good deal more than you could sell a single $100 share. And so the certificates were lavishly printed and handed about, and in due course quantities of them were sold on the exchanges, and the promoter and the other participants cleaned up.

The process of thus “watering” stock was by no means new, of course. It had got its name two generations before. As a young cattle drover, Daniel Drew had been accustomed to give his cattle insufficient water on the way from upper New York State down to the City of New York, and then, just before the metropolitan purchasing agents were to meet him in Harlem to weigh the cattle and pay for them by weight, Drew had led the beasts to the trough and let them drink their fill—and had profited accordingly in the purchase price. Later, when as a notorious speculator and railroad manipulator Drew discovered how much money could be made by printing extra stock and selling it, he wittily called this process “watering the stock.” But though the process was an old one, the formation of holding companies in the late nineties offered the vastest opportunity to take advantage of it yet known—and this time the methods used were perfectly legal. The ultimate value of such stock was, of course, highly problematical; suffice it to say here that a gain in efficiency of operation and a period of prosperity will soak up a great deal of water, or for a time appear to; and that at the turn of the century there were plenty of hopeful buyers ready to take surplus stock off the promoters’ hands.

So rapidly did the promoters work that by 1900 the census showed that there were no less than 185 industrial combinations in existence, with a total capitalization of three billion dollars—one-third of all the capital invested in manufacturing enterprises in the whole country. Charles R. Flint, the “father of the trusts”; Judge William H. Moore and his brother James; H. H. Rogers, William Rockefeller, and other members of the Standard Oil group of millionaires, behind whom stood James Stillman with the additional funds of the National City Bank of New York; Elkins, Widener, and other combiners of gas and electric light companies; “Bet-a-Million” Gates, Reid, Morse, Addicks—these were only a few of the more conspicuous and daring

promoters. And Pierpont Morgan himself, the monarch of Wall Street, took a conspicuous part in the movement, putting the rich resources of his private banking house and the bulwark of his prestige behind a number of ambitious combinations.

The center of gravity of American industrial control was moving, and the direction of its motion was immensely significant. It was moving toward Wall Street. The reins which guided the great industries of the country were gradually being taken into the hands of bankers and financiers who could finance these immense holding-company operations and distribute stock by the millions of shares.

From wide-eyed young bank clerks in Wall Street the miracle-workers of this new dispensation commanded an awed respect like that which the new-era financiers of 1929 were to command a generation later. Meanwhile the outside public looked on in mingled admiration and alarm and bewilderment. They feared the power which was now concentrating in downtown New York and the other financial centers of the country, they watched with dismay the inroads being made on the domain of free competition, and yet the processes of change were so multiple, so obscure, and so baffling that they did not know what to do.

4

The epidemic of promotion and consolidation struck the vast steel industry in 1898, the year of the Spanish War. John W. Gates, a jovial buccaneer of finance with the confidence and daring of a born gambler, brought together a quantity of wire and nail companies in the American Steel and Wire Company of New Jersey. Gates and Morgan arranged another big combination, the Federal Steel Company. Morgan arranged two more without Gates's intermediation, the National Tube Company and the American Bridge Company. And Judge William H. Moore and his brother, who as promoters roved at large from the biscuit industry to the steel industry and back to the chewing-gum industry, formed a whole fleet of combinations in steel—the American Tin Plate Company, the American Steel Hoop Company, the American Sheet Steel Company, and the National Steel Company.

It seems incredible that within the space of hardly more than two years the

investing and speculative public should have been able to ingest the flood of securities resulting from this mania of combination and recapitalization; and to tell the truth, there were moments when the investors seemed to gag a little. But by the summer of 1900 a considerable part of the huge and hitherto disorganized steel industry was mobilized into these eight new groups.

Yet there was one glaring exception to the rule of combination, one company outside the fold which was more powerful than any company or group of companies within it. It was headed by Andrew Carnegie, the sharp-eyed little Scotchman who had been born in a weaver's cottage at Dunfermline, had begun his business life as a bobbin-boy in a Pittsburgh cotton mill, and had become the ablest steel manufacturer and the richest man in the world. Carnegie hated Wall Street methods, hated stock-watering; he set the par value of the shares of his company at a thousand dollars in order that they would not be dealt in on the Stock Exchange, and that his partners might not be working with an uneasy eye on the rise and fall of security prices. The Henry Ford of his day, Carnegie believed in competition, not combination; and when he competed he fought to a finish and won. For he was a brilliant judge of business capacity, he surrounded himself with able technicians, and he conducted his battles for markets with brilliant strategy and without compunction.

The Carnegie Steel Company had made for itself an impregnable position in the industry. Through the Oliver Iron Mining Company it controlled its own mines in the rich Mesabi Range; through H. C. Frick's coke company it controlled the coke that it needed; and it also controlled steamships and railroads. Furthermore it dominated the production of crude steel. The sprawling aggregations of steel companies which had been brought together by Gates and Morgan and the Moores were nearly all engaged in the making of finished products-rails, beams, steel plate, wire, and what not. For the crude steel which served as the raw material for their operations, they depended upon a department of the industry in which the little Scotchman from Pittsburgh was supreme. That fact gave him a huge advantage in competition with them. Carnegie's mills were amazingly efficient; if, when a new one was being built, some new way of cutting costs of production was pointed out to him, he was quite ready to tear the mill down and rebuild it; he could undersell his competitors; and having no army of holders of watered stock to worry about, he stood quite ready to forego present profits in a price-

war if one should be declared.

In the summer of 1900 the battle between Carnegie and the new combinations in the steel industry was definitely joined. Gates and Moore and the other leading spirits in the new steel combinations decided that they could no longer tolerate the sort of venomous competition which Carnegie had been giving them, and threatened to produce their own crude steel.

To Carnegie this threat was a declaration of war. When it was made he was idling at Skibo Castle in Scotland, enjoying one of those extensive leisure periods of his which are so seldom mentioned by the exponents of success through hard work. At once he prepared his forces for action. He wrote to young Schwab, his chief executive, quoting Richelieu’s advice: “First, all means to conciliate; failing that, all means to crush.” He authorized Schwab to build a new twelve-million-dollar tube plant at Conneaut on Lake Erie—a direct challenge to Morgan’s National Tube Company. The situation at Conneaut was ideal for a huge steel plant; much too ideal for the peace of mind of Carnegie’s industrial rivals. He instructed Schwab to acquire further land at Conneaut on which he might build huge factories for other finishing works—factories which would directly compete with his adversaries. “No use going half way across a stream,” he advised his associates; “should aim at finished articles only.”

Nor was this all. Feeling that the freight rates charged by the Pennsylvania Railroad for carrying his steel to the seaboard were unduly high, Carnegie gave aid and comfort to George Gould, who had bought control of the Western Maryland Railroad and needed only to build 157 miles of track, from Pittsburgh to Cumberland in Maryland, to have an alternative route to the sea which Carnegie would patronize.

Carnegie possessed all the implements for conquest. Clearly he meant to fight, even if fighting meant driving his competitors to the wall. As reports of his huge plans began slowly to leak out, there was consternation among the hosts of Moore and Gates and Morgan. The prospect which confronted them was formidable.

There was, however, another element in the situation to be taken into account. Carnegie had long wanted to retire. More than thirty years before, at the age of thirty-three, he had written a memorandum, carefully kept thereafter, in which he declared his intention of not making too much money. “The amassing of wealth,” he had written, “is one of the worst species of

idolatry, no idol more debasing. To continue much longer overwhelmed by business cares and with most of my thoughts wholly upon the way to make more money in the shortest time, must degrade me beyond hope of permanent recovery." He had continued, it is true, to amass wealth, contenting himself, as time went on, with taking six months of vacation each year and thereby perhaps escaping in some measure the degradation which he had feared; but always he had looked forward to the day when he might leave business forever and devote himself to giving away what he had amassed—running the money-making machine in reverse, as it were. He was now approaching his sixty-fifth birthday. His associates knew well that he was thinking of retiring. His plans for a mighty price war in the industry were probably thus made with a double purpose, which may be expressed in a paraphrase of the text from Richelieu which he had used as his call to battle: First, by all means to frighten his competitors into buying him out; failing that, by all means to crush them.

What were the competitors to do? Mobilize a combination large enough to defeat Carnegie? Impossible: even if their scattered forces could be assembled, he would still occupy a very strong position; he would still have his grip on the production of crude steel. In the words of William C. Temple, a steel manufacturer, "The cooks who were preparing this meal … found that they had prepared and were ready to bake the finest plum pudding ever concocted financially, but that Mr. Carnegie had all the plums." Well then, could they buy out Carnegie? But a combination of steel companies which would include Carnegie would have to be so enormous that one could hardly contemplate it seriously. Only one man could conceivably command the mobile capital, the prestige, and the influence with banks and investment houses to attempt to create such a combination—Pierpont Morgan; and Morgan would not venture it. Gary suggested it to him but received no encouragement. "I would not think of it," said Morgan. "I don't believe I could raise the money." And there the matter lay, while Schwab and shrewd old Andy studied the blueprints for the Conneaut mills.

Election Day, 1900, came and went. McKinley and Mark Hanna and expansion won; Bryan was submerged again. Big business rejoiced; for four years more it would be able to feast on the fat of the land. Sound money, a high tariff, a conservative Senate under Mark Hanna's influence, and an Attorney General who would regard business combinations with a near-

sighted eye: what more could one want?

The stock market leaped with delight; the total sales for the day after Election Day of 1900 were 1,418,735 shares, the second largest in the history of the New York Stock Exchange. A front-page news story in the conservative *New York Tribune* of November 8, 1900, began its account of the excitement in Wall Street with a paean of triumph: “Upon the issue of the national election of Tuesday, it was everywhere recognized by thinking men, depended the restoration of business confidence, the existence of which is a vital element of commercial and industrial activity and enterprise, and the integrity of which was so desperately assailed and so gravely impaired by the nomination of William J. Bryan at Kansas City. That confidence has now been re-established” … The weather-vanes of politics took notice of the direction in which the winds of opinion were so surely blowing. Even Governor Theodore Roosevelt of New York, finishing out his term at Albany and preparing to endure four years of dreadful inactivity in the Vice-Presidency to which he had just been elected, bent to the prevailing wind: the future champion of trust-busting actually gave a dinner to Pierpont Morgan, a dinner which, as he confided to Root, represented “an effort on my part to become a conservative man in touch with the influential classes.”

It was just at this juncture—as the warm sun of political approval promised to shine steadily upon the influential classes, and as Carnegie threatened to plunge the steel industry into virtual civil war—that J. Edward Simmons and Charles Stewart Smith invited Charles M. Schwab, Carnegie’s right-hand man, to be their guest of honor at dinner at the University Club.

5

It has been assumed by many people that Carnegie engineered the Schwab dinner of December 12, 1900, as a Machiavellian means of bringing Morgan and Schwab together for negotiation; but such an assumption perhaps gives too much credit to Carnegie’s accuracy of foresight and too little credit to chance. The evidence is simply that Simmons and Smith and a party of other New Yorkers had been visiting Pittsburgh and had been lavishly entertained there by Schwab, and that they wished to return the compliment. But can it be doubted that Schwab saw a great opportunity before him when he found that Morgan was to be at the dinner?

The livery-stable keeper's son had come far since the days when he had used to bring the horse and wagon round to the Carnegies' cottage of a summer afternoon. Step by step young Schwab had risen in the steel business, and now at the age of thirty-eight he was president of Carnegie's company—and here were eighty of the leading financiers of New York gathered to do him honor, and at his right hand sat Morgan himself, the titan of American finance—massive, jovial, friendly, alert to hear him speak.

Schwab spoke. The voice that Carnegie had delighted to hear in the summer evening at Cresson Springs, when the stableman's son had sung for the guests on the Carnegies' porch, could be eloquent in speech as well as in song, and it was eloquent now. Schwab had intended to speak for only a few minutes, but he was on his feet for an hour; and presently it appeared that his theme was to be a bold one, intended primarily for the ear of the man beside him.

Schwab talked of the immense future in world trade which lay before the steel industry of America—if only it were properly organized and operated. He made it clear that proper organization and operation implied three things: first, specialization—one mill or group of mills concentrating on a single product such as rails, another mill or group of mills concentrating on another single product; second, integration—the control by a single authority of all the processes of steel-making from the mining of the ore down to the completion of the finished product; and third, the translation of economy in operation into lower prices. The Carnegie company had gone far in achieving economies, he explained, but only a steel company larger by far than Carnegie's could achieve the necessary integration and thus capture the world trade which was waiting for it. Meanwhile the practice of throttling competition by pools and trade agreements and little monopolies and then jacking up prices to win a quick and easy profit was ruining the chances for American supremacy in steel. The day for that sort of thing was past, Schwab insisted. A huge concern such as he proposed would not descend to such methods. It would enforce not higher prices but low ones, for the sake of expanding its markets at home and abroad.

Morgan listened hard, his expression unmoved, his piercing eyes fixed upon his plate, as Schwab rebuked by implication the methods of Gates and the Moores and the other promoters in the steel industry who had doubled and tripled their prices as soon as their monopolistic holding-company

control permitted them to. Morgan himself had countenanced such methods; the rebuke was aimed at him too. He was a man capable of volcanic anger, but he showed no anger now. “After the cheers had subsided he took Schwab by the arm and led him to a corner.” (I quote from Burton J. Hendrick’s excellent biography of Carnegie.) “For half an hour the two men engaged in intimate conversation. The banker had a hundred questions to ask, to which Schwab replied with terseness and rapidity. The talk ended, Morgan left for his home and Schwab took the midnight train for Pittsburgh. The germ that resulted in the world’s largest corporation had been implanted.”

During the next few days Morgan’s mind was full of what Schwab had said. He kept speaking of it to his partners. The reason why he was so deeply impressed may easily be surmised. It was not merely that the launching of a super-corporation in steel would be the most ambitious financial project which he or any other American banker had ever undertaken, and, if successful, one of the most profitable. Morgan was a promoter, it was true, who could speak the language of the Gateses and Moores and Rogerses, but he was much more than this. He could take a large view. In his re-organization of railroads and his mediation between the conflicting interests of railroad barons, he had taken his profits in millions with the best of them, but always he had sought harmony, conciliation in the interest of all, coordination of competing railroads into coherent regional patterns. This passion of his for order, for the smooth-running economic machine, was ready-made for the acceptance of what Schwab had to suggest. For Schwab, with his talk of specialization, integration, and price reduction, was expounding the philosophy of orderly mass production: the notion of a single economic unit reaching from the raw material all the way to the finished product; the notion of the assembly line; the notion of low cost, low prices, and profits through vastly increased sales. It was in essence what we have come to call the Ford idea—though Henry Ford was then merely the chief engineer of the feeble Detroit Automobile Company, and the largest automobile company in the United States was turning out only four hundred cars a year.

Furthermore, Schwab’s talk of the capture of foreign markets, though one might dismiss it as merely a sample of the resounding expansion talk of the moment, was well devised to appeal to Morgan. For Morgan could think in international terms. His whole training as the son of an American banker in

London, as a dealer in foreign exchange, as a distributor of American securities in Europe and European securities in America, prepared him to see American industries in terms of the trade of the world. Criticize Schwab's speech though one may as chiefly a spread-eagle appeal to the American business man's lust for size, for power, and for profit, nevertheless it looked toward a sort of industrial combination more disciplined than the gross money-making machines which the incorporation-mill at Trenton was turning out by the score; and it is only reasonable to assume that Morgan, who was not without public spirit, felt the difference.

Morgan's intuition told him that Schwab was right, that a great steel combination such as had seemed impossible a few weeks before was possible after all, that this moment of supreme business confidence was the moment to move; and that the first requirement was to eliminate from the industry Schwab's own chief—to buy out Andrew Carnegie.

After a few days of thought Morgan called in John W. Gates, a sharp customer but a necessary ally and a worldly-wise negotiator. How should one approach Carnegie? he asked Gates. "Through Schwab," Gates instructed him; Schwab was Carnegie's white-headed boy, the one man who had real influence with the old Scotchman. Get Schwab to come to New York and see me, said Morgan.

Out in Pittsburgh Schwab received Gates's long-distance call with elation. Yet he realized that his situation was equivocal. What would old Andy say if he discovered that his subordinate had been negotiating with Morgan? He had best be a little careful. So he suggested an "accidental" meeting with Morgan. Presently Gates gave him his instructions. If Schwab chanced to be at the Bellevue Hotel in Philadelphia the next day, Morgan would be there too.

Fortified with facts and figures, Schwab packed his bag and took the night train from Pittsburgh to Philadelphia. He went to the Bellevue. No sign of Morgan. But a telephone call came through. It was Gates again. Morgan had a cold, it was snowing in New York, and the doctor wouldn't let Morgan go out. Now that Schwab had come this far, couldn't he continue to New York and talk with Morgan at his home? Schwab duly went to New York, dined with Gates at the Manhattan Club, and proceeded with him at nine o'clock in the evening to the big brown-stone house at the corner of Madison A venue and Thirty-sixth Street.

Four men conferred that night in the library of Pierpont Morgan's home.

Their diversity was suggestive of the diversity of the human elements in the overlordship of industry. Morgan had called in to support him a partner, Robert Bacon. One of the handsomest Americans of his day, Bacon was a gentleman of substance and cultivation and charm, an Overseer of Harvard University, a future Secretary of State and Ambassador to France: a fine though not brilliant product of the tradition which sent into Wall Street a large proportion of the well-born, personable young college graduates of each generation.

Schwab stood for something quite different. He was self-made. A congenital optimist, an orator, a hearty young man who called hundreds of his employees by their first names, he was nevertheless a hard-headed man at figures and an authority on the technical processes of steelmaking. His friendliness and his eloquence were dedicated to salesmanship. He might be roughly classified as a Babbitt of the 1900 model: a representative of that zeal for efficiency, that pushfulness, that limited but intense vision, which led men to build bigger and bigger businesses as if under some blind inner compulsion.

John W. Gates represented still another influence in the industrial world of the day—that of the gambler. He too was self-made; he had begun life in poverty in an Illinois village. His rise to success in the barbed-wire business had been the result of aggressiveness, shrewdness, and unscrupulousness. Gates was always gambling: once he was said to have spent a morning on a railroad train betting with an associate on the raindrops coursing down the sooty window of the car—at a thousand dollars a race; on another occasion he was said to have lost a quarter of a million dollars in a prolonged poker game at the Waldorf-Astoria with a group of other Wall Street plungers. He was a good fellow and a remorseless trader: the sort of man who will sit up all night at a friend’s bedside and then destroy the man financially the next day. Business, to him, was a poker game in which any sort of trick was permissible—if you could get away with it. He had built up his huge combination of wire companies by stock-watering and manipulation, and only a few months before the conference at Pierpont Morgan’s he had been charged with closing thirteen wire mills and issuing pessimistic statements about the steel business in order to clean up on a short sale in the stock of his own company. Gates represented the purely predatory influence which was dominant in many consolidations of the day.

Finally, there was Morgan, an aristocrat like Bacon, an optimist like Schwab, a man who distrusted Gates yet made use of his practical knowledge of the technique of promotion: a man who combined some of the qualities of each of the other men and yet outmastered all of them: an embodiment of sheer force, a man of whom the financial and industrial community stood in awe, partly because of the ramifying power of his banking house, partly because they felt him and his word to be solid as a rock, partly because of the overwhelming authority that expressed itself in his few gruff words, his swift and far-reaching decisions, his piercing eyes. The other men sitting in his library that night represented types; Morgan was unique.

Hour after hour the men talked. Schwab had a list of all the companies which might be brought into the big combination; he explained why this one was needed and why that one was not; he specified purchase prices; Morgan plied him with incessant questions, battered the project into practical financial shape as the talk progressed. Finally the conference ended.

"The sun was now streaming into the library windows," writes Hendrick in his life of Carnegie.… "Morgan brought matters to a close by rising.

"'Well,' he said to Schwab, 'if Andy wants to sell, I'll buy. Go and find his price.'"

One may imagine Schwab's delight as he walked out into Madison Avenue that early winter morning. The great project had gained Morgan's approval, almost precisely as he had laid it out. But an obstacle still remained—Carnegie. What if Andy should have changed his mind? The next step required caution.

Schwab did a shrewd thing. He consulted Mrs. Carnegie.

She advised him to invite Andy to play golf and to break the news to him after the game. Schwab did so. The two men made the frosty round of the St. Andrews links in the Westchester hills, and then Schwab told his story.

The little white-bearded Scotchman was at first cast into gloom at the prospect of retirement. For thirty years he had planned to retire, but now that the gates of a financial Valhalla stood open before him, he saw them with a heavy heart, for he loved the fight. But he did not say no. He asked only to be given a little time to think the proposal over. Schwab knew then that he had won.

The next day Carnegie discussed the sale again with Schwab, wrote his price—expressed in terms of exchange of Carnegie stocks and bonds for

securities of the new corporation—in pencil on a slip of paper, and gave it to Schwab. Schwab took the paper down to Wall Street and showed it to Morgan. One glance, and Morgan said, “I accept,” and the thing was done.

So completely informal were the negotiations, in fact, that it was not until weeks later, after the public announcement of the formation of the Steel Corporation had been made, that Morgan suddenly realized that he did not have Carnegie’s acceptance in writing—that technically he had sold the Carnegie Company short—and hurriedly sent his lawyer to Carnegie to sign a paper concluding the deal.

6

The months of January and February, 1901, went by, and not until the latter part of February did the public have an inkling of what was afoot. Conferences were being held daily at the Morgan offices, where Judge Gary, of the Federal Steel Company, installed as Morgan’s trusted agent, was bringing into line the other big steel companies which were needed for the merger.

One by one they came in. Gates, of course, tried at the last moment to hold out for an impossible price, and capitulated only when Morgan came into the room where Gates and his friends had been bargaining with Gary for hours, and said sternly, “I am going to leave this building in ten minutes. If by that time you have not accepted our offer, the matter will be closed. We will build our own wire plant.” At this threat Gates accepted Morgan’s terms; an acceptance which so delighted Morgan that—as Gary later told his biographer—the banker went home as exuberantly as “a boy going home from a football game.”

At last the negotiations were completed, and the United States Steel Corporation became a reality. On the third of March, 1901, as the crowds were gathering in Washington for the triumphant inauguration of McKinley and Roosevelt, there appeared in the papers an advertisement addressed to the stockholders of Federal Steel, National Steel, National Tube, American Steel and Wire of New Jersey, American Tin Plate, American Steel Hoop, and American Sheet Steel, informing them that the United States Steel Corporation had been “organized under the laws of the State of New Jersey, with power, among other things, to acquire the outstanding preferred stocks

and common stocks of the companies above named, and the outstanding bonds and stocks of the Carnegie Company."

The biggest of all giant holding companies had been born. Carnegie was out of the steel industry. Gates was on his way out—for Morgan sternly refused to make him a director of the Steel Corporation. Hundreds of steel companies—the Tin Plate group alone was a combination of 265 plants—were being brought under a single control; the fate of 168,000 steel workers, the production of half the steel used in the United States, now hung on the decisions of one man.

7

The distribution of the shares of the new corporation to those who had joined forces in it was done on a lavish scale. Carnegie, distrustful as ever of Wall Street methods and watered stock, insisted upon being paid in bonds, but the shareholders of the other constituent companies were paid for their holdings in these companies by being assigned preferred stock and common stock in United States Steel, and the terms of some of the various agreements rewarded them very generously for coming into the alliance.

A stockholder in one of the Moore concerns, for example, received $145 worth (par value) of Steel Corporation stock for each $100 worth (par value) of common stock in the original company. A man who in 1897 had owned a $100 certificate of stock in the Consolidated Steel Company, and, as we have already seen, had subsequently exchanged it for stock to the par value of $490 in the American Steel and Wire Company of New Jersey, now found that he possessed, in Steel Corporation stock, certificates of a par value not of $100 or even $490, but of $564.37.

It took an enormous amount of stock to meet the requirements of the agreements which Morgan had made with the already heavily capitalized components in his scheme. When two more big companies had been added to the collection—Morgan's American Bridge Company and John D. Rockefeller's Lake Superior Consolidated Iron Mines—and when the Morgan syndicate had taken for its services a block of stock with a par value of nearly one hundred and thirty millions, the capitalization of this greatest corporate monster in history reached breathtaking dimensions. It had underlying and miscellaneous obligations to meet of 81 millions; it issued

303 millions in corporate bonds, all of which went to the owners of the Carnegie properties and about two-thirds of which went to wily old Andrew himself; and it issued also no less than 510 millions in preferred stock and 508 millions in common stock, making its total capitalization some 1402 millions—over a billion and a third of dollars!

No wonder the public gasped. No such immense financial operation had ever before been witnessed.

How much of this immense figure represented the actual value of the steel factories and other properties taken over by United States Steel? Ten years later the Commissioner of Corporations issued a report in which this question was very carefully answered. His investigators attempted to arrive at the real value of the Steel Corporation investment in three ways. First, they traced back the financial history of the constituent companies in the effort to find out what they represented in money actually invested, and arrived at a figure of 676 millions. Second, they added together the market values of the constituents' shares and arrived at 793 millions. Third, they made detailed estimates of the physical value of the various properties and arrived at 682 millions. Striking a rough average of these figures, the Commissioner decided that the fair market value of the properties of the Steel Corporation in 1901 was in the neighborhood of 700 millions. And the bonds and stock issued amounted to 1402 millions!

According to these figures, the bonds and preferred stock alone more than covered the total value of the properties; all the common stock, and for that matter a part of the preferred stock, was sheer water—in other words, a huge collection of paper certificates representing not actual property but the hope of rewards through huge profits. The common stock might thus be regarded as a bonus, thrown in to sweeten the bargains with the Gateses and Moores and their allies and the other stockholders and promoters who had made the organization of the Steel Corporation possible.

This estimate of value by the Commissioner of Corporations was made, however, as his report explicitly stated, without giving consideration to any "merger, integration or monopolistic factors arising from the combination of 1901." In other words, it took no account of the fact that by combining, these innumerable steel companies were able to operate more effectively, more economically, and with less fear of competition than before: that their earning power was immensely enhanced. The orthodox Wall Street view of the

capitalization of the Steel Corporation was that these factors of efficiency and partial monopoly must be taken into account; that if a combination of factories could earn twice as much as the factories could earn separately, they were of course worth twice as much; that their owners deserved the increased income which resulted from their ingenuity and far sightedness in putting the factories together; and that if the stock certificates which they received represented a capital sum twice as big as before, these certificates therefore represented not watered value but real value—a legitimate payment.

As to the Steel Corporation, the Wall Street argument was later supported by the fact that the Corporation was actually able to earn a return upon its common stock: that it not only paid a dividend of four dollars a share in its very first year, with nearly forty-four millions to spare, but was able to continue its dividends with few interruptions for a long time thereafter. (There was one prolonged and frightening interruption in the Corporation's early years.) If the proof of a pudding is in the eating, ran the Wall Street argument, then in this case the size of the common stock issue was ultimately justified.

The question at issue is a large one; it has been debated hundreds of times with regard to dozens of incorporations for over a generation, for the Steel Corporation pattern of financing was followed again and again, with varying results, from that day on. Men and women will doubtless arrive at their own answers in accordance with their social convictions and prejudices. One aspect of the matter, however, may be suggested here. What made these vast combinations possible and profitable? Not simply the wisdom or daring of their owners and promoters, but also a number of other factors: the spread of population, the growth of cities and general urbanization of American life, the influx of immigration, the new efficiency of communication, the engineering skill which went into the design of new machinery, the labor of hundreds of thousands of workers: in short, the growth of the country and the advance of the machine age. If at one fell swoop a group of promoters and stockholders took advantage of these factors to consolidate a number of companies, were all—or nearly all—of the resulting profits legitimately theirs? And if not, was it quite proper so to increase the capitalization of the new company that it would be obliged to hand out to its owners and promoters—or to those who had bought their shares—all or nearly all of these possible profits, in order to justify its financial set-up? In theory the

advantages derived from combination might have been distributed to labor in higher wages or to the general public in the form of lower prices; in practice they were almost completely absorbed by capital—and to a large extent by the promoters—and the lavish issue of stocks was the method through which this was done.

In these latter days, when a large public has learned to think in terms of national purchasing power, the question whether such devices are legitimate clamors for answer; but in 1901 the end results of the financial methods which were illustrated in the formation of the Steel Corporation, and were given sanction and prestige by its success, were not visible. The outburst of public dismay which greeted the announcement of the formation of the Steel Corporation was not directed in any large degree at the financial methods by which the operation made money for those on the inside. An outburst there was, not only in the United States but abroad, but what frightened the general public was mostly the sheer size of the new concern, the thought of the concentration of power which it involved, the thought of what such power might do to snuff the little business concern out of existence, the thought that Pierpont Morgan might gradually take all American industry within his ample grasp.

The London correspondent of the *New York Tribune* cabled that the British mercantile community was "appalled by the magnitude of the American Steel combination headed by J. P. Morgan." President Hadley of Yale, in an address shortly after the Morgan announcement, said that if trusts were not "regulated by public sentiment," the country could expect "an emperor in Washington within twenty-five years." That aptest commentator of the day, Finley Peter Dunne's "Mr. Dooley," described Morgan as now being able to say to one of his office boys, "Take some change out iv th' damper an' r-run out an' buy Europe f'r me." Other critics of the steel combination feared that labor would now learn a lesson from capital, organize and seize the power from capital, and plunge the country into socialism. But of intelligent criticism of the corporate mechanism and the way in which it distributed the financial gains from such a deal there was comparatively little.

Meanwhile, however, the gains were being made. James R. Keene, a stock-market operator of uncanny ability, was engaged to "make a market" in Steel Corporation stock on the Exchange, and presently, with the aid of his buying and selling, the shares were changing hands in large quantities—the preferred

at prices ranging between ninety and a hundred dollars a share, and the common between forty and fifty dollars a share. Speculators leaped in to buy; investors followed, large and small; and presently the stock of the new concern was the center of a bull market of increasing proportions.

Into this frenzied market, in which—almost as in 1928 and 1929—clerks and shopkeepers were staking their savings, the millions of shares which had been handed out to the stockholders of the constituent companies and to the promoters and their associates began gradually to be fed. The stock was being "distributed" to the public, and the insiders were taking their profits—in hundreds of dollars, in thousands, and in millions. For example, you may recall that the Morgan syndicate had been paid for its services not in cash but in stock—a large block, amounting to nearly 1,300,000 shares. This stock had to be "distributed." The result of the distribution was a profit to the syndicate, over and above all expenses, of sixty-two and a half million dollars, of which the House of Morgan took as its own share considerably more than twelve and a half million.

Keene's manipulative operations were fulfilling the triple function of providing a steadying influence for the market price, of advertising Steel common on the ticker tape and in brokers' offices and on the financial pages and wherever speculators and investors gathered, and of providing plenty of buyers for those who had been allotted stock and wished to unload and gather in their cash.

Meanwhile, also, across the street from the humming Stock Exchange, Morgan, with the righteous Gary to assist him in matters of policy and the entranced Schwab to supervise the processes of steel-making in scores of mills, began to face the vast problem of making his enterprise actually succeed.

8

It was a long time before Morgan and Gary succeeded in bringing into some sort of line the discordant methods and policies of all the companies now linked together under their suzerainty, or even the conflicting influences within the directorate itself. But a strike called by the Amalgamated union during the first precarious summer brought forth a resolution by the Board which prefigured the Corporation's attitude toward labor organizations for a

generation to come: a resolution “that we are unalterably opposed to any extension of union labor and advise subsidiary companies to take a firm position when these questions come up, and say that they are not going to recognize it.” Capital might combine; labor might not.

The relationship between the management and the workmen was destined to remain feudal. Whenever a Steel Corporation official thereafter found himself on the witness stand and the embarrassing matter of the twelve-hour day or the seven-day week was brought up, he always expressed acute distress at the fact that the Corporation had not yet succeeded in doing away with this barbarous condition and said that it was about to do so—but the years dragged on and the twelve-hour day and the seven-day week remained, to the disgrace of American industry. It must be admitted that the Steel Corporation maintained conditions no worse than its competitors and probably a little better; that the trend of wages was haltingly upward during the first decade of the Corporation’s life; and that the labor policy of the Corporation was further mollified by such devices as a plan for the purchase of stock by employees on reasonable terms. The unsentimental essence of that policy, however, was: Pay what you have to pay in wages but keep absolute control in your own hands, and remember that profits come first.

As for the policy of the Corporation with regard to prices, there was at least a trend in the direction so rapturously pointed out by Schwab in his University Club speech. Previous consolidations in the steel industry had been followed by a gleeful marking up of prices; no such advance took place during the Steel Corporation’s first year, and during the next decade prices in general moved somewhat downward. Bearing in mind the perpetual danger of prosecution under the Sherman Act, the company prudently refrained from overtly dictating prices to the rest of the industry. But it was noticeable from time to time that after Gary’s lavish dinners to the steel producers of the country, prices throughout the industry had a curious way of moving in concert.

As to the ethics of corporate management, Gary’s policy, fully backed by the omnipotent Morgan, was strict. To the amazement of plungers on the Board of Directors such as H. H. Rogers, who had been accustomed to make good use on the Stock Exchange of advance inside information on earnings and dividend decisions, Gary insisted on keeping all information of this sort from the directors of the Steel Corporation until the regular directors’

meetings, on holding these meetings after the stock market had closed for the day, and on giving the information immediately to the press. So opposed was Gary, in fact, to the whole atmosphere of private speculation which surrounded the direction of corporations—and has surrounded it very often to this day—that he even lectured the members of the Board on one occasion on their lamentable custom of matching for the twenty-dollar directors' fees of absent members. It was not simply that Gary's Methodist soul revolted at gambling; he thought of the directors of corporations as trustees, and anything which detracted from the dignity of their fiduciary attitude offended him—as, he was well aware, it offended a suspicious public.

In short, the policy of the Steel Corporation, as time went on, was the result of a number of forces: the Morgan preference for discipline and restraint; the ethical severity of Gary, and his further insistence upon maintaining an appearance of virtue even where virtue itself was too much to expect of greedy men; the accepted American doctrine that the end and justification of business was profit, and the more of it the better; and the Bourbonism of Wall Street's attitude toward the laboring classes. The gulf between capital, as represented by boards of directors sitting in the splendid comfort of New York offices, and labor, as represented by Polacks and Hunkies slaving twelve hours a day in roaring mills, was widening, and the Corporation helped to widen it. But on the other hand the Gary-Morgan attitude of restraint was an undoubted influence against irresponsible corporate plundering. It sobered and thus prolonged the new era of industrial concentration.

9

To the men at the blast-furnaces of Pittsburgh the coming of the Steel Corporation on April first, 1901, meant no immediate change; it is probable that many of them were quite unaware that they now had new masters. But with the men at the top it was quite different.

Old Andrew Carnegie, his long dream now realized, sailed for the Riviera even before the Corporation began operations. His specially constructed vault in Hoboken now held something like three hundred million dollars in bonds. It was his delight to live in baronial splendor at Skibo on the coast of his beloved Scotland, where he had built a castle with medieval battlements,

Pittsburgh steel girders, Westinghouse dynamos, and a covered swimming-pool with artificially heated water; to have a bagpiper wake him and his guests at eight in the morning by skirling from a far distance up to the great house and around it; to have an organist play for him throughout the breakfast hour; to construct a miniature waterfall to tinkle outside his bedroom window. At this castle—in some respects so much like a small boy's dream come true—Carnegie entertained the mighty of the earth, statesmen, British noblemen, distinguished men of letters; and they came gladly, for their host was not merely a man of millions but a man also of broad understanding and gay humor. But the turrets of Skibo and the fine yacht and the massive house at Fifth Avenue and Ninety-first Street, New York, where Carnegie spent his winters, took only a trifling part of his great fortune. Years before, he had resolved to give away most of what he had earned; and this he now did with unexampled thoroughness and, on the whole, with remarkable wisdom—all the time reveling in the applause which greeted his successive benefactions.

When Carnegie died in 1919 it was found that he had given away nine-tenths of his colossal fortune. An extraordinary creature, this little rosy old man, twinkling about his vast Scottish demesne, and giving away with such glee and such discretion the fruits of a lifetime of completely merciless competitive acquisition. Could such acquisition and such generosity have been combined in any one man in any other era of the world's history?

At an extreme from Carnegie stood Gates. First and last a gambler, he continued to plunge in and out of the speculative markets of Wall Street and in and out of the managements of railroads and industrial corporations, fighting for mastery, hating his opponents in the speculative game with a rousing hate; sitting by the hour at a bridge table conveniently near the Waldorf-Astoria bar, and playing with such abandon that the story is told of a young man who found himself in a game with Gates, heard with some trepidation that the stakes were "ten a point," thought this meant ten cents, and turned pale when he discovered the next day in his mail a check for thirty-three thousand dollars—his winnings. Gates conformed sufficiently to the millionaire pattern of the time to collect Corots and Meissoniers, but he gave away no libraries, endowed no observatories; with diamond studs in his shirt-front and three diamonds in each suspender buckle he flaunted himself in brokerage offices and at the Waldorf bar, winning fortunes and losing them.

More typical of his generation, perhaps, than either of these men in his disposition of his millions was Frick, who after being bought out of his share in the Carnegie steel business in 1900 divided his time of retirement in almost equal parts among his investments, his collection of Old Masters, and a spacious leisure in his palace on Fifth Avenue—a mile from Carnegie's—or at his ample country estate on the Massachusetts shore. It was Frick who threw a side-light on art-collecting with his reference to railroad securities as "the Rembrandts of investment."

Somewhat typical, also, was Schwab, who built himself a French chateau on Riverside Drive, and played on the great organ which he had built into it, and gave away millions, and speculated with other millions; and after he had slid out of the presidency of United States Steel, became the head of a company of his own, the Bethlehem, and grew into a somewhat heavier, somewhat more florid, somewhat less glowing orator at innumerable business men's banquets over a quarter of a century, until at last in the depression of the nineteen-thirties his easy optimism came to seem like the standard product of an age gone by.

Typical of one sort of new millionaire, perhaps, was a naïve Carnegie partner whose millions from the deal of 1901 so went to his head that when the Metropolitan Opera visited Pittsburgh he rose in his box during the intermission and in full view of the assembled elect of the city, graciously draped about his wife's neck a pearl necklace. Pearl necklaces, Rembrandts, pipe organs, vast residences with expensive lawns; membership in clubs whose exclusiveness was constantly subject to the pressure of new-found millions; invitations to Assemblies with gorgeous cotillions: appeals from universities and museums and hospitals for benefactions; the awe of the multitudes,—all these, in varying proportions, came to the beneficiaries of those exchanges of certificates of stock which accompanied the consolidation of American industry.

And Morgan?

He too was a princely giver, though not on Carnegie's scale; and a princely collector of recognized treasures of art, on a scale far larger than Frick's. Morgan bought medieval armor, Chinese porcelains, rare old books and manuscripts, tapestries, miniatures, jewels, and paintings, paintings, paintings, of every age and every school except his own age and the American school; and though he built no palace on Fifth Avenue, he was

soon to build, next to his substantial brownstone house, a palace of white marble for his books and his masterpieces. But always he defied classification, this gruff man of heavy silences and sudden boyish humor and thundering authority: so American in his optimism, his rough practicality, his instinct for dealing with American business men; in his reserve, so like the English among whom he liked to live; in his lust for the collection of the treasures of the earth, so like a conquering Renaissance prince.

Morgan now carried a load of responsibility such as none of these other millionaires had ever carried. Already he had gained dominion over many railroads and industrial corporations and his influence was felt through a great network of banks, and now he had become also the power behind half the steel industry of the country. When he was asked in the Pujo inquiry whether he had named the Board of Directors of the Steel Corporation, he answered solidly, “I am willing to assume the final responsibility, if that will answer your question.… I say that whatever was done, if passing upon it and approving it is equivalent to making it, I did it.” And again, when Samuel Untermyer asked him, “Is anybody nominated for it [the Board] against your protest?” he answered, “Not against my protest.” Morgan had brought the Steel Corporation to birth, his House had made over twelve and a half millions fathering it, and he intended to stand by it.

Other consolidations almost as grandiose were being planned in Morgan’s office, for now his position in the financial and industrial world was more mighty than ever. But in the meantime he must have rest. So in April, 1901, only a few weeks after Carnegie’s sailing for the Riviera, Morgan also sailed —for a holiday at Aix-lesBains, from which he was to be rudely jolted by a frontal attack from an unexpected quarter.