Chapter Six

PUJO

IT IS one of the ironies of American history that during the very years when the reformers were trying most vigorously to curb big business, the corporate tree was actually putting forth new branches and blossoms.

Only fitfully did prosperity return after the Panic of 1907. During 1908 there were valiant attempts to restore it by wishful thinking—by the promotion of a "sunshine movement" and the formation of a "Prosperity League"; in short, by the same sort of incantation which was to be used in 1930 and 1931 to assure the country that "prosperity was just around the corner." Trade still lagged, however; synthetic optimism would not suffice. There was a revival in 1909 and another in 1912, but they were brief, and during the intervening years the general pace of business was slow and the prospects uncertain. In 1913 there followed another relapse. The financial seers of the day (eager, as usual, to find a political scapegoat for an economic condition) generally attributed this relapse to the uneasiness with which business men faced the reform program of President Wilson; Alexander Dana Noyes, however, attributes it in greater degree to the outbreak of the Balkan War, the widespread fear on the Continent of a general European conflict, and the resulting international financial tension. At any rate, never between 1907 and 1914 was there any such protracted period of intense business activity as had preceded the Panic.

Yet despite the fitfulness of the economic weather and the alarums and excursions of the reformers, the process of combination and concentration continued. A glimpse of a few of the developments of those years will suffice to suggest the drift.

It was less than a year after the Panic, for example, that a promoter-minded automobile manufacturer named William C. Durant brought together under the uncertain shelter of a new holding company several of the numerous automobile concerns that were then battling for the favor of a meager public. This holding company he called the General Motors Company; it was

destined in due course to grow to a lusty size.

Parenthetically we may note that Durant hoped to include Ford in the General Motors combination and came within an ace of doing so; the negotiations fell through only because Ford demanded his eight million dollars in cash and Durant's bankers ruled that the business was not worth so much money. The man whom the bankers rejected went on alone—went on, in fact, to offer during the next few years a remarkable demonstration of the economic logic of mass production. Ford was concentrating on one model now, instead of many—the awkward, efficient black "tin Lizzie"; his marvelous assembly-line technic of production was cutting his costs; and instead of charging all he thought he could get, he was boldly and systematically reducing the price of his car and thereby increasing enormously his volume of sales. Early in 1914 he carried his logic a step farther—apparently a wholly unnecessary and hazardous step: he announced that he would pay his workmen five dollars a day. Whatever may have been the motives behind this furiously discussed decision, it was prophetic; for it was a spectacular answer—perhaps in its essence the best answer which capitalism could give—to one of the most vexatious questions which were to beset the American economy: how improvements in the technic of production could be made to bring benefit instead of hardship to the masses of the working population. The answer which Ford gave was of course familiar in economic theory and in the oratory of men like Schwab, but not in practice. It was that the benefits of increased efficiency must be deliberately passed on to the consumers—and that the employer's own workmen are consumers.

Another example of the process of concentration at work was the way in which power companies were being assembled under the aegis of the General Electric Company. By 1913 the three young holding companies owned by General Electric—the Electric Bond and Share Company, the United Electric Securities Company, and the Electrical Securities Corporation—had already acquired a dominating interest in the local electric-light plants in 78 cities and towns, and in the local gas companies in 19 cities and towns—to the benefit, naturally, of the sale of General Electric equipment. The business of federating public utility companies was making headway.

In the railroad field the process of combination lagged, partly because of the discouraging attitude of the government and partly because Harriman's reign was drawing to a close. The Little Napoleon of the railroads—and of

the stock market—died at Arden House late in 1909, and presently the empire which he had left was split apart by the government's decree that the Union Pacific and Southern Pacific systems must be divorced. By an ironical turn of fate it was Pierpont Morgan, once Harriman's scornful rival, who was to offer the most conspicuous—and in its effects the most flagrant—example of railroad concentration in the years which followed Harriman's brilliant rise.

Morgan's attempt, in his old age, to build up a transportation monopoly in New England through the medium of the New Haven Railroad illustrates almost perfectly the sort of pitfall into which a man with Morgan's method of accumulation and Morgan's imperious will was likely to stumble. It was Morgan's way to undertake vast projects, to pay round prices for the desirable properties without undue haggling, to finance these lavish purchases by loading down his parent company with debts or with quantities of stock, and to trust to a great expansion of business to provide profits with which to carry the debts and pay dividends on the stocks. Wherever the natural tendency of economic growth was favorable, Morgan could make this method work to his own satisfaction and that of the investors. But in some cases, of which the New Haven enterprise was one, the natural tendency was not sufficiently favorable. New England business was not growing rapidly, and the golden day of railroading had reached high noon. An aging and wilful man, Morgan refused to accept these facts.

His influence was commanding in the New Haven management. According to Clarence Barron's notes, Charles S. Mellen, the president of the road, acknowledged that he "wore the Morgan collar" and was proud of it. Said Mellen to Barron, "I took orders from J. P. Morgan, Sr. I did as I was told, and when Morgan, Sr., who always sat at my left hand in the meetings of the board, desired the approval of the directors, he got it, and don't you think he didn't! When he wanted their negative vote he got that just as quick! Once in a while William Rockefeller would interpose some objection, but even he was most of the time dominated by the force and power of 'the old man' Morgan." At the time when Mellen said this he was presumably over-anxious to emphasize Morgan's authority; yet clearly it was with Morgan's hearty backing that the New Haven embarked upon a great program of purchasing properties in New England. It acquired the Boston & Maine Railroad; the Maine Central; the New York, Ontario & Western; it acquired steamship companies, street-railway companies, electric-light and water and

gas companies. It paid amazing prices: for instance, it paid thirty-six million dollars for a little suburban road outside of New York which had no terminal in Manhattan and lost money consistently.

As always when men are determined to buy regardless of price or of legal obstacles, the railroad's agents were surrounded by swarming birds of prey: how much of the New Haven's money was dissipated in graft and in speculative profits for insiders, one can only guess from a few disclosures here and there. As a result of the orgy of purchasing, the bonded indebtedness of the New Haven was multiplied nearly twentyfold in nine years. The dénouement came in 1913, when the company was obliged to pass its dividend, thereby beginning the impoverishment of many a New England family. For years thereafter the road teetered on the verge of bankruptcy. A government suit under the Sherman Act smashed its monopoly. Its directors were criminally indicted; all New England rocked with the scandal.

By this time Morgan was dead. But the grievous effects of his insistence upon consolidating where consolidation on such terms could not succeed long outlived him.

During these same years, new devices for the quiet extension of financial power were being conceived: for example, that choicest of blossoms watered by corporation lawyers, the banking affiliate. For a long time past, bankers who were restive under the legal limitations which safeguarded national banks had found ways of securing simultaneously the advantages of operating a national bank and the advantages of operating a state institution under different regulations. For example, in the year 1903 the First National Bank of Chicago had incorporated another institution, the First Trust and Savings Bank, to serve as a sort of Siamese twin; it was managed by the same directors as the First National and for the benefit of the same stockholders, but could engage in business which was denied by law to a national bank.

The idea of thus achieving for a bank a dual personality was fascinating, and in 1908 it took a different turn. George F. Baker's mighty First National Bank in New York had been informed by the Comptroller of the Treasury that it must not hold the stock of other banks. While the tremors of the Panic of 1907 were still agitating Wall Street, the First National set up its own Siamese twin, the First Security Company, for the purpose of holding bank stocks and other securities which the bank could not properly hold.

In 1911 Stillman's National City Bank likewise achieved a dual

personality by setting up the National City Company. By 1913 twelve national banks in various parts of the country with capital of a million dollars or more were equipped with affiliates, while several hundred other banks enjoyed the benefits of affiliation in one way or another.

The way in which an affiliate was organized was a beautiful example of the legerdemain of the corporation lawyer. Suppose the national bank which found the legal limitations of national banking cumbersome was fortunate enough to have built up a huge surplus, as were Baker's First National and Stillman's National City Bank. Out of this surplus it now declared a huge dividend to its stockholders, proposing that the money (which now technically belonged to the stockholders) be straightway invested in a new company, the affiliate. This new company would have the same directors as the bank; it would have the same officers; it would occupy the same quarters; its stock would not be salable except along with the stock of the bank—and yet it would not be a national bank, but a corporation empowered by state charter to embark in almost any business it chose! It might hold the stock of other banks, it might speculate, and the Comptroller of the Treasury could not object. It was completely outside his jurisdiction.

Surely the invention of the security affiliate was a masterpiece of legal humor. And surely it was also a body-blow at the principle of disinterested commercial banking; for although of course the affiliate did not directly involve the funds of the depositors in its various ventures, inevitably its existence invited bank officials to serve two masters.

The years which followed 1907 witnessed further concentration at the center of the financial world: a quiet drawing-together of the great powers of Wall Street. Morgan and George F. Baker had long worked hand in glove, but Stillman, the head of the National City, had been largely independent of them, sometimes an associate, sometimes a rival. Now the cold and imperious Stillman drew closer to the other two giants of Wall Street.

To be sure, Stillman spent most of his time in the quiet of the Rue Rembrandt or touring the Continent; but always he kept his finger on the pulse of Wall Street through carefully coded cablegrams and letters to his associate, Frank Vanderlip, and more than once he urged collaboration with the House of Morgan. The collaboration was forthcoming. Very often, now, the names of J. P. Morgan & Co. and the National City Bank appeared together on the announcements of new security issues. Morgan bought a

stock interest in the National City and his son became a director of it. Stillman joined forces with Morgan and Baker in the purchase of a block of the shares of the National Bank of Commerce. Morgan, too, was spending much time in Europe now, and he and Stillman hobnobbed as friends.

The Morgan-Baker sphere of influence was extending. For one thing, Morgan bought in 1910 a controlling interest in the Equitable Insurance Company from Thomas Fortune Ryan and Harriman's estate. Ryan did not want to sell, it appears, but Morgan told him he had better, and he did. The price at which Morgan acquired the Equitable shares was so large that the yield on the investment was almost microscopic, but Jupiter did not mind that: he wanted to get the funds of the Equitable into what he considered reliable hands. (With Baker already in a position of influence in the Mutual Life, and the New York Life already close to the House of Morgan, three of the four biggest insurance companies were now well within the Morgan-Baker sphere.)

For another thing, the sphere now included more banks than ever before. Baker had bought a majority of the stock of the Chase National Bank, and his First Security Company was a considerable stockholder in other banks as well as in railroad and industrial corporations. Two Morgan partners (Davison and Porter) bought in 1910 an interest in the Guaranty Trust Company, and they and Baker constituted the voting trust which dominated it. Both the Guaranty Trust and that other Morgan-Baker ally, the Bankers Trust, were busily engaged in swallowing other lesser trust companies; in the years 1908–1913 they swallowed no less than six, the Guaranty thus becoming the largest trust company in the United States, with the Bankers occupying second place. The Farmers Loan & Trust was already closely identified with Stillman's National City. It was therefore possible for the Pujo Committee in 1913 to list as under the influence of the Morgan-Baker-Stillman triumvirate no less than nine banks or trust companies—the First National, the National City, the Bankers Trust, the Guaranty Trust, the Astor Trust, the National Bank of Commerce, the Liberty, the Chase, and the Farmers Loan and Trust—with total resources (including their affiliates) of something like a billion and a half dollars.

In the railroad and industrial world as well, the Morgan and Baker and Stillman influences were spreading. They or their associates had a voice in the management of most of the big railroad systems of the country and of

such leading industrial or public utility corporations as American Can, General Electric, International Harvester, Lackawanna Steel, Pullman, United States Steel, American Telephone & Telegraph, and Western Union.

When in 1912 the House of Representatives authorized its Committee on Banking and Currency to find out whether there was a "money trust" and to prepare new banking and currency legislation, this committee divided into two groups. One, under Carter Glass, worked on legislation (later producing the Federal Reserve Bill); the other, under Arsène Pujo of Louisiana, did the investigating. It engaged Samuel Untermyer of New York as counsel, and during the hearings which it held in the winter of 1912–13 it piled up a staggering array of statistics designed to show that a "money trust" indeed existed.

The Pujo Committee found, for example, that the firm members or directors of the House of Morgan, the First National Bank, the National City Bank, the Bankers Trust Company, and the Guaranty Trust Company—in other words, the men whom the Committee regarded as definitely representing the Morgan-BakerStillman community of interest—held, together, the following directorships:

118 directorships in 34 banks and trust companies having total resources of over two and a half billion dollars

30 directorships in 10 insurance companies having total assets of over two billion dollars

105 directorships in 32 transportation systems having a total capitalization of over eleven billion dollars

63 directorships in 24 producing and trading corporations having a total capitalization of over three billion dollars

25 directorships in 12 public utility corporations having a total capitalization of over two billion dollars

—all of which the Pujo Committee added together to make up the overwhelming total of 341 directorships in 112 concerns having aggregate resources or capitalization of over twenty-two billion dollars.

On the basis of these and other findings the Committee came to the conclusion that "If, therefore, by a 'money trust' is meant

An established and well-defined community of interest between a few leaders of finance which has been created and is held together through stock holdings, interlocking directorates, and other forms of dominion over banks, trust companies, railroads, public-service and industrial corporations, and which has resulted in a vast and growing concentration of control of money and credit in the hands of a comparatively few men—

your committee … has no hesitation in asserting as a result of its investigation up to this time that the condition thus described exists in this country today."

There can be little doubt that the figures so diligently piled up by the Pujo Committee seemed to prove too much. In the first place, they suggested to the unwary a huge mass of mobile funds at the disposal of a few men, whereas of course the vast majority of the wealth involved in these tabulations consisted of non-mobile properties and investments. In the second place, the statistics as to directorates suggested a non-existent unity of policy and purpose. The presence of a man on a board of directors might mean any one of a number of things: for example, that he was able, or that his name had prestige value, or that he was associated with a bank which wanted to make sure that its funds were not wasted or that the securities which it had launched did not become insecurities. A director might have only the vaguest knowledge of the specific operations of the company over which he was supposed to be exerting control. The presence of one man on two directorates did not necessarily imply any concert of interests between the two concerns. There were many directors of industrial companies who rubbed their eyes in astonishment to find that they were considered by the Pujo Committee to be connecting links in a chain of interlocking directorates which reached from 23 Wall Street out into the remotest hamlet. They knew that no orders had ever been transmitted through them, that they had never so much as shaken hands with a Morgan partner; and they found it hard to imagine what kind of an influence they were held to be exerting on behalf of Morgan and Baker and Stillman.

Likewise the men at the center of things regarded the findings of the Committee with mingled amusement and dismay; they knew little about and paid little attention to the operations of some of the companies which were alleged to be tributary to them, and they quite sincerely believed that the Pujo

contentions were absurd; they felt, moreover, that they used very sparingly whatever power they had.

Nevertheless the fact remained that banking power in New York was more concentrated than ever before, and that the influence of these men at the center, even when not crystallized through the existence of voting trusts or majority ownership of stock, ramified very far. It was compounded of many elements: the element of patronage—in other words the tendency among lesser bankers to follow the lead of the Morgan-Baker-Stillman groups in the hope of being remembered in the apportionment of securities for distribution; the element of fear—an obscure fear that a concern whose policies the key men of Wall Street considered “unsafe” would in some way open itself to reprisals—perhaps in the form of difficulty in getting credit at the banks; the element of community of interest—intensified by the fact that there was a general and wholly natural disposition on the part of the key men to favor, for vital positions in banks or businesses in which they had a voice, men whose ideas ran along with theirs; and, of course, the element of respect—a pervasive respect for these men and their opinions because to conservative business men generally they seemed the embodiment of success, astuteness, and wisdom.

One need not agree that there existed a money trust—even in the guarded way in which the Pujo Committee defined the word—to recognize that both the direct and the indirect influence of Morgan, Baker, Stillman, and their aides was prodigious, and that in these very years of the reformers’ counter-offensive it had been extended and strengthened.

2

The hearings of the Pujo Committee in the winter of 1912–13 were dramatic and illuminating. Samuel Untermyer, counsel for the Committee, summoned a succession of notable financiers to the witness chair. The taciturn Stillman was conveniently absent from the country, but Baker testified, and so did Morgan.

The committee room in Washington was jammed with men and women when Morgan was called, for his personality and his power had become almost an American legend. He was an old man now, seventy-five years old, and his son and daughter and son-in-law came with him and watched him

anxiously through the long hours of his testimony, fearing the strain upon him of such an ordeal. He was flanked also by several attorneys; but he did not wait upon the attorneys for answers to the carefully contrived questions which Untermyer fired at him. From the moment when he was sworn by the chairman and Untermyer began, “Where do you reside, Mr. Morgan?” he took his own part. The center of the stage was his.

At first he was brief, guarded; but as time went on he became more animated—now striking the table before him for emphasis, now chuckling as the crowd laughed at some quick rejoinder of his, now swinging half around in his revolving chair after he had made a reply and looking at the faces of his son and daughter and his attorneys as if to say, “There; how was that?” He was always cordial to his inquisitor, offering to secure whatever information would be needed. But he was overwhelmingly positive. There was in his testimony none of that air of injured innocence which makes some financiers, cornered on the witness stand, sound like guileless and misguided morons. Even when his evidence seemed most flatly to fly in the face of reason, he uttered it with flat-footed authority.

He absolutely denied that he had any power. Once when he was insisting that no one man could get a monopoly of money or of credit, Untermyer asked him, “That is your idea, is it? Your idea is that when a man has got a vast power, such as you have—you admit you have, do you not?”

The old man stoutly replied, “I do not know it, sir.”

“You admit you have, do you not?”

“I do not think I have.”

“You do not feel it at all?”

“No, I do not feel it at all.”

He even denied obstinately that he controlled his own firm. “You are the final authority, are you not?” he was asked. “No, sir.” “You are not?” “No, sir.” Stolidly he held to this position.

Untermyer tried to get him to discuss the propriety of a relation such as that between the House of Morgan and the Southern Railway. Morgan and Baker controlled the Southern through a voting trust. Untermyer wanted to know this: When the directors of the Southern, who were chosen by this voting trust, agreed with the House of Morgan on the terms upon which securities should be issued by the House of Morgan, were not Morgan and Baker in a sense dealing with themselves?

MORGAN. I do not think so. We do not deal with ourselves.

UNTERMYER. Let us see if you do not.

MORGAN. The voting trustees–

UNTERMYER. The voting trustees name the board, do they not?

MORGAN. But when you have elected the board, then the board is independent of the voting trustees.

UNTERMYER. That is only until the next election?

MORGAN. It is during that time they act independently.

UNTERMYER. You think, therefore, that where you name a board of directors to remain in existence only a year and you have the power to name another board next year, that this board so named is in an independent position to deal with your banking house, as would a board named by the stockholders themselves?

MORGAN. I think it would be better.

UNTERMYER. You think it is a great deal better?

MORGAN. Yes, sir.

UNTERMYER. More independent?

MORGAN. Better.

UNTERMYER. Will you tell us why?

MORGAN. Simply because we select the best people that we can find for the positions.

UNTERMYER. … do you not realize that a board thus selected is under the domination of the people who name it?

MORGAN. My experience is quite otherwise, sir.

UNTERMYER. It is?

MORGAN. Yes, sir.

And he could not be budged.

Phillips Brooks, the great preacher, once remarked that he did not see why there was so much talk about the churches losing their hold; wherever he went, he always found the churches full. Even when one has made due allowance for Morgan's probable feeling that he must on no account say anything which would give ammunition to the opponents of Wall Street,

there remains in the old man’s testimony something which reminds one of Brooks’s remark. His influence so pervaded everything he touched that he was hardly more conscious of it than of the air he breathed.

His firm contention was that the basis of financial power and of credit was character. To people who remembered Morgan’s battle with Harriman over the Northern Pacific in the stock market, or his liking for voting trusts, or his campaign for the expansion of the New Haven, this contention had its humorous aspects; Morgan had been quite ready to purchase power with money. Yet there was truth in the argument too, as those who had confronted Morgan’s piercing eyes knew well. The banker reverted to this argument several times. When Untermyer was trying to make him acknowledge that he possessed power, he asked Morgan, “Well, assuming that you had it, your idea is that when a man abuses it, he loses it?”

“Yes,” replied Morgan; “and he never gets it back again, either.… The question of control, in this country at least, is personal; that is, in money.”

“How about credit?” pursued Untermyer.

“In credit, too.”

“Personal to whom? To the man who controls?” “No, no,” said Morgan doggedly; “he never has it. He cannot buy it.”

“No,” began Untermyer, “but he gets–”

Morgan interrupted him: “All the money in Christendom and all the banks in Christendom cannot control it.” Later the questioner approached the topic from another angle.

UNTERMYER. Is not commercial credit based primarily upon money or property?

MORGAN. No, sir; the first thing is character.

UNTERMYER. Before money or property?

MORGAN. Before money or anything else. Money cannot buy it.

Untermyer was quite sure that banks were accustomed to insist upon collateral when making loans, or upon the existence of a going business with a pretty sure cash income. He asked whether a borrower got credit on his face or on his character. Suppose he brought some bonds to the bank as collateral?

“Yes,” insisted Morgan, unrelentingly, “he gets it on his character.”

“I see,” said Untermyer ironically; “then he might as well take the bonds home …?”

Morgan went on, oblivious: “Because a man I do not trust could not get money from me on all the bonds in Christendom.”

He argued that the members of his firm went on boards of directors only because they had a large interest to protect. He refused to admit any other reason for his purchase of Equitable stock from Ryan than that he “thought it was better there than where it was.” The single word “better,” uttered by the florid-faced old man by the committee table, stood like a mountain in the way of Untermyer’s attempts to analyze the nature of the Morgan influence. Morgan thought his way of doing things was better; and that was that.

Untermyer went into the matter of the control of the Steel Corporation. Morgan agreed that nobody went on the board of directors over his objection. Then followed this characteristic colloquy:

UNTERMYER. Who decided that J. P. Morgan & Co. should be the depositary of the United States Steel Corporation?

MORGAN. That was rather ex-officio, I think, sir.

UNTERMYER. You mean you decided it both ways?

MORGAN. When the company was formed, J. P. Morgan & Co. had the whole company at that time, and I think that is the way it came.

UNTERMYER. You thought it was good business, and so you thought you would take it?

MORGAN. No; I did not know whether it was going to be good business or not at that time.

UNTERMYER. It proved pretty good?

MORGAN. It did; very good indeed, sir.

UNTERMYER. You did not think you were taking many chances on its being good business when you took it up, then?

MORGAN. No; but I began to have doubts when the stock went to eight dollars a share afterwards.

UNTERMYER. Your doubt did not interfere with your buying heavily?

MORGAN. No; I bought all I could.

UNTERMYER. You did not have any doubt, did you?

MORGAN. *(forgetting that a moment before he had confessed to doubts)*. Never, not for one moment.

UNTERMYER. You were getting the advantage of other people’s doubts at that

time?

MORGAN *(quickly)*. Nobody ever sold it at my suggestion, sir.

UNTERMYER. No; I did not mean to assume that.

MORGAN. I know.

UNTERMYER. My question does not imply that.

MORGAN. I know.

UNTERMYER. It only implies your confidence in the company at that time.

MORGAN. I always had it, sir.

Confidence—utter confidence in himself, his partners, his associates, his ideas and the onward march of American business; that was one of the secrets both of Morgan's mistakes (as in the case of the shipping combination and the New Haven program) and of his successes. Another secret of the successes, of course, was his immense force. Perhaps the best brief suggestion of both the confidence and the force in his whole illuminating testimony before the Pujo Committee was buried in his answer to a question of Untermyer's, when the latter was asking whether it was fair for a private bank such as the House of Morgan, which was not subject to governmental examination, to accept deposits which might otherwise go to banks which had to submit to such examination. Was it fair to have such an advantage in competing with these other banks for the deposits? Morgan said he did not compete for deposits. But, argued Untermyer, if your House gets the deposits which might go to other banks, you are really competing, are you not? Said Morgan, unmoved: "I do not compete for any deposits. I do not care whether they ever come. They come."

They come. Thus speaks authority.

What shall we say of this man? He was a Bourbon, contemptuous of democratic processes: a believer in the manifest destiny of aristocrats like himself to enjoy and distribute the fruits of industry. The financial methods which he sponsored did much—as we have seen—to widen the gulf between rich and poor; to levy, as it were, a heavy Wall Street tax upon the production of goods, a tax sometimes too heavy to be borne. Whether the gulf might not have been still wider and the tax heavier if he had not lived, whether the concentration of power and of wealth was not inevitable anyhow, whether indeed it did not bring with it advantages—in commercial development—

which outweighed its disadvantages, will always be matters of sharp disagreement. Yet even those who look bitterly upon the privileges of concentrated capital which Morgan did so much to extend, cannot fairly deny that he possessed in high degree that quality to which he so often referred in the Pujo inquiry: character. Among those who knew him as a man and not simply as the generator and symbol of enormous power, he was trusted. If such power had to exist, the country was fortunate to have him wield it, and not a less scrupulous man.

3

From Baker, who appeared on the witness stand a few weeks later, Untermyer was somewhat more successful in securing enlightenment upon the concentration of power in Wall Street. Baker was frequently vague in his testimony, and his words did not have the sledgehammer force of Morgan's, but he had an analytical mind, and the closing part of his testimony was of peculiar interest. Pressed by Untermyer, he admitted that he thought the control of credit had "gone about far enough." He would not admit that "if it got into bad hands, it would wreck the country," because he did not think it could get into bad hands. He did not think bad hands could manage it; they "could not retain the deposits."

Untermyer clearly realized the significance of this reply, with its implication that the only test of the desirability of a policy from the point of view of the country at large was its adequacy from the business point of view. "I am not speaking of incompetent hands," said he. "We are speaking of this concentration which has come about and the power it brings with it getting into the hands of very ambitious men, perhaps not overscrupulous. You see a peril in that, do you not?"

"Yes," said Baker.

"So that the safety, if you think there is safety in the situation, really lies in the personnel of the men?"

"Very much."

"Do you think that is a comfortable situation for a great country to be in?"

Very slowly, Baker replied, "Not entirely."

The astute counsel for the committee knew when he had a climax. "I think that is all," said he, and thanked Baker for coming. The spectators, wrote the

reporter for the New York *Tribune*, “sat back with a sigh.”

4

On the fourth of March, 1913, Woodrow Wilson became President of the United States. As he stepped forward on the platform before the Capitol to read his inaugural address, his first sentence was momentous. It was a sentence of only seven words: “There has been a change of government.”

Now at last the forces of reform were securely in power. To be sure, the conservative Southern Democrats were in power along with them; yet the President left little room for doubt that he meant to show them the way in which they should go. A firm believer in the adaptation of some features of the British parliamentary system to American use, Wilson had declared, years before this, his belief that a wise President could and should lead Congress and the country. “The nation as a whole has chosen him,” he had written in his book on *Constitutional Government in the United States*, “and is conscious that it has no other political spokesman. His is the only national voice in affairs.… He is the representative of no constituency, but of the whole people. If he rightly interprets the national thought and boldly insists upon it, he is irresistible.” Wilson’s inaugural address revealed in every measured and stately phrase his interpretation of the national thought. It was calling for reform: for a reduction of the tariff (that ancient device for the governmental subsidizing of private business), for a revision of the national banking and currency system, and for legislation to curb big business through the establishment of a federal commission with regulatory powers.

Whether Wilson’s leadership would prove irresistible, no one yet could tell, but at least it was eloquent and determined. A new day seemed to be at hand.

There were other signs that the old day was ended. Not only were Taft and his Republican aides out of office; not only was Bryan, the one-time idol of the Populists, firmly settled in the State Department as the President’s right-hand man; but the old order was passing in finance and in industry as well. Harriman was dead. Stillman was in semi-retirement. Rockefeller was in complete retirement, busying himself with the establishment of his vast Foundation and submitting himself to the discipline of a caddy who was instructed to chant, as Rockefeller took his stance for a stroke at golf, “Keep

your head down! Keep your head down!" Of the other former titans of the "Standard Oil crowd," Rogers was dead and William Rockefeller was in failing health.

And now Morgan, too, was gone. In the weeks which followed his appearance before the Pujo Committee, the old man had definitely retired from his banking firm and had left for Europe to conserve his strained and ebbing strength; he died in Rome on the last day of March, 1913—less than three and a half months after his verbal battle with Untermyer and less than a month after Wilson's inauguration. Not only the American political system but the American economic system, it seemed, was to face a change of government.

The professor in the White House managed his legislative campaign with vigor and with cool discretion. He drove his tariff act through both houses, and this act not only lowered customs rates, but also put into effect what seemed to the conservatives of those days an alarming method of raising revenue—the Federal income tax. He pushed to enactment a bill establishing the Federal Reserve System: an extremely important reform of which there will be more to say in the next chapter of this book. Within a year of his inauguration, both the new tariff act and the Federal Reserve Act having been triumphantly passed and signed, Wilson proposed to Congress the fulfillment of the Democratic pledge to regulate big business and to bring monopoly to an end.

The legislation which Wilson called for took due shape in two measures, the Federal Trade Commission Act and the Clayton Act. The Clayton Act tried to clear up some of the confusion which surrounded the interpretation of the Sherman Anti-Trust Law, first by definitely specifying that it was not to be applied to labor organizations, and second by specifying certain business practices as monopolistic and therefore illegal. For instance, it would be illegal to quote different prices to different people with whom one did business, if the discrimination in prices tended to lessen competition or create a monopoly; it would be illegal to make selling or leasing contracts which forbade the purchaser or dealer to do business with a competing concern. It would be illegal for a corporation to acquire stock in another concern if the acquisition would lessen competition; and it would be illegal for a man to serve as a director in two competing concerns with capital, surplus, and undivided profits of over a million dollars, or to serve as a director or officer

of more than one bank with capital, surplus, and undivided profits of over five million dollars. (These latter provisions showed the influence of the Pujo Committee's inquiry.) The Federal Trade Commission Act set up a commission of five men, empowered, first, to investigate business concerns which did an interstate business, and second, to issue "cease and desist" orders, forbidding them to continue practices which were unfair or dishonest.

In general, these two acts may be said to have put into practice the policies advocated by both Wilson and Roosevelt in the 1912 campaign. The giants of industry were not to be destroyed, but they were to be prevented from destroying the little fellows; they were to be made to behave themselves, and they were given a clearer idea than before of what would be considered bad behavior. The principle was furthermore established that their actions were matters of public concern. The Federal Trade Commission became a sort of federal detective force and police force, to deal with the big corporations somewhat as an apprehensive mother once was said to have asked her husband to deal with the children: "Find out what they're doing and tell them not to do it." This detective and police force was provided only with lightish weapons—but there was always the Sherman Act, now clarified by the addition of the Clayton Act, to serve as a heavy club in case of need. And the new legislation gave the government a marked advantage: a chance, in theory at least, to deal with business abuses reasonably promptly—without waiting for years while Sherman Act cases dragged slowly through the courts.

By the summer of 1914 these measures were being hammered into shape in Congress. The Federal Reserve System was in slow process of organization. Many of the recommendations of the Pujo Committee had been lost sight of in the press of new legislation—including its recommendations for the elimination of security affiliates, for the incorporation of stock exchanges so that they might be regulated, for the setting of stiffer margin requirements for stock-market speculators, for the prevention of stock-market manipulation, and for the supervision of security issues by the federal government; they were destined, in fact, to remain half-forgotten for nineteen years. Even without them, however, Wall Street felt that it faced a period of uncertainty and of governmental restraint. Change was assuredly in the air.

Nobody, however, foresaw the change which was actually to take place: the great and appalling event which was to twist out of shape the whole fabric of American life during the years to come, thrusting new issues and new

problems before the country, shifting men into new alignments, and completely altering the pattern which these years of the reformers' counter-offensive had set. It came without warning. During most of the month of July, 1914, the commodity and security and money markets, those sensitive indices of the hopes and fears of men, gave no indication of any great disturbance ahead; and the minds of Americans generally were as unprepared for what was to happen as were the traders whose purchases and sales determined the tranquil course of these markets. But at the end of July the fires of war burst forth in Europe, and within a few days they had leaped from country to country and had set the Continent aflame.