Chapter Four

PANIC

A NEW YORK business man, unfolding his copy of the morning *Tribune* at the breakfast table on Tuesday, October 15, 1907, and running through the day's news, would hardly have imagined that a five-inch item on page 15, carrying the headline, "UNITED COPPER BOOMING," would prove to be of momentous consequence to him and to millions of other Americans. The item reported a "sensation" of the previous day on the New York Curb—which in those days was a real curb exchange, the brokers jostling on the pavement of Broad Street, while boys with telephone receivers clamped to their ears hung on the window-ledges above and relayed orders to them by sign language through the uproar. From what the business man saw in the *Tribune*, he would have gathered merely that the stock of the United Copper Company, which was said to be under the control of a group of men headed by one F. Augustus Heinze, had leaped in price within a few hours from 37¼ to 60; and that the traders who had previously sold it short (knowing the depressed condition of the copper business) were unable to buy it back except at ruinous cost.

Surely, the business man would have said to himself (if indeed he had stopped at all to think about the significance of the news item), this is a wholly unimportant episode. What one man loses in a speculative bout like this, another man gains; and everybody knows that the fortunes of a few manipulators cannot affect the general prosperity of the country. Yet in fact the gamblers' battle in United Copper stock was destined to be to the financial panic of 1907 what the assassination at Serajevo was to the World War of 1914: not the fundamental cause, but the precipitating event. Even as the business man sipped his coffee and turned the page, a relentless sequence of events was preparing to drag him and his fellows down into the whirlpool.

Not that business men were easy in their minds in those mid-October days of 1907. It had been an ominous year. During 1906 the strain of financial over-confidence and of long-continued speculation had begun to tell severely on the money market. The managers of several big railroads had entered upon campaigns of extension and equipment as if the supply of capital to be drawn upon was endless; the big speculators had borrowed money to buy stocks as if the gambling mania would be endless. Yet the drain on the world's supply of capital by the Russo-Japanese War and by the San Francisco earthquake and fire, though it had been hidden for a time, had been real; and likewise the supply of new and eager stock-market plungers was running out.

Conservative bankers began to be apprehensive. Altogether too much credit was tied up in Wall Street. Something like half a billion of it was of foreign origin, and now the strain began to be felt abroad. In the autumn of 1906 the Bank of England warned the big joint-stock banks of London against lending any more money wholesale to New York. The stock market faltered, sagged, and in the middle of March, 1907, suddenly and disturbingly collapsed.

"In Newport, Tuxedo, and Westchester County," as Edwin Lefèvre wrote later, "were heard voices ordering horses to be sold and stablemen to be dismissed; automobile repair bills were angrily sent back for revision and itemized accounts were insisted upon and extensions of time asked for."

The apprehension of the financiers was increased by the fact that President Roosevelt, who in 1906 had driven through Congress the Hepburn Bill for the regulation of railway rates, was clearly not content with this restriction of the right of the grand moguls of business to do as they pleased. He was speechmaking vehemently about "malefactors of great wealth" and advocating further federal discipline of the corporations. Apparently the President of the United States was lost to sober reason. Say though he might to his intimates that "if trouble comes from having the light turned on, remember that it is not really due to the light but to the misconduct which is exposed," the men of Wall Street could not see things that way. To them the President was not only betraying his financial supporters in the 1904 campaign, he was a demagogue undermining public confidence and demoralizing business at the most dangerous moment. "I would hate to tell you," said Harriman to the reporters when his Union Pacific stock tumbled twenty-five points in the collapse of March 14, 1907, "to whom I think you ought to go for an explanation of all this."

Soon, however, a succession of foreign events bore witness that even far beyond the range of Roosevelt's insistent voice the world-wide speculative boom had undermined credit. In April and May there was a panic in Egypt. In May and June there was one in Japan. Early in October there was one in Chile. During the summer the stock market in Wall Street had another sinking spell. Commodity prices—some of which, like that of copper, had been artificially maintained by monopolistic control long after new contracts had ceased to be made—were sliding; the price of copper dropped from 26 cents to 22, to 18, to 13, and still buyers were scarce. It began to be whispered that the supposedly invincible Standard Oil crowd of speculators, led by H. H. Rogers and William Rockefeller, were loaded down with stocks which they had bought for a seemingly inevitable rise in prices; and that instead of standing ready, as of old, to support the sagging market with new purchases, they were being forced to throw their holdings overboard for whatever they would bring. Corporations which could not continue in business without new money were becoming sorely embarrassed. The New York street railway combination failed. Now at last a crisis which had hitherto been acute only in the financial market-places of the country was beginning to throw out of work, by the thousand, men who knew nothing about the congestion in securities or the depletion of bank reserves, but felt their effect nevertheless: machines standing idle, factories closed down, foremen turning away workers.

With each new turn for the worse in the financial situation the bankers and the financial writers expressed a hope that the storm clouds had at last blown by; but however calm their faces, in the back of their minds grew a slow and restless fear. What next?

It was at this moment that Heinze and his friends pushed up the price of the stock of the United Copper Company.

2

F. Augustus Heinze was one of the youngest and most picturesque of the buccaneers of finance. Only thirty-six years old, he had “the torso of a Yale halfback, muscles of steel, and a face of ivory whiteness, lighted up with a pair of large blue eyes.” Part Irish, part German-Jewish, he had been born in Brooklyn but had gone out to Butte, Montana, at the age of eighteen to seek his fortune, and had made it—none too scrupulously.

His first big exploit was to lease the Estrella copper mine, and to draw the lease so ingeniously that he was able to snatch all the profits from it and leave the owner none. In due course Heinze had a copper company of his own and was at war with the giant Amalgamated Copper Company, controlled by H. H. Rogers. Heinze's strategy was to claim that his veins of copper ore ran down under the Amalgamated's land and that he therefore had a right to them under the so-called "apex law," and then to bring injunctions against the Amalgamated. Since Montana judges as well as Montana legislators were often purchasable and were popularly elected, the copper war became a legal and political war waged with the aid of subsidized newspapers; and in this sort of contest young Heinze with his thirty-seven lawyers, his eloquence, his dashing good looks, his glamor in the eyes of the women, and his shrewd decision to pay high wages to his workmen was a formidable power. Clad in a loose black suit with flowing tie, his hands thrust into the old-fashioned waistband pockets of his trousers, he was the perfect swashbuckler of the mining camps—shrewd, reckless, popular, confident, and ready to use any and every weapon to annihilate the biggest and most overcapitalized copper company in the country. At last he sold out to Rogers, took his millions, came back to New York, and became—God save the mark—a bank president. Not that he was particularly interested in banking; but a bank president could command ready funds with which to play the market, and there wasn't a finer gambling game in the world.

In the United Copper pool with Heinze was a little barrel-shaped man named Charles W. Morse, who came from the sober state of Maine but possessed none of the scrupulous caution supposed to be characteristic of the New Englander. Morse had worked his way through Bowdoin in the grand manner by getting paid a salary as clerk in his father's company and hiring another man to do the work for less cash, while he himself divided his time between studying and journeying to New York to sell Kennebec River ice to a New York brewery and other concerns. By the time the big holding-company boom set in, Morse was promoting the American Ice Company and using his monopolistic power—with the aid of Tammany politicians—to push up the price of ice to the people of the metropolis. Presently he went into banking, for he too had discovered that it is convenient for a speculator and promoter to have access to depositors' funds. He borrowed large sums through "dummies" to finance his private operations; at one time, for example, his bank lent him a hundred thousand dollars in his stenographer's name. And he had made the further discovery that it was possible through a succession of borrowings to gain control of bank after bank. The Morse technic was simple: borrow money and buy the controlling shares in a bank; then put up these shares as collateral against another loan of money, with which you buy another bank, and so on. As soon as you control the bank it becomes quite simple to have such loans to yourself approved—and other loans, too, with which you may promote other companies and play the market.

Morse promoted a combination of most of the steamship companies plying along the Eastern seaboard. Financially as well as physically, his steamships, like his ice, floated on water, for he had learned well the peculiar advantages of overcapitalization. Morse was spoken of as the "admiral of the Atlantic coast." And now he, too, with only one eye on his banks, was toying with United Copper stock in company with F. Augustus Heinze, Edward R. Thomas, and other like-minded spirits. They worked through the brokerage house of Otto Heinze & Co., in which were two of F. Augustus' brothers.

The flurry in United Copper on Monday, October 14, 1907, which as we have seen was inconspicuously reported in the next morning's *Tribune*, was part of a speculative campaign conducted by these plungers. They had made large purchases of United Copper stock through a number of brokers, who were supposedly holding the purchased shares for them; and so complete had been their control of the market that although the prices of other copper company stocks had been sliding, United Copper had stood firm until the preceding Saturday. On Saturday, however, there had been a sharp outbreak of selling and the price had gone down. The Heinze crowd suspected some of their allied brokers of selling—and also of having had to hock Heinze's stock certificates with the banks to get cash. On Monday various short-sellers bought stock to cover their commitments, and as we have seen these repurchases drove the price way up from 37¼ to 60. Thereupon Heinze and his cronies apparently guessed that they had the market cornered. If, they reasoned, we call upon our false allies to deliver the stock they have bought for us, they won't be able to do it, and we'll be able to dictate terms to them which will punish them for their treachery and make a round profit for ourselves. So they suddenly called for delivery of the certificates by 2:15 on Tuesday afternoon.

But they had guessed wrong. They did not have the shares cornered.

Enough stockholders in United Copper, hitherto inactive, had seen in the newspapers just such items as our hypothetical business man read on that Tuesday morning, and had decided that this was the golden moment for selling out, to permit the allied brokers to cover their short purchases and comply with the Heinze demand without running the price beyond 60. The stock was duly delivered—and the Heinze cash ran out. In the last few minutes of Tuesday's trading the Heinze crowd were selling United Copper frantically to raise enough money to save themselves, and the price dropped from 60 to 36. The next day—Wednesday the 16th—it plunged to 10. In the débâcle the firm of Otto Heinze & Co. and one of its allies went to the wall. The jig was nearly up for the young swashbuckler of the mining camps.

Even so, the damage done by these failures would probably have been limited had Heinze and his friends not been bankers as well as gamblers. Heinze was president of the Mercantile National Bank; Morse and Thomas were directors of it. When the Heinze failure was headlined on the front pages of the papers, depositors naturally became suspicious and began to withdraw their funds. Suspicion spread to the Morse chain of banks, too. The Mercantile, finding its cash being drained away by uneasy depositors, applied to the Clearing House for help. And the crisis of 1907 thereupon went into its second stage.

3

To understand the events of the second and third stages of the crisis it is necessary to understand the nature of the banking organization in New York at that time.

In the first place, there was then no Federal Reserve System, able to mobilize money from scattered banks and provide it wherever it might be needed in time of stress. Each bank stood on its own feet, except for such aid as the Clearing House might see fit to give it. In the second place, the Clearing House—an association of banks which took care of the daily exchange of checks between them—was dominated by the more conservative and solidly entrenched institutions which were either within the Morgan sphere of influence or the National City Bank sphere of influence or were in substantial accord with those financial powers. In the third place, the big bankers who thus dominated the Clearing House management had long looked with disapproval upon the character of competition which the Heinze and Morse banks and others of similar nature had been giving them. In the fourth place, these Clearing House authorities possessed powers which enabled them to dictate terms to the lesser banks in time of crisis; for suddenly to deny Clearing House facilities to a bank at such a time would virtually condemn it to death.

Finally, during the preceding years there had been a tremendous uprush of trust companies in New York. Somebody had made the discovery that the trust company act was so worded that a trust company might legally do nearly everything which a national or state bank could do, accepting deposits just as if it were a bank, yet riding clear of the restrictions placed upon the banks in the interest of safety. Thus a trust company was not required to keep a 15 or 25 per cent cash reserve, and it might employ its funds freely in the purchase of stocks or of real estate; so it could pay ample interest on deposits, and could lure depositors away from the banks. Most of the trust companies were not members of the Clearing House, since they refused to meet what seemed to prudent bankers to be imperative standards of safety. Of these non-member trust companies, some cleared their checks through member banks, others got along without any facilities whatever for the exchange of checks. Like the banks controlled by Heinze and his kind, the trust companies as a rule did not enjoy the favor of the dominant banking powers of the city: the methods of many of them were considered dangerous—as they certainly were—and their success was uncomfortable. During the period between 1898 and 1906 their total deposits had swelled from a little less than two hundred million dollars to over eight hundred millions.

When the Mercantile National Bank appealed to the Clearing House for help, and later when some of the trust companies did so, the conservative authorities of the Clearing House apparently realized that they had an opportunity to serve both the public interest (as they saw it) and their own interest. They had large disciplinary powers, and they were in a position to use these powers to eliminate noxious influences in the banking world—and noxious competitors. They swung into action at once, instituting what one of their number aptly referred to as "sanitary measures." They demanded the immediate resignation of Messrs. Heinze, Morse, and Thomas from all their banking connections. Day after day the front pages of the newspapers blared forth the tidings: on Saturday morning, October 19, MERCANTILE BANK

DIRECTORS RESIGN; on Sunday morning, the 20th, C. W. MORSE FORCED OUT OF ALL BANKS; on Monday morning, October 21, THE THOMASES, TOO, QUIT THEIR BANKS.

It was also announced that the banks which had been under suspicion had been examined and found to be solvent, and that the Clearing House would come to their aid. But somehow this latter announcement did not ease the situation. The revelation that several banks were involved in one way or another in a speculative débâcle and were under suspicion was highly disturbing. Men and women, reading the headlines, began to worry about the safety of their balances, wherever deposited. Corporations prepared to withdraw their balances from any banks or trust companies which might possibly be subject to distrust. Fear was seeping like a fog throughout the city.

On Monday the situation looked a little easier and the turbulent stock market was quieter, but in reality it was the calm before the storm. Behind closed doors the fate of the big Knickerbocker Trust Company was being anxiously discussed. The president of the Knickerbocker, Charles T. Barney, had been close to Morse. The Knickerbocker had lent money to Morse. How far might it be involved in the unfortunate speculations of the admiral of the Atlantic coast? Better eliminate Barney, too, decided the Clearing House authorities, intent upon their energetic sanitary campaign. After the close of banking hours on Monday there came two more announcements—staggering announcements in view of the already widespread fear and the size and importance of the Knickerbocker Trust Company. First, the Clearing House committee had demanded the resignation of Barney. And second, the National Bank of Commerce, which had been clearing checks for the Knickerbocker, had decided to do so no longer.

That evening—Monday evening, October 21—the executive committee of the Knickerbocker Trust Company met to decide how to meet their desperate emergency. They met at—of all places—Sherry's restaurant on Fifth Avenue: "a fashionable restaurant on an autumn evening, filled with leisurely groups, laughing and talking, hearing beyond their laughter the familiar sound of the crowd that ceaselessly streams by along the glittering streets." Mrs. Burr, in her life of Stillman, has memorably suggested the fatal effect of holding such a meeting at Sherry's—the rumors running about as to what might be happening in that private room, "the words passing from one to another, without equal significance to all, but to all intensely interesting—that rumor, ignored by the puzzled, smiling women, yet laying a heavy shadow over the faces of the men … the waiters, alive to every whiff of gossip"; the failure to guard the doors of the conference room as time went on; the guests slipping into it from the supper-room, and hearing the talk within; and then the beginning of real panic: men slipping out of Sherry's through the windy night to the Night and Day Bank on Fifth Avenue, where checks might be cashed even before the Knickerbocker opened its doors for Tuesday's business.

4

It happened that for several weeks J. Pierpont Morgan, surrounded by bishops, had been enjoying the decorous deliberations of the General Convention of the Episcopal Church at Richmond, where the chief topic of debate had been the question whether ministers of other denominations might be permitted to make addresses to Episcopal congregations. During the last few days of the convention it had been noticed that Morgan received frequent telegrams from New York which presumably dealt with matters more mundane than the sanctity of the Episcopal pulpit. "If one came during a meal," writes Bishop Lawrence, "he tore it open, read it; then putting the palms of both hands on the table, a habit of his, he looked straight ahead with fixed eyes and deep thought for a few minutes. One day a member of the party said, 'Mr. Morgan, you seem to have some bad news.' He shot his eyes across the table at the speaker and said nothing. No question of that sort was asked again." By Saturday afternoon the 19th—the day when Charles W. Morse was being thrown to the lions by the Clearing House committee—the Convention had adjourned, and that night two special cars drew Morgan and the bishops back to New York.

"Sunday morning, as we ran into Jersey City," continues Bishop Lawrence, "we went into Mr. Morgan's car for some bread and coffee before arrival, and found him sitting at the table with a tumbler turned upside down in each hand, singing lustily some tune which no one could recognize. Arriving in New York, he put us into cabs.… As we parted, we asked him if we should see him at Saint George's, and he called out, 'Perhaps so.' He went to his library."

The old banker's first thought on returning from Richmond had doubtless been to defend his own interests against a possible storm. The fortunes of the Knickerbocker were no immediate concern of his, and it had been mixed up with the detestable Heinze and Morse. When three representatives of the Knickerbocker called upon him early Tuesday morning—a few hours after the meeting at Sherry's—and asked for help, he would do nothing.

In fighting panics, as in fighting forest fires, it is important to decide upon what line one shall make one's battle. Just where Morgan would set up his defenses was not yet certain. Nor, for that matter, was it yet clear that the panic would be really formidable. But one thing was already clear: so far as Morgan was concerned, the Knickerbocker lay beyond the line of battle. It was with heavy hearts that the representatives of the Knickerbocker repaired to their bank.

At nine o'clock that Tuesday morning a casual saunterer in Fifth Avenue might not have noticed anything amiss at the splendid marble-columned building which housed the main uptown branch of the Knickerbocker Trust Company at the northwest corner of Thirty-fourth Street, opposite the Waldorf-Astoria. But the checks which were being presented by messengers within the bank were for killing sums, and the lines at the paying tellers' windows were growing swiftly. By ten o'clock they reached far outside the building and up the Avenue. Carriages and automobiles were crowding to the curb to discharge depositors who had heard the rumors of disaster. A line of spectators had gathered on the opposite curb. Guests looking out of the windows of the Waldorf were asking one another what was amiss. All over the city—by word of mouth, by telephone, by those mysterious channels through which fear communicates itself from person to person—filtered the report: "There is a run on the Knickerbocker Trust Company."

Meanwhile within the bank, as within its downtown headquarters in lower Broadway, the cash was melting away rapidly. There had been eight million dollars or more when the doors were opened that morning. A little after noon they were gone. The Knickerbocker Trust Company was forced to suspend payment. The announcement of suspension to the men and women waiting in line at the Fifth Avenue branch was greeted by "groans, shouts, and catcalls."

The sudden closing of such a large institution immediately put a new and alarming face on the situation. The Secretary of the Treasury rushed posthaste from Washington to New York, after leaving instructions for the deposit of six million dollars in government funds in the leading national banks of the metropolis. That evening he and old Morgan and those two masks of silence, Baker and Stillman, gathered in conference with other high chiefs of the banking world in Cortelyou’s rooms at the Manhattan Hotel. The Secretary agreed to throw additional currency into the breach. Not yet, however, was it clear just where the lines of defense would be drawn up, and the uncertainty was increased by something which happened at the close of that meeting at Cortelyou’s rooms in the Manhattan on Tuesday evening.

George W. Perkins, a partner in the House of Morgan, talked with the reporters who were waiting for news of the conference; and the next morning there appeared in the New York *Times* and *Sun* an “official” statement which contained the scarcely diplomatic sentence, “The chief sore point is the Trust Company of America.” Though the statement continued with reassurances that the conferees believed the company to be sound, that it had twelve million dollars in cash, and that as much more as might be needed had been pledged, the effect of that sentence was immediate. On Wednesday morning there was a terrific run upon the Trust Company of America.

As to the circumstances which led to this run there is unhappily a confusion of testimony. It is undeniable that while the Knickerbocker was collapsing, rumors were rife that the Trust Company of America would be the next to go. Barney, the president of the Knickerbocker, was a director of this other company and had borrowed from it $175,000, secured by Knickerbocker stock. This fact was a matter of common gossip in Wall Street—and the rumors which were flying about also charged that the funds of the Trust Company of America were invested in “cats and dogs” and that it was heavily involved with Heinze and Morse. A State bank examiner had visited it that very day to check up on these rumors. On the other hand, President Thorne of the Trust Company of America testified in the Stanley inquiry that the withdrawals on Monday and Tuesday, while large, had not been especially alarming: his net loss in deposits on Tuesday had been only a little over a million and a half dollars (as against thirteen and a half millions the very next day). Thorne testified that he had not sought aid for his bank on Tuesday, and in fact had not appreciated the gravity of the situation; that he had gone home that evening and then had been invited by telephone to come to the Union League Club to confer with Perkins of the House of Morgan and the young vice-president of the First National Bank, Harry Davison; that they had asked him about the condition of his bank, and he had told them, and they had “said they were very much pleased to know that it was in as good shape as it was”; and that he was not invited to go along with them to the conference at the Hotel Manhattan from which the “sore point” statement emanated. The whole burden of Thorne’s testimony was that his bank was getting along pretty well until that statement focused the panic upon it.

Perkins, on the contrary, testified to the Stanley Committee that he distinctly remembered “Mr. Thorne coming to see us and saying that he had had heavy withdrawals and must have assistance and being very much alarmed that afternoon and evening over his condition.” Perkins also denied having authorized any statement that evening, though he admitted that he gave the reporters “such information as I could that would be helpful.”

The logical conclusion to be derived from this conflict of testimony would seem to be that the powers whom Perkins represented were distrustful of Thorne’s bank (as the rumors gave them reason to be); that they were considerably less careful of their words than the situation warranted; and also, probably, that at this time they were not so much concerned with preventing the lightning from striking as with seeing that the stroke, if it came, did not damage the institutions in which they had full confidence.

Whatever the exact degree of alarm actually felt by Thorne on Tuesday evening and the exact significance of the “sore point” statement, early on Wednesday morning there were several hundred people standing in line in Wall Street to draw their money out of the Trust Company of America. In a vain effort to get rid of that line of depositors, that all-too-visible advertisement of public distrust of the bank, President Thorne put seven paying tellers at work disbursing cash; but the line did not diminish. Thorne sent frequent messages to the Morgan offices to inform them of the rapid shrinkage in his funds, and at half-past one or two o’clock he walked up Wall Street to the Morgans’, saw Morgan, Stillman, and Perkins, and told them that if help did not arrive very soon the bank would have to close. The big bankers hesitated. They fully realized by now the violence of the panic and the necessity for combating it with all their power, but they were not yet sure of the soundness of Thorne’s bank, and apparently had not yet decided whether it should be included within their lines of defense or should be allowed to go under. Only at the very last moment—a few minutes before three o’clock—was Thorne supplied with a loan of a million dollars, contributed by the House of Morgan, Baker’s First National Bank, and

Stillman’s National City Bank. This loan was just enough to see him through till the clock struck three, for his cash was almost gone. Thirteen and a half million dollars had been removed from his bank that day.

It was a very narrow squeak. To the historian who enjoys the comfortable advantage of hindsight, the hesitation of old Jupiter, coming on top of the drastic sanitary measures of the Clearing House committee and the “sore point” statement of the previous evening, might seem to have been perilous. But it must be remembered that everything was shrouded in a fog of uncertainty. Morgan did not know how seriously the Trust Company of America might have been involved in dubious speculative enterprises; the Clearing House examiners were at work within its walls, but had not yet reported; and the rumors about it which flew through Wall Street were disquieting. Furthermore, Morgan had undertaken to bring together the presidents of the various trust companies and get them to organize and raise a fund for the support of their weaker brethren, and at that very moment these presidents were sitting in Morgan’s front office and hesitating to come to the relief of the Trust Company of America or of the Lincoln Trust Company, which also was experiencing a run. Morgan, picturing the panic as a “trust company” panic—which it had now become—had told these gentlemen that the responsibility for saving Thorne’s company rested upon their shoulders; and he was waiting for them to act. Only when it was clear that they were not ready to, did he step into the breach.

Late on Wednesday afternoon, Benjamin Strong, one of the men who had been examining the affairs of the Trust Company of America, came to Morgan with his report. Old Jupiter was sitting in a rear room of his banking house with Baker and Stillman, while the trust company presidents still squirmed and debated in the front room. Strong reported that he was satisfied that the Trust Company of America was solvent. “This, then, is the place to stop this trouble,” said Morgan briefly.

From that moment on, there was no question where the lines of defense were to be drawn. Thorne’s bank lay inside them and would be protected. Nor was there any further doubt as to the unified leadership of the forces of defense. Morgan was seventy years old, but in the days which followed he was completely the master of Wall Street.

Old rivalries and animosities were forgotten as Harriman and Rockefeller and other one-time foes of the Morgan empire put their forces at his disposal.

The Secretary of the Treasury deposited in all thirty-six million dollars in the national banks of New York, specifying that ten millions of it was to be used for the benefit of the trust companies, but leaving the use of the rest of it virtually in Morgan's hands. The situation was ironical: President Roosevelt had spoken of malefactors of great wealth in terms which implied that Morgan might be included in their number, yet here was his Secretary of the Treasury accepting Morgan's judgment as to how these funds should be disposed. Cortelyou, however, was merely acknowledging, as did Harriman and Rockefeller, that circumstances alter cases. There was a panic raging, it must be stopped, Morgan knew better than anybody else what to do and how to do it, and people did what he told them to.

Always thereafter, so long as the panic lasted, the place where Morgan sat —whether in his office at Broad and Wall Streets or among the Peruginos and Pinturicchios in his gorgeous library uptown—was headquarters. Say what one will about Morgan's hard financial tactics in previous years or the ultimate advantages to his empire which accrued from the decisions of those troubled days, at least his dominance in the counsels of the bankers was the dominance of sheer personal power, utterly respected and obeyed. The crisis which had come was ideally suited to bring out the best in him. Corporate aggrandizement was not an issue, nor inflation of capital stock, nor the relations between owners and workers, rich and poor, Wall Street and Main Street. This was a crisis among bankers, and the interest of the general public was for the moment almost identical with that of the bankers themselves. The great need was for courage and leadership, and these Pierpont Morgan could provide. He was a rock to which frightened men might cling.

5

The battle now had to be conducted on many fronts at once, for it seemed as if everything were going wrong. On the very Wednesday when Morgan said, "This, then, is the place to stop this trouble," there were runs on several other banks and trust companies, the Westinghouse electrical concern was tottering, the Pittsburgh Stock Exchange closed, the New York Stock Exchange was panicky, and the call-money rate for financing brokers' purchases of securities advanced to 125 per cent. That evening the trust company presidents were called into session again and subscribed ten million dollars for the relief of the Trust Company of America—but not until Perkins had secured for them from Cortelyou ten millions in government deposits.

Thursday came, October 24, and not only was there another long line of depositors waiting to draw this ten million dollars out of the Trust Company of America, but the trouble on the Stock Exchange reached a climax: there seemed to be no money at all for the purchase of securities, and prices were going down the chute. The Morgan forces were supporting United States Steel at 22, and it held fast, but Union Pacific dropped that morning from $108\frac{1}{2}$ to 100, Northern Pacific from 110 to $100\frac{1}{2}$, Reading from $78\frac{5}{8}$ to $70\frac{1}{2}$. Toward the end of the morning, sales almost stopped on account of the scarcity of cash. President Thomas of the Stock Exchange consulted Stillman. What could be done? Stillman told him to go to Morgan; and so, like everybody else who needed money in those days, Thomas proceeded to 23 Wall Street. Arriving there, he found the outer office full of excited men. He sent in his name and sat down to wait. Twenty minutes went by. Then old Morgan, who had been apprised of Thomas's need by Stillman, came out of his inner office.

"We are going to let you have twenty-five millions," said he shortly. "Go over to the Exchange and announce it."

Thomas did so, the panic was quieted for the moment, and the money rate dropped forthwith to six per cent; stocks rallied a bit. Morgan, acting on behalf of the bankers in whose institutions Cortelyou had made deposits, had thrown into the Stock Exchange panic an amount almost exactly equal to that of these deposits. Yet the relief even from this audacious stroke might prove to be merely temporary. How would the next turn of the panic be met?

As Friday dawned (October 25) there seemed, in the words of Perkins, to be "not a ray of hope in the situation." Here were millions of dollars being paid out right and left and there was no doubt what was becoming of them: they were being hoarded, they were being swallowed up in safe-deposit boxes, and still depositors and brokers called for more cash. How on earth could it be found? What would happen on the Stock Exchange today? Would the Trust Company of America survive another few hours of this madness? As early as six o'clock that morning Perkins and Cortelyou were sitting on the edge of the latter's bed at the Hotel Manhattan, debating what on earth could be done next. Perkins went on to Stillman's house; Stillman communicated with some of his wealthy allies, and among them Rockefeller is said to have put up ten millions for relief and to have pledged fifty more. Morgan stormed at the trust company presidents again, and when they showed further reluctance to support the Trust Company of America, he went to the Clearing House and labored with the Clearing House bankers to scour up another fifteen millions. It was barely enough to bridge over the situation in the call-money market; as Perkins later testified, “If twenty millions had been needed that day, the Stock Exchange and a hundred or more firms would have gone up, it was just that close. It was touch and go.” And still the siege of the Trust Company of America continued; and that day a number of small banks failed.

On Saturday, October 26, the clouds lightened momentarily. The decision was made to issue Clearing House certificates to serve the banks temporarily for cash. On Sunday, however, the storm advanced from a new quarter. The authorities of the City of New York informed Morgan that they had thirty million dollars’ worth of short-term obligations coming due which it would be impossible to meet in view of the disordered state of the money market, and that unless they were assured of a loan of thirty millions, the city would go bankrupt. For two days Morgan considered this new problem; then on Tuesday he called to his library the Mayor and other city officials, and seating himself at a big desk, wrote out with his own hand an agreement to organize a syndicate to float thirty million dollars’ worth of six per cent City bonds. This act relieved the City’s financial distress, and served notice on the community that Morgan was not afraid to go on doing business. Once more the skies seemed brighter.

Brighter, in fact, they remained during the rest of that week, despite a series of untoward events—the suspension of grain trading at Duluth, the declaration of banking holidays in several states, other indications that the panic had now spread throughout the country, and continued nervousness on the Stock Exchange.

Day after day Morgan sat in his office, a big black cigar in his mouth, and the princes of the financial world came in one by one and took his orders—delivered with gruff finality and sometimes with scorn, as when a bank president complained that his reserves were being gravely reduced, and Morgan withered him with “What! Do you realize what you are saying? Tomorrow you may have no reserves at all.”

On more than one night the lights burned late in that graceful white building the notepaper of which was headed, with royal brevity, simply

The Library
Thirty-three East Thirty-sixth Street

while financiers who had been summoned by Morgan argued over the possible ways and means of meeting his demands upon them.

The west room of the Morgan Library was walled with red silk damask, patterned with the arms of the Chigi family of Rome; on the walls hung splendid Florentine masterpieces of the fifteenth and sixteenth centuries; upon the bookshelves stood a bust by Michelangelo and a rock-crystal bowl said to have been mounted for Queen Christina of Sweden; the mantelpiece and the gilded ceiling had been made for great Italian houses. Morgan sat in a red plush armchair by the fire in this great room, smoking his black cigar and playing solitaire, with a Madonna and Child by Pinturicchio looking down over his shoulder, and Fra Filippo Lippi's altar-piece of St. Lawrence and Saints Cosmo and Damian facing him from the opposite wall. It was not his way to wrangle over methods of financial relief; he left that to lesser men to do in another room, while he sat in the red plush chair with the card-table before him and slowly puffed on his cigar, and carefully placed the five of clubs on the two, and the eight on the five, and the jack on the eight.

From time to time the assembled bankers would send a delegate in to him with their conclusions, and he would say curtly "Yes" or "No," and the delegate would retire again to the east room, and the weary bankers would resume their discussion of reserves and margins and collateral, while the game of solitaire continued under the watchful eyes of the Madonnas and the great ladies of Florence, until at last the conclusion which Morgan wished had been reached and the immediate objective in his battle gained.

So the fight went on. But as the week drew to an end, the hope that victory might be achieved by sheer dogged endurance began once more to fade. A new crisis was at hand, and the men who would have to face it were almost worn out by the strain of the preceding ten days and nights.

6

The new crisis was of a double nature.

In the first place, the run on the Trust Company of America was continuing relentlessly, and the cash already raised was petering out. Morgan figured that at least twenty-five millions more would be required—if indeed even this would save the day. The bank was sound, but panic is unreasoning.

In the second place, a broker named Grant B. Schley—he was George F. Baker's brother-in-law—was in difficulties. He was heavily in debt to his firm, the firm in turn was in debt to various banks; and among the securities which he had put up as collateral for his loan from the firm, and which the firm in turn had used as collateral for its loans from the banks, were a large number of shares of the Tennessee Coal & Iron Company, a big steel concern. These shares, while potentially of great value, were not readily salable except at a great sacrifice in price. Schley's failure might precipitate another agonizing crisis on the Stock Exchange, and that in turn might mean more trouble for the banks, so dependent was their whole structure of collateral loans upon the stability of security prices.

On Saturday evening, November 2, there was a great gathering of financiers at the Morgan library to consider these two new crises. It was as if the full cast of characters in the banking drama had assembled for their most critical scene. James Stillman was there, that eagle of the financial world, cold, astute, money-minded—a man whose fury at human errors filled his underlings in the National City Bank with terror, whose outbursts of kindliness to friends and children were like flashes of sunshine through the clouds on an overcast day. The bewhiskered George F. Baker was there, curt, absorbed, ready as always to suggest the strategy which Morgan's gruff authority would enforce. Perkins and Steele of the House of Morgan were there, worn by arduous days and nights of labor; and the correct and diplomatic Gary, with Filbert of the Steel Corporation at his side; and the lawyers Ledyard and O'Brien; and a host of bank presidents and trust company presidents and their young executives.

For the time being, Morgan had left the crimson-brocaded west room and had retired to a small room at the rear of the Library. In the west room sat the trust company presidents. In the high east room, hung with tapestries and surrounded by gallery upon gallery of bookshelves, sat the Clearing House bankers. Hour after hour dragged by, while in the rear room Morgan and, his immediate advisers wrestled with the double emergency which now faced Wall Street.

A loan of cash, or of bonds on which cash might be raised, would probably save Schley and would thereby ease the situation for those banks which were nervous about the presence of so much Tennessee stock in the collateral which Schley's firm had put up. But Morgan had a better plan than making a loan to Schley. Somebody had suggested a way in which he might kill two birds with one stone—rescue Schley and do what might prove a good stroke of business for his Steel Corporation at the same time. If the Steel Corporation bought from Schley and others the control of the Tennessee Company, and paid for it with Steel Corporation bonds, Schley would be saved, the banks would rest more easily, and the Corporation would secure iron mines which might be of increasing value.

Of this ingenious scheme few of the men outside that small room were aware. Most of them knew only that Morgan was working out a plan and that they might be needed. Toward midnight, however, as Morgan debated the technicalities of his project with Gary and the lawyers, word was circulated among the waiting bankers that "a new situation" (which meant the Schley-Tennes-see situation) had arisen, that it would require twenty-five million dollars, but that Morgan had decided to take care of it *if the trust company presidents would raise another twenty-five millions to take care of the Trust Company of America and other imperiled institutions*. That was Morgan's ultimatum.

The news created consternation among the bankers and most of all among the trust company presidents, who hung back in very natural trepidation at tying up further funds at such a time of panic. What would their directors think? How on earth could the president of an institution accept single-handed such a crushing responsibility? Was this the only way out? More hours dragged by, hours of consultation and indecision. The long suspense was telling upon these men. Benjamin Strong, who had been making another prolonged examination of the affairs of the Trust Company of America, has told how, as he sat waiting to make his report to Morgan, he dozed off to sleep; and James Stillman, sitting next to him on the lounge, asked him when he had last been to bed, and he said Thursday night. (It was then early Sunday morning.) There must have been other equally exhausted men among those who waited there and paced up and down the marble hall; these hours among the parchment-bound books and the Renaissance paintings must have been to some of them a gorgeous nightmare. But nobody could go home. Morgan had seen to that. If any banker had tried to walk out, he would have found the massive front door of the library securely locked. Morgan had the key in his pocket!

At last old Jupiter, knowing that it was now or never, walked out to the crimson west room and confronted the trust company presidents. He told them that the panic must be defeated. His lawyers had prepared a subscription blank providing for a subscription from each trust company (computed on the basis of its resources) to a loan fund totaling twenty-five millions. One of the lawyers read the document aloud.

"Then"—to quote from Lamont's life of Davison—"they laid it on the table. Mr. Morgan waved his hand invitingly towards the paper. 'There you are, gentlemen,' he said.

"The bankers shifted from one foot to another, but no one stepped forward. Mr. Morgan waited a few moments. Then he put his hand on the shoulder of his friend, Edward King, and gently urged him forward. 'There's the place, King,' he said kindly but firmly, 'and here's the pen,' placing a handsome gold pen in Mr. King's fingers. Mr. King signed. The ice was broken. They all signed."

Morgan had triumphed—and in that triumph had reached the pinnacle of his career.

Now the front door might be unlocked. The Trust Company of America was safe for the time being—and, as events were to prove, permanently. The Tennessee negotiations, too, were past their worst stages. At a quarter to five on Sunday morning the weary bankers walked out into the dark and empty streets.

More conferences followed on Sunday, and on Sunday evening Gary pointed out a hitherto unregarded obstacle which might wreck the whole Tennessee plan. The President—the stiff-necked President, with his prejudice against Wall Street and his hatred of monopolies—what would he say to the acquisition of the Tennessee Company by the monster of the steel trade? Roosevelt's consent must be secured, and this must be done at once—before the Stock Exchange opened for Monday's business, so that the announcement of the purchase might be made at the opening. A little telephoning secured a special train on the Pennsylvania Railroad, consisting of a locomotive and a single pullman, with a right-of-way over everything else to Washington. Gary and Frick, having wrung from the President's secretary an early morning appointment with Roosevelt, boarded the train.

On Monday morning they were at the White House. The President interrupted his breakfast to see them.

They told him that “a certain business firm” would undoubtedly fail unless help were given, that among its assets were a majority of the Tennessee stock, that the purchase of these assets would be of “little benefit” to the Steel Corporation but would be the “only means of avoiding failure.” They thought the purchase ought to be made unless the President objected to it.

Roosevelt had to decide instantly. Naturally—the panic having reached the stage which it had—he told them he felt it “no public duty of his to interpose any objections.” At five minutes before ten—just as the Stock Exchange was about to open—Perkins, sitting in the Morgan office with a telephone at his ear connected with the White House, heard Gary’s voice telling him that it was all right. The announcement was duly made, the stock market rallied with delight, and every banker heaved a sigh of relief.

From this moment on, the skies slowly cleared. The worst of the panic was over.

That Gary’s explanation to Roosevelt was somewhat disingenuous is obvious. Roosevelt might not have been impressed had he been told that the immediate beneficiary of this transaction was a brokerage firm, that of George F. Baker’s brother-in-law; that no single loan to the Schley firm was secured wholly by Tennessee stock; or that the development of the open-hearth process of steelmaking was increasing the potential value to the Steel Corporation of the Tennessee’s properties. It is also equally obvious that Roosevelt preferred not to question Gary and Frick too closely lest he discover something which it would be inconvenient to know. He could have pressed them for the name of the concern which was threatened with failure, but he chose not to. It is also clear that the transaction was not precisely an act of open-handed generosity on Morgan’s part. It was a piece of business which he hoped would in time yield the Steel Corporation a good profit.

Do these cold facts somewhat dim the glory of that all-night meeting in the Morgan library, at which Morgan induced the trust company presidents to sign the subscription blank on the ground that he too was putting up twenty-five million dollars in another way? Perhaps; but the answer to this question must be made in the light of certain other facts as well. The blank which Morgan induced the trust company presidents to sign did not, of course, involve a gift, but a loan with interest: their action, too, would be profitable if all went well. Furthermore, the announcement that the Steel Corporation was taking advantage of the crisis to enlarge its holdings was just the sort of announcement which would cause the men of Wall Street to cease thinking of the panic as a time to hoard cash and would persuade them to think of it as a time to pick up bargains. Morgan’s contribution lay simply in having nerve enough to go ahead and do business and dragoon other men into doing it too.

Some of his friends have implied that in such negotiations as these he was quixotic. One may reasonably doubt this; quixotism does not flourish in Wall Street, and Morgan had flourished there for nearly fifty years. The truth is that in those long vigils in the Library he simply showed more solid courage than any other man.

7

Gradually the situation improved, and before long observers were able to survey the field of battle and take stock of its results.

Let us set some of them down categorically:

1. Inevitably, the panic was followed by a depression. But the depression did not long remain severe. The economic structure of the country was still strong at bottom, weak as the top had proved itself to be.

2. As to the weakness at the top, the panic had taught at least one lesson. There ought to be some systematic method of mobilizing bank reserves, as Morgan had mobilized some of them by sheer force of will. The result, after long and obstinate delay, was the creation of the Federal Reserve System. Other lessons of the panic, however—such as that the banks were insufficiently safeguarded either by law or by tradition, and too easily fell a prey to stock-market-minded men, if not to predatory gamblers—were not destined to be fully learned for at least another twenty-six years.

3. The struggle had not been without casualties. Morse was on his way to prison for misuse of the funds of his bank. Heinze was under indictment; and although the indictment was later dismissed, his bright career was tarnished. Barney committed suicide.

4. Financial power had become more nearly centralized than ever. There were fewer banks in New York now; the Clearing House’s authority was greater (and was peremptorily if not needlessly used, during the aftermath of the disturbance, against other small institutions); the Morgan and Stillman

banks were relatively stronger. Stillman himself had found that there were advantages in an alliance with Morgan; from this time on he played less of a lone hand, associated his National City Bank more frequently with Morgan enterprises. “Keep on good terms with J. P. Morgan,” he wrote to his aide, Vanderlip, in 1915; it was a text the full virtue of which he had apprehended in 1907. Harriman, weakened by what was to prove a mortal illness, was no longer so fierce a Morgan antagonist as before. Rogers and William Rockefeller had suffered in the collapse of securities in the panic year; Rogers had been forced to sacrifice millions, and no longer commanded a worshipful following in the Street.

Where there had once been many principalities, there was now one kingdom, and it was Morgan’s.

He was an old man now, and as the years went on he was seen less and less at Broad and Wall Streets; but even when he was at Prince’s Gate in London, or at Aix, or in Egypt, his son and his other partners carried on in the reflection of his glory, merging banks, consolidating and extending their sphere of influence.

One rival power, however, had not yet learned deference. There were forces outside Wall Street which in the next few years were to cause frequent embarrassment and tribulation to the ruling powers. To appreciate how these forces developed and how their counter-offensive took shape we must go back a few years and examine their origins.