

Chapter Nine

BUILDING THE PYRAMIDS

IN THE year 1878, when Benjamin Disraeli was prime minister of England, there lived in London a humble young clerk named Samuel Insull. His father was an impecunious clergyman. His mother kept for a time "Insull's Temperance Hotel." Young Samuel himself was a stenographer in an auctioneer's office, where his wages had begun at five shillings a week.

Fifty-one years later, Samuel Insull had become the most powerful man in Chicago. His system of public-utility holding companies controlled several hundred electric light and power plants and gas plants and other properties scattered from Maine to Texas and Oklahoma. At his own (subsequent) estimate he was worth one hundred and seventy million dollars. Few men in the country wielded a mightier or more pervasive influence. He seemed to have reached the pinnacle of financial fortune.

Five more years passed, and Samuel Insull had become a fugitive from justice, rocking across the Mediterranean in a dingy little Greek steamboat in the futile hope of finding somewhere a refuge from the police.

It has been the fate of few men to rise so high from such simple beginnings, and then to fall again so sickeningly. But the career of Samuel Insull is interesting not merely because of its extraordinary contrasts, but also because of the way in which it illustrates the possible effects of an almost unrestrained use of some of the financial devices which had been developing in the United States since the turn of the century and which flourished riotously in the nineteen-twenties.

The fact that Insull came to grief and was at last brought to trial on a charge of fraud has seemed to set him widely apart from other financiers of his time: has made him, in the public mind, one of the chief scapegoats for the financial follies of those days. It must be remembered, however, that the operations upon which the charge of fraud was based were not undertaken until his pyramid was already toppling about his ears; and that the structure of that pyramid was not essentially different in most respects from the structure

of some other pyramids which fell less resoundingly or even remained intact. (Indeed, some of the devices which characterized the Insull financing were found in even more exaggerated form elsewhere.) The chief reason for citing the Insull empire as the prime example of the technic of pyramiding in the public-utility field is that it has been more thoroughly illuminated by the spotlight of publicity than any other, and that the sequence of events which led to its collapse reveals with singularly dramatic force the temptations to which pyramiders were subject and the results of succumbing to those temptations. There are no doubt other Americans who might have said, as they read of Insull's humiliating flight from the Piraeus in that dingy Greek boat in the early days of 1934, "There, but for the grace of God, go I."

Samuel Insull's early career seems to have been ready-made for the use of a modern Horatio Alger. To be sure, luck played a large part in its early phases. The nineteen-year-old English stenographer had read with admiration about the inventions of young Thomas Edison, and had even written a paper on Edison for a little literary society. Shortly afterward he lost his job in the auctioneer's office where he had been employed. Looking for another job, he answered a newspaper advertisement—and discovered to his rapture that the man who had inserted it was the London manager for Edison's fledgling enterprises! He got this job—as a stenographer—and showed so much more than mere stenographic ability that when Edison himself needed a secretary he cabled to England for young Insull, who thus found himself at the great inventor's very right hand and close to the center of what was to prove to be a vast industry.

Luck had thus far showered its favors upon him; during the next twenty or thirty years, however, it played a smaller part in his rise than sheer ability and knowledge combined with furious determination. While he was still in his twenties he became an important figure in the business management of the Edison companies. In his thirties he became the president of Edison's electric light company in Chicago. He managed it brilliantly and soundly, and it absorbed rival companies one by one, until in his forties he had achieved a monopoly of the electric-light business in the city.

He was coming on very fast, this young Anglo-American, and his progress was creditable. You might not have enjoyed his companionship particularly, for like other young men of his time whose overwhelming ambition was to get on in the world, he seemed to live for business; but he was sober, hard-

working, and extraordinarily competent. Flynn describes him at this period as “a rugged, thick-set Briton, radiating self-assurance and power, with an iron jaw under a cushion of fresh, pink skin.” He knew the business of producing and distributing electricity in every detail, he was almost a genius at organization, and the contributions which he made to the development of the electrical industry were undeniably very valuable. He realized the great advantages of mass-production. He realized that if the most were to be made of them, it was essential for local electric companies to be monopolies. And he also realized—as many men did not—how necessary it was, to the industry as well as to the public, that rates should be lowered as the consumption of electricity expanded and the production of it became more efficient. Indeed, he even welcomed governmental regulation. Said he once, “If there is anything wrong with my business, I want to know it. And the best way for me to know it is to have a public official who has the right to look into my affairs, in a position so he can employ the highest class of talent to help him.” In fact, Insull once went so far as to say—at a time when the idea of government interference, as sponsored by Theodore Roosevelt and Robert LaFollette, was filling the business community with dismay—that if public regulation failed, public ownership would be necessary.

Insull’s domain was soon to expand, and with it, his ideas. In 1905 he began to acquire electric light and power plants outside the Chicago area, making an investment in two small concerns on the Ohio River. In 1912—when he was still in his early fifties—he formed the Middle West Utilities Company to raise more capital for his acquisitions, and his career entered a new phase.

For he organized this Middle West company in such a way that when he had been fully reimbursed for the properties which he had turned over to it, he was fifty thousand common shares to the good. The operation was performed as follows: Insull sold his properties to the new-born Middle West for \$330,000. The company then issued to him—or, if you prefer, he issued to himself, for he was president of the company—40,000 shares of preferred stock and 60,000 shares of common stock. For these he paid \$3,600,000. This was such a good bargain with the company which he himself headed that he was able to sell the preferred shares and 10,000 of the common shares to the public for \$3,600,000—enough to repay him for his investment—and still have 50,000 shares of common left, for which he thus had to pay nothing!

And he had control of the new company.

It was a perfectly characteristic job of stock-watering—reminiscent in some ways of the formation of the Steel Corporation and of other financing operations which we have witnessed. It could be defended on the ground that these common shares which Insull acquired would be of no value unless by excellent management he increased profits, in which case his efficiency would be largely rewarded. But it was perhaps too instructive a lesson in how to make money in the utility business. The big money was made in selling stock to the public for more than you had had to pay for it (or, to put it another way, in selling the stock of your own company to yourself for less than its potential market value.) To do this, you had of course to put a high—if not actually extravagant—valuation upon the property which the stock represented, and to paint a rosy picture of possible earnings. And to make good on this picture, you had to provide the earnings. Ordinarily, the operation was one which could not soon be repeated without disastrous results: even in a rapidly growing industry, it usually took time for earnings to catch up with expectations. But possibly ways of finding them—or seeming to find them—could be discovered.

Wrote George Savile, first Marquis of Halifax, in the seventeenth century: “A Cunning Minister will engage his Master to begin with a small wrong step, which will insensibly engage him in a great one. A man that hath the Patience to go by steps, may deceive one much wiser than himself.” Samuel Insull was taking his first steps in the new finance.

The early steps, however, were short ones. In the next few years Insull acquired or formed many new companies in various parts of the Middle West, but his most impressive advance in power and prestige was in Chicago itself. The war came and Insull, as the biggest man in Chicago business, became chairman of Governor Lowden’s State Council of Defense, which had charge of various war activities in Illinois. The local gas company was in difficulties, and he was asked to save it, and did. He combined the local traction companies and restored them to comparative economic health. By the beginning of the seven fat years his organizing ability had become a legend.

He was now in his early sixties. He still worked furiously; usually he reached his desk well before eight o’clock in the morning. If you had met him outside of business, you would probably have been charmed by the range of his knowledge, by his capacity for taking a personal interest in your affairs,

no matter how busy he was, and by the disarming gentleness which his brown eyes could assume. He was generous with his millions. He did not forget his friends. As a knickerbockered country squire at Libertyville he could be mellow affability itself. Yet in business affairs he was dictatorial and ruthless.

His will seemed to dominate the affairs of the city of Chicago. Apparently he was quite complacent about the political corruption of the city; he and his henchmen aided both political parties. Among the beneficiaries of his generosity was the chairman of the commission which ruled upon utility rates and utility financing in the State of Illinois, and the contributions were made in cash—envelopes stuffed with bills. “When you want the money, come and get it,” said Insull to the political agent who collected such largesse, according to the agent’s subsequent testimony. Englishman though Insull was by birth and early loyalty, he did not seem to mind supporting Big Bill Thompson, whose expressed ambition was to “bust King George on the snoot.” Business was business, and politicians could be useful. Insull was feared; by some who had felt his ruthlessness he was hated; yet he was also mightily respected for his actual prowess as an executive and his supposed prowess as a financier.

It was during the seven fat years that Insull’s steps in the new finance became reckless. The lucrative possibilities of holding-company pyramiding had been discovered in many quarters, and several big systems of electric-light and power companies were growing with astonishing rapidity. The competition among them became furious. There was the Electric Bond and Share system, the biggest of all, built up by a brilliant financier, S. Z. Mitchell, as an offshoot of the General Electric Company. There were also the Byllesby system, the Cities Service system, the Associated Gas and Electric system, the American Waterworks and Electric system, and many others. These systems were engaged, seemingly, in a race to see which one of them could buy up the greatest number of local electric light companies. They were spawning new holding companies and super-holding companies to widen and consolidate their control. Securities were easy to sell, for to the investing public the prospects of the electric-light industry were incredibly dazzling. With confidence unbounded, Insull expanded his system. He sought to have the biggest empire of all.

We must pause now for a word of explanation. How could the electric light and power business be so lucrative? The local companies—being monopolies

—were regulated by the states, were they not? They were supposed to lower their rates as business expanded and efficiency increased, rather than to pile up huge profits, were they not? What, then, was the great advantage in buying up these companies so lavishly?

There are several answers to this question. One was that a holding company which controlled a number of operating companies was able to provide them with good management, to command better engineering ability than they could afford individually, to save money by mass-purchasing, by consolidating income-tax returns, and otherwise, and to secure them new capital on better terms than they could command individually. Another reason was that the business was expanding so rapidly and gaining in efficiency so rapidly—partly as a result of the very competition of which we have been speaking—that often profits could grow even if rates were lowered. Another reason was that political pressure could sometimes succeed in keeping rates from being lowered; a legislator who wanted to lower them could be made to seem a destructive radical, an enemy of the business man; or else perhaps he could be bought.

Still another reason was that a holding company was something like a cream-separating machine, which skimmed off the richest of the profits when these were increasing. Ordinarily the holding company held only the common stock of the operating companies, or part of it, leaving the bonds and preferred stock in the hands of the general public. If we think of the earnings which went to pay interest on the bonds and dividends on the preferred stock as resembling the milk in a bottle, and the further earnings which went to pay dividends on the common stock as the cream at the top, we can see how advantageous it was to skim the cream from ten or twenty bottles: one inch more of cream in each bottle, and the cream-separators would find their haul growing out of all proportion. (Conversely, of course, the cream-separating business would languish if the cows gave a poorer quality of milk—but that is the sort of thing which does not occur to investors in boom times.)

By piling holding companies on top of one another, one could still further increase the richness of one's cream. For just as the bondholders and preferred stockholders of the operating companies got the milk of profits, and the common stockholders got the cream (if there was any), so the bondholders and preferred stockholders of the holding companies (which we have likened to cream-separators) got the ordinary cream, and the common

stockholders got the extra-heavy cream at the very top (if there was any). To own the common stock of a super-holding company might be to get the best of the extra-heavy cream, skimmed, as it were, from forty or fifty bottles (again, if there was any).

But there were other advantages still. One was that a holding company could siphon money out of its operating companies—and so adroitly that a regulating commission could not see it go. For instance, it could charge the operating companies very heavily for the management and engineering services which it undertook on their behalf. How could a state regulating commission tell whether the amounts of money which a local power company spent for management and engineering services were reasonable? It could not examine the books of the holding company which performed these services—for this latter corporation was in no way under its jurisdiction unless it actually sold power itself; in legal theory it was not engaged in the electric power business at all. The holding company was safely beyond the regulating commission's reach!

Let us watch this siphon at work. One of the Insull group of companies (the National Electric Power group) had such services performed for it by a concern called the Electric Management and Engineering Corporation. During the period between July 15, 1925, and September 30, 1930, this Electric Management and Engineering Corporation performed services for the operating companies which cost it, in all, a little less than \$2,100,000—and it charged over \$4,100,000 for them, collecting a profit of 98.8 per cent, neatly sucked out of the various operating companies.

And perhaps the choicest advantage of all was that a system of holding companies and operating companies could manufacture profits by marking up the values of properties and finding ways in which the mark-ups might appear on their books as profits. One way of doing this was to have the various companies in the system sell properties to each other at rising prices. It was somewhat as if Mr. Jones owned a piano for which he had paid a thousand dollars, and Mrs. Jones owned an Oriental rug for which she had paid a thousand dollars. Presently Mr. Jones sold the piano to his wife for \$1500 and she sold the rug to him for \$1500, and they declared that it had been a profitable year for them because each of them had made five hundred dollars on the sale of property—despite the fact that the piano and the rug were still right in their living-room and that not a nickel had come in from

outside the family! Does this seem to you a curious way of keeping accounts? Perhaps; it is hardly more curious than the method employed from time to time in the Insull system.

For example, in January, 1928, the Middle West Utilities (one of the Insull holding companies) sold some securities to the National Electric Power (another Insull company, which incidentally it controlled) for over three million dollars more than it had paid for them; and simultaneously—indeed, by the very same agreement—the National Electric Power sold some other securities to the Middle West Utilities for over three million dollars more than it had paid for them. The securities were simply exchanged; they stayed within the family, just as did the Joneses' piano and rug, and no money had come in from the outside. Yet those two companies chalked up two profits of three million dollars each. And as the Middle West controlled the National Electric Power, and thus had cream-skimming rights over it, the Middle West got not merely its own three millions but the National Electric Power's three millions too, and chalked up a profit of six millions!

In defense of such remarkable accounting it could be argued, of course, that the rising prosperity of the electrical business was causing all values to increase, and that this was simply a way of taking due advantage of the swelling wealth of the utility systems. But as Professor W. Z. Ripley pointed out, such revaluations were "paper profits, not real ones at all." It was unwise to distribute them as dividends; it would be better to "salt them down against an evil day when something may happen to the other side of the ledger." Furthermore, it was largely because revaluations were constantly going on, in system after system of utilities, that the upward march of market values was so impressive, and that there was thus a shadow of an excuse for the practice. Indeed, the sequence of cause and effect in the operations of these utility systems was circular. Because the holding companies could be made to show big profits, it was easy to raise money to finance them. (It was also, incidentally, easy to persuade public-service commissions that rates could not be lowered; had not the Supreme Court declared it legitimate to claim a fair return, not merely on the original investment, but on what it would cost to reproduce the investment in these days of higher prices?) Because it was so easy to show profits, the stock could be watered and the magnates at the center of things could make much money through financing operations. Because so much money could be made, the systems became more and more

ambitious and tried to get hold of more and more operating companies. Because they tried so hard, the market value of electric light plants increased. Therefore there was a plausible excuse for writing up the assets of existing companies. And therefore the systems could be made to show big profits. It was an endless sequence; and it was enough to turn the head of any but the coolest of financiers.

By 1926 or thereabouts—when Coolidge prosperity was coming richly into flower—Samuel Insull’s head appears to have been pretty thoroughly turned. (His financial head, that is to say; he still remained a brilliant operator of utility plants.) The expansion and elaboration of his pyramid of corporations was now going on at a terrific rate. Already it was seven or eight stories high. In his reckless zeal for the acquisition of new operating companies and water power sites, he was striking some strange bargains—buying paper and textile mills and even a tire-fabric company and a shoe-factory in New England; buying real-estate development companies near Kansas City, and in Texas (one of which was designed to transform Port Isabel, Texas, into “the Venus of the South”). He was paying strange prices; said the president of an electric light company to N. R. Danielian, when asked why he had sold out to Insull: “What in hell would you do if some one came along and offered you three times as much as your company was ever worth?” So curious were some of the Insull investments at this time that it is doubtful if the mad adventure could have gone on long, had it not been possible to mark up values and shuffle investments about among the numerous corporations in the Insull family, and to sell more and more stock at more and more inflated values. Mr. Danielian estimates that Middle West Utilities, which paid good dividends and the stock of which went to 570 in 1929 (that stock which Insull had got 40,000 shares of without charge, back in 1912), would have run at a loss during most of its career if it had had to depend upon the sort of profits which cold-blooded accountants permit to be shown as profits. But investors were greedy and stock-salesmen were operating under high pressure and high profits were being shown all along the line—and the speculative fever was in the air. So the adventure went on.

To look at a chart of the Insull pyramid as it appeared during those lush days is almost to be persuaded that one is dreaming. Certainly, one thinks, here is corporate capitalism gone mad.

At the top of the pyramid (as it existed in 1929) was a so-called investment

trust known as Insull Utility Investments, Inc. This concern held stock, directly or indirectly, in four others of imposing size: The Public Service Company of Northern Illinois, the Commonwealth Edison Company, the Peoples Gas Light and Coke, and the Middle West Utilities. But the Middle West Utilities was itself the capstone of a lesser pyramid, controlling holding companies which controlled holding companies which in turn controlled other holding companies or operating companies. The system was not symmetrical, neither did it retain its shape for any long space of time; there was a constant shifting of investments going on, a constant passing of properties from hand to hand (often at rising prices); but some notion of its dimensions and complexity may be obtained by following up the lines of control from the bottom to the top in one or two places. For example, as we have already seen in Chapter 7, the Tidewater Power Company (in North Carolina) was controlled by the Seaboard Service Company, which was controlled by the National Public Service Corporation, which was controlled by the National Electric Power Company, which was controlled by the Middle West Utilities. For another example, let us move from North Carolina up into Maine. The little Androscoggin Electric Company in Maine was controlled by the Androscoggin Corporation, which was controlled by the Central Maine Power Company, which was controlled by the New England Public Service Company, which was controlled by the National Electric Power Company, which was controlled by the Middle West Utilities. These are only two instances of the relationships in a pyramid consisting of scores of corporations. And each of the corporations in this vast system had its board of directors, its officers, its investments, its ledgers, its complex system of accounting, its annual reports, its various classes of stock, and its army of minor investors.

Does this seem complicated enough? One more element of confusion must be noted. The lines of investment and control did not simply run from the top of the system to the bottom, as one might expect. They ran every which way. Sometimes they ran upward. For example:

When Samuel Insull formed the Corporation Securities Company of Chicago, late in 1929, to try to maintain his control over a system that was already getting out of hand, he arranged that this newest of all his concerns should hold a large block of the stock of Insull Utility Investments, Inc., which he had formed in the previous year to put at the top of his pyramid. At

one time “Corps”—as Corporation Securities was known to its intimates—held 28.9 per cent of the stock of Insull Utility Investments. But Insull Utility Investments also owned 12.5 per cent of the stock of “Corps.” Each of these two super-super-super-holding companies thus held a firm grip on the other. Again, at one time “Corps” held a little over ten per cent of the stock of Middle West Utilities, which was a story below it in the pyramid, so to speak; but Middle West also held 1.2 per cent of the stock of “Corps.” In the face of facts like these, one is at a loss for figures of speech which can be applied to the system. A pyramid, was it? But what sort of a pyramid has a lower step partly resting upon the step above it? A family tree, was it? (Financiers often refer to “parent companies.”) But in what sort of a family is the child a part-parent of the father?

Years afterward, Owen D. Young said that he had to confess to a “feeling of helplessness” when he attempted to understand the tangle of corporations which had grown up under Insull’s sovereignty. “I say it is impossible,” insisted Mr. Young, “for any man to grasp the situation of that vast structure ... it was so set up that you could not possibly get an accounting system which would not mislead even the officers themselves.” ... He expressed the belief that the intricate relationships “got even beyond the power” of Samuel Insull, “competent as he was, to understand” them. Mr. Young was putting it mildly. When, in 1934, Insull was tried for fraud, the Federal Attorney struggled to find a formula by which he could show the jury that the real value of the stock of “Corps” was not what the Insulls had claimed it to be. On a blackboard in the courtroom he wrote two equations:

$$X = A + \left(\frac{a}{b} x' \right) - C$$

$$X' = A' + \left(\frac{c}{d} x \right) - C'$$

The bewilderment of the twelve good men and true when they looked at those equations was hardly greater than would have been the bewilderment of any man who had tried to discover what Insull was really doing in his endlessly complex financial pyramid-building.

Yet few people had any doubts, in 1929, of Insull’s ability to understand what he was doing. If there was some conservative questioning in the East, Chicagoans were tempted to ascribe it to jealousy. He seemed to be a

miracle-worker. His prestige was colossal. He was chairman of the board of directors of 65 different concerns, and president of eleven others. His wealth was reputedly vast. John Flynn quotes a cynical reporter of those days as saying that it was worth a million dollars to any man to be seen talking to Sam Insull in front of the Continental Bank.

He had built a great opera building—popularly known, on account of its shape, as “Insull’s Armchair”—in which the new Civic Opera Company which he financed was preparing for its first brilliant season. (Oh, yes, he was a patron of the arts: had he not, among other things, humored his wife’s ambition to return to the stage by spending a quarter of a million or so that she might appear as Lady Teazle in “The School for Scandal”?) High up in this same opera building he had a magnificent apartment, in the central room of which there was a grand piano and also a directors’ table, suggesting the union of finance and its tributary arts. Flynn tells a story of a man’s coming to see Insull in this apartment and wanting to talk to him confidentially, and noting as they conversed that a group of men were talking in an adjoining room, the massive oak door of which stood open; and of his wondering uneasily whether the men were within earshot; and then of his seeing the oak door close as if of its own accord—slowly, noiselessly. And on Insull’s vast estate at Libertyville, the villagers were said to have “built homes on Insull real estate, sent to an Insull school children born in an Insull hospital, used Insull light, cooked with Insull gas, traveled on an Insull road, saved in an Insull bank, and played golf on an Insull golf course.” Great was Samuel Insull.

2

Such, at least was the appearance. In reality, however, the monarch sat somewhat uneasily upon his throne, even in the confident year 1929. He had just formed his penultimate holding company, the Insull Utility Investments; and his purpose in so doing was to secure from investors the sinews not so much of conquest as of defense. His position was vulnerable: much of his system of control depended upon minority holdings of stock, and there was always the danger that someone might seize a part of his corporate domain, as Harriman had sought to seize a part of Hill’s domain in 1901. Insull must not let this happen. He must call the investing public to his aid, to provide

money with which he might strengthen his hold on his empire.

To Insull Utility Investments, this new holding company (or investment trust, as it was somewhat inappropriately called), he transferred nearly all the holdings of his family in Middle West and the other upper companies of his pyramid.

It is interesting to notice, however, the way in which this transfer was made; for it suggests that even at this moment of insecurity Insull and the men about him had the speculative virus in their veins. He and his family received, in return for the stocks which they transferred, not only a block of preferred stock in the new corporation, but also nearly three quarters of a million common shares valued at \$7.54 a share; to say nothing of warrants which entitled him to buy further shares—half a million more of them—at \$12 and \$15 within the next two years. Presently the stock was listed on the Chicago Stock Exchange. The trading was to begin which would establish a market price for these new holdings of his.

At the moment when the trading began—on a January morning in 1929—the only shares in existence were those which had been issued to Insull and his family for \$7.54 apiece. If any buying and selling were to be done, only the Insulls could do the selling.

At the opening of the market, that day, there were quantities of bids to buy Insull Utility Investments “at the market”—for speculators were extravagantly eager. Yet at first no stock was to be had. Then it began to come out—at a price, not of \$7.54 a share or anything like it, but of \$30 a share. Insull’s brokers were taking advantage of the wild demand on the part of speculators to give the Insull family a paper profit of almost exactly 400 per cent. Nor did they let the price lag. They kept buying and selling “to maintain the market”—buying mostly, at first—and the price kept rising. By the end of February it was 46, by the end of July it was 126, and one day in August it actually touched 149¼. Insull salesmen were using these prices as a guide in determining the prices at which they should sell other shares to the public outside the Exchange. Thus the public was buying at prices ten or fifteen times the price at which Insull himself had bought—Insull, who as the head of the company was supposedly the chief representative in its councils of these very investors. As the price soared, the man’s paper profits became enormous. It must have seemed to him as if the secret of wealth unlimited had been discovered.

Still, however, his grip on his empire was insecure. And if he sold permanently many of the hundreds of thousands of shares which he had acquired at low prices, and thus took his paper profits, it would become still more insecure. So he decided to form still another holding company (or investment trust), the Corporation Securities Company of Chicago—"Corps," as we have already called it. That would draw in still more investors to help him hold the bag from which flowed this mighty stream of potential gold. Were promoters trying to dislodge him from his throne? All he needed to do, it seemed, was to form a new corporation, mark up values again, declare more dividends, and sweep on to victory.

Then came the panic of October and November, 1929, in which marked-up values collapsed with a tremendous crash.

To tell the rest of the story of Samuel Insull is to carry ourselves far beyond the seven fat years. We need not do more than summarize very briefly what happened. The financing of his huge collection of corporations had reached the regions of complete unreality. Prices, values, even dividends, had become speculative rather than substantial. And now the ground began to fall away from under them. Company after company found its assets beginning to look more and more dubious; the excuse for handing stocks about at rising prices began to look thinner and thinner; and to make matters worse, as business slackened and the earning power of the operating companies was affected, there began to be, as it were, a deterioration in the quality of the cream on the top of the corporate bottles, that cream upon which the holding companies were vitally dependent for their revenue. Furthermore, a ramifying structure of bank loans and credit had been built upon the speculative values of 1928 and 1929, and as these values sank the Insull credit began to crumble. Yet the system had set for itself a pace of growth and of declared earnings and dividends which it would be very dangerous to slacken, lest public confidence be utterly lost.



He regards with pleasure the presentation to his son, Samuel Insull, Jr. (on the left), of an award for being the young man who did “the greatest service to Chicago in 1931”(raising money for unemployment relief). This picture

was taken shortly before the final collapse of the Insull system



Brown Brothers

INSULL AT THE BOTTOM Passing through the gates of the Cook County

Jail at the time of his trial

Insull was caught in a speculator's trap. Retreat was impossible. He could only go on; and he went on—showing profits and paying dividends. Long after the panic, the salesmen of Insull securities were still selling stocks to the little investors who were considered more likely to hold them than the big investors. Wrote Frank R. Evers, secretary of the unit which distributed shares, "The success of our business has lain in our getting the small fellow to buy." And again, . . . "my experience with these big buyers has been that they sell out on the least turn of the market." There was a note of unintentional irony in a letter from Halsey, Stuart & Co., Insull's bankers, in 1931, to a woman investor, suggesting that she buy Corporation Securities shares in place of her United States Government bonds; they explained to her that on account of the demand for Government bonds on the part of banks, the market for them was "artificially stimulated to a great extent." All this time Insull's brokers were stimulating the market for the shares of Insull's corporations by buying and selling in the hope of holding up prices.

The hope was vain. The undertow of liquidation was too strong. The brokers bought more shares of Insull Utility Investments than they sold—but still the price sagged. Alas for Insull's mighty paper profit: it was of little use to him now. Eaton, a Cleveland financier, had accumulated a big block of Insull stock and said (so the story goes) that he would throw it on the market if Insull did not buy it at his lofty price. Insull bought; he did not dare risk the effect of a new torrent of selling upon his price structure.

Yet gradually that structure, rotten as it was with speculative values, succumbed. Insull did not desert it; he believed in its validity. He and those about him borrowed frantically, putting up stock as collateral. As the margins of safety behind these loans diminished, the bankers called for more collateral, and the Insulls had to find it wherever they could. The credit of company after company suffered in this desperate defensive campaign. Nor did the slow processes of collapse bear down upon the Insull companies alone. Investors by the thousand were affected; banks were affected; other corporations were affected. These corporations were tied by a thousand strands to other parts of the American economy. Insull had not been building his pyramid in a vacuum. He did not, could not in the nature of things, go down to defeat alone.

At last the day of doom arrived: the day when Owen D. Young and a group

of New York bankers confronted Insull in Young's office and told him that surrender was inevitable. The meeting took place on April 8, 1932—two and a half years after the panic.

“Does this mean a receivership?” asked Insull, when Young, after a private discussion with the bankers, crossed the room to explain that they regarded the situation as hopeless.

“Yes, Mr. Insull, I'm afraid it does.”

A witness of that scene has testified that Insull seemed to be in a state of collapse. “I wish my time on earth had already come,” he said.

But it had not. Investigation, flight, indictment, refuge in Greece, capture, and trial in Chicago were still to come—grimly underscoring the tragic conclusion of a financial adventure in which a brilliant career had been wrecked, and American investors had lost nearly three-quarters of a billion dollars, and the economic system of the whole country had been gravely shaken.

3

None of the other public utility pyramids combined in such lavish measure as Insull's the qualities of immense size, immense complexity, reckless expansion, and speculative management. Yet some of the peculiarities of some of these other systems deserve a passing mention, if only to suggest that Insull was not in all respects unique.

Take, for example, the matter of complexity. Anybody who tries to study these public utility systems as they rose during the heyday of the pyramid-builders is constantly baffled, not merely by the intricate relationships between the holding companies, but by the similarity of their names. At this writing the Federal Trade Commission's investigations of American utilities are recorded in no less than seventy-one good-sized volumes. Pick up any one of these volumes, and you are in a jungle of confusion: there are so many dozens of corporations whose names sound much alike that even the best memory is baffled to recall which is which. And sometimes it almost seems as if the confusion must have been deliberate.

Suppose, for example, you wished to discover the exact status of an operating company, and traced its control to the Associated Electric Company, only to find that this was controlled by the Associated Gas and

Electric Corporation, which was controlled by the Associated Gas & Electric Company, which was controlled by the Associated Securities Corporation, which was controlled by the Associated Gas & Electric Properties. Suppose you found, in this same system, both a Rochester Central Power Corporation (of New York) and a Rochester Central Power Corporation (of Delaware). Or two separate concerns which were known respectively as Mohawk Valley Company and The Mohawk Valley Company (only the definite article in the name of the latter concern distinguishing it from the former). Would you not wonder what legitimate purpose there could be behind such a bewildering method of nomenclature?

Suppose you found many corporations which were separate legal entities and had officers and directors, ledgers, minute-books, and stock outstanding, *but no employees*. A Federal Trade Commission examiner, Charles Nodder, said that this was true of most of the sub-holding companies in the Associated system. Suppose you found a company as large as the Standard Gas & Electric, with assets of one hundred and ninety million dollars at the end of 1929, getting along with no payroll at all and being managed by a subsidiary corporation. Would you not wonder what had become of corporate responsibility in a case like that?

Or let us consider the matter of personal responsibility for corporate affairs. Presumably one may expect that when a man's name is connected with a company, he is able to give it some substantial personal attention. With all due respect to E. P. Summerson, secretary of Electric Bond & Share, one may reasonably ask how much personal attention he could give to the companies with which he was associated. At one time there were 240 of them, according to a report made to the House Interstate and Foreign Commerce Committee by Walter M. W. Splawn in 1934. Nor was Mr. Summerson alone in his multiplicity of duties. Another man was connected with 212 companies; three other men were connected with between 175 and 200 each.

So many, many corporations—and so many species of securities! Here we run into another tangle of confusion. Prior preference stock, preferred stock, cumulative preferred stock, common stock, Class B common, common stock with warrants—and sometimes warrants with the most complicated conditions of exercise: even to understand the financial status of a single one of these corporations might tax the mind of a practiced accountant. To take

one example only, the investor who in 1929 decided to put his money into the Associated Gas & Electric Company (not the Corporation, or the Properties, but the Company) had no less than twenty different classes of securities to choose between—including, if you please, an issue of bonds due to be retired on the first of January in the year 2875. (There's long term debt for you! One takes off one's hat to the assurance of men who borrow money with a solemn promise to pay it back at a date more distant in the future than the Norman Conquest is distant in the past—presumably on the assumption that even at that remote time their subsidiaries will still be operating electric-light plants in American towns.)

The Insull system was by no means alone in marking up values, though not often did companies in other systems resort to the over-simple practice of classing as income their profits on inter-company transactions. According to N. R. Danielian, the inflation in value of the assets in twenty holding-company systems amounted to a total of at least \$839,000,000, and probably a good deal more.

And how about the imposition of service charges? We found, you may recall, a company in the Insull system which supervised operating companies and performed other services for it at a profit of 98.8 per cent. But we also find—according to Professor Buchanan's analysis—the Southeastern Power & Light Company supervising at a profit of 95 per cent on the cost of its services during the three years 1925–27 inclusive, and the American Gas & Electric Company supervising and performing other services at a profit of 73.3 per cent. Besides such handsome takings the 50.8 per cent service profit of Electric Bond and Share from 1908 to 1929 looks moderate (although for the year 1927 the Federal Trade Commission calculated its profit on cost to be at least 106 per cent); and the failure of the North American Company to impose any service charges at all seems positively quixotic.

In most systems the services for which these goodly fees were charged were of course substantial and valuable; but there was always the temptation to take the payment and then slight the services. Here is a bit of testimony before the New York Public Service Commission with regard to the management fees collected from an operating company in the Associated Gas and Electric system:

Q. Did the J. G. White Management Corporation perform any services or do anything for the New York State Railways to your knowledge, and if so

what, during the time this contract was in effect?

A. Nothing that was helpful. They did advance the money, but it was not helpful, and a few other things, but nothing helpful.

Q. What did they do outside of this advance of money?

A. Called up on the telephone occasionally and asked different information, and so forth.

Q. Did they ever send any one there to advise you or assist in management or operation of the road?

A. No, sir.

It is not necessary here to dwell upon the wildly extravagant prices paid by some of these other systems for properties when the competition in expansion was at its height; or upon the opportunities which insiders had to speculate in the stocks which represented these properties while negotiations were in progress; or upon the equally extravagant heights to which the stocks of the upper companies in pyramid after pyramid leaped in 1928 and 1929, often with the aid of persons close to the management who personally profited by this inflation.

Nor is it necessary to make more than a passing reference to the political pressure exerted by some utility systems and their friends to prevent the new status quo from being disturbed. (Do you recall the letter written by State Senator Warren T. Thayer of New York early in 1927 to a vice-president of the Associated Gas and Electric Company, in which he said, "I hope my work during the past session was satisfactory to your company, not so much for the new legislation enacted, but from the fact that many detrimental bills which were introduced we were able to kill in my committee"?) Nor do we need to waste time over the "educational" campaigns financed by utility magnates to assure the public that they were intent only upon service to the public, and that the widespread ownership of shares of their companies by consumers constituted a striking exhibit of local economic self-government in the best American tradition. (When Professor Ripley suggested that in view of the vanishing rights of stockholders, governmental supervision of corporate affairs might be necessary, a vice-president of the Empire State Gas and Electric Association charged him with uttering "the kind of propaganda on which demagoguery and communism feed.")

What does perhaps need emphasis is that the pyramiding of utility companies was essentially a new device, lavishly resorted to during the seven

fat years, which bestowed upon a few aggressive insiders an immense and unseasoned power subject to grave abuses. These insiders did on the whole a splendid job with their physical properties: there is no denying that. They gave the public effective service, and their high-tension lines, marching over hill and dale, linked the individual properties together with fine engineering skill. But the price which they charged was heavy. The siphoning of money out of operating companies hurt the consumer, who had to pay more than he should on his electric-light bill or his gas bill because the monopoly which furnished him with these services, and which (because it was a monopoly) was supposedly regulated in his interest by a state commission, was vouching for “expenses” of operation which permitted large profits (invisible to the state commission) for those higher up. The optimistic bookkeeping and inflationary financing of some of these systems hurt the investor, who bought speculative securities often without the least notion that they were speculative. And—more important still—the whole process of inflating values and hopes put the general economic system of the country to a prodigious strain, since this process directly or indirectly committed not only individuals but corporations and banks and other institutions to the expectation of exaggerated if not actually indefensible revenues.

Inordinate profits do not come out of thin air. They come out of the consumer, or the worker, or the investor, or the future. It was the innocent delusion of the American public during the seven fat years that inordinate profits can come out of thin air. Pyramiding, and the financial expedients to which it almost irresistibly led in a time of overwhelming confidence, took inordinate profits out of the consumer, the investor, and the future—often including, of course, the insiders’ own future, as Samuel Insull subsequently discovered.

It is in young and rapidly expanding industries, like the electric light and power industry, that one expects to find daring financial devices flourishing. Not so in industries which have reached a comfortable middle age. The railroads had sown their financial wild oats long since, in the days of Gould and Fisk; they had reached their powerful maturity at the turn of the century, when Morgan and Harriman were in the saddle; by the nineteen-twenties they

seemed to have accepted the limitations of circumstance and of advancing age, and they were living on a strict diet of regulation, subject to the doctor's orders of the Interstate Commerce Commission. It was anomalous, therefore, that one of the most remarkable financial pyramids of the seven fat years should have been built on a foundation of railroads.

Perhaps this anomaly may be partly explained by the fact that the two men who designed this pyramid were themselves young, and that they rose by way of real-estate promotion. The speculative sub-divider, after all, is a sort of belated and misplaced pioneer: the man who buys a tract of pasture land and turns it into a thriving suburb knows what it is to stake everything on a vision of the future, to take a long chance and subdue the earth. Let him turn to railroading and he may not be content with accepting the common lot.

These two young men were the Van Sweringen brothers of Cleveland, upon whom had been bestowed the singular names of Oris Paxton and Mantis James. They were not twins by birth, for O. P. Van Sweringen was two years older than M. J.; but they were twins by choice. They lived together, worked together, planned together; bachelors both, they were almost inseparable; they even slept in twin beds. Each knew everything the other did. They were almost like two halves of a single personality. And they had a joint and very remarkable career.

They began life in simple circumstances. (It is interesting, by the way, to note how many of the skyrocketers of finance in the nineteen-twenties shot up from what might be called the lower-middle class.) Neither of the Van Sweringens went beyond the eighth grade in school. Oris got his start as an office boy, then as a clerk. But they were ambitious, and studied in the evenings. By the time Oris was twenty-one and Mantis was nineteen they were in the real-estate business.

Pretty soon they began to buy and lay out and sell land on a rural plateau east of the city of Cleveland. Their operating methods were novel, their plans were far-reaching and well-devised, and they were fortunate enough to anticipate that trend toward the suburbs which was to become such a significant factor in the expansion of American cities. When the Van Sweringens were still in their early thirties, Shaker Heights, the development which they had so skilfully and ambitiously engineered, was becoming a thriving suburb.

The brothers were doing extraordinarily well for themselves and for

Cleveland, but still one would never have dreamed that they would become railroad magnates. The transformation was effected almost by blind chance. They needed better transportation service from the heart of Cleveland out to the suburb of Shaker Heights than the leisurely street-car lines would afford. They decided to build a high-speed electric line. Looking for a suitable place for a terminal in the city, they found themselves barred by the conflicting plans of the New York, Chicago and St. Louis Railroad—generally known as the Nickel Plate—for a freight terminal. The Nickel Plate was owned by the New York Central, but—providentially for them—the Interstate Commerce Commission wanted the Central to sell it. The Van Sweringens decided to buy it themselves, and to use its property and its right of way in Cleveland both for their own original purposes and for its purposes.

But how to buy it? The price was eight and a half million dollars for the controlling shares, and the most that they themselves and their immediate associates could rake together was a million.

Perhaps you have already guessed the answer. They formed a holding company.

We need not go into the details of this transaction. All it is necessary to say is that the Van Sweringens sold enough preferred stock in their holding company to cover the first payment on their purchase, and thus to get control of the Nickel Plate without losing control of their Cleveland terminal properties. Of course they still had a lot of money to pay; everything depended upon whether they could get good earnings out of the Nickel Plate railroad line. But they were shrewd enough to select, as president of the road, one of the ablest operating men in the country, one J. J. Bernet. Soon Bernet was doing wonders with it—transforming it from a second-rate, run-down line into a successful one. In 1916 it had earned a little over six per cent on its common stock. In 1920 it earned over ten per cent; in 1921, over twenty-five per cent.

These earnings created such a cheerful prospect for the Nickel Plate Securities Corporation that the Van Sweringens were now able to issue more preferred stock, pay off most of their debt to the New York Central, and begin the purchase, on the installment plan, of three more small railroads. By this time they were no longer mere real-estate men of Cleveland; they were big railroad men too, and a new and exalted ambition was growing in their minds.

During the war the railroads had been under the direction of the Federal Government. The advantages of combining railroad resources and operating facilities had been so apparent that when the roads were returned to their private owners, the government had encouraged them to group themselves into a number of big systems, subject to the approval of the Interstate Commerce Commission. Just how this grouping was to be effected was a problem. In the East, for example, big systems would naturally be built up about strong roads like the New York Central, the Pennsylvania, and the Baltimore and Ohio, which might buy up other lines or merge with them. Such purchases and mergers, however, were easier to talk about than to accomplish; for rivalry was intense, railroad presidents and directors could be very obstinate in their independence, stock-market speculators were avid, and a small road which might be sought after by two or three big systems could become a tempting speculative prize in the Street. There were destined to be years of conferences and bickerings, while railroad presidents tried to come to agreement on the redrawing of the railroad map—with an uneasy or eager eye, meanwhile, upon the stock-market quotations. In the early years of these conferences, nobody seemed to think seriously of the possibilities of a major railroad system built up about the Nickel Plate, which ran only from Buffalo to Chicago and until recently had been a single-track, down-at-theheels line. The Van Sweringens, however, were thinking of it very seriously. And they thought of it in terms of holding companies laid one upon another.

They were now in their early forties—two nice-looking, boyish young men; sturdy, round-headed, low-voiced, attractive; shy young men, who kept to themselves, seemed to care nothing for social life despite their growing wealth; who did not smoke or drink, did not believe that the road to success ran by way of the golf-links, took no vacations and seldom a day off, but were always working, whether in their adjoining offices or in their private suite at the Cleveland Hotel, or at their suburban farm, Daisy Hill, a few miles outside the city. To Clevelanders their names were already potent, seldom as they were recognized on the street; to the general American public they were completely unknown. But the seven fat years had begun—the great era of holding-company expansion—and they were soon to be heard from.

In 1925, the year when Coolidge succeeded Harding as President, the Van Sweringens bought the so-called Huntington interest in the Chesapeake and Ohio road—only a fifteen per cent interest, as it happened, but large enough

to permit them to name the directors if the other owners were acquiescent. The Morgan partners had been watching them, liked their hard-working earnestness, raised no barrier to their purchase, and continued to watch them with approval. It took more than seven million dollars to make this purchase, but the brothers collected it by selling new bonds of the Nickel Plate road, and by borrowing. During the next two years they bought the Pere Marquette and also a large interest in the Erie, borrowing again to make the latter purchase. Old George F. Baker was the largest stockholder and the most powerful factor in the counsels of the Erie, and his opposition would have been fatal to their plans, but he too, like the Morgan partners, regarded them with a friendly eye. The story is that when they came to see him he asked them only two questions: did they work hard and did they sleep well? Satisfied with their answers, he let them buy the necessary stock to take over the direction of the Erie.

With such formidable allies in Wall Street as the House of Morgan and George F. Baker, the Van Sweringens saw the pathway to fortune lying clear before them. They went on buying railroads. But their purchases required money—lots of it—and they must have this money on terms which would not permit their sovereignty to be disputed. They got it by forming more and more holding companies: very big ones: layer upon layer of holding companies.

Incredible indeed, by 1929, seemed the achievement of these two young men. Thirteen years before, as a result of trying to build a rapid-transit line from Shaker Heights into Cleveland, they had put a million dollars into purchasing the control of the rickety Nickel Plate; and now, with the mighty House of Morgan as a potent ally, they were masters of a great system reaching from Chicago to the Atlantic Coast; a system with thousands of miles of track, over a hundred thousand employees, and assets in the neighborhood of two billion dollars. Until 1929, this great system had not spread beyond the Mississippi, but now the Alleghany Corporation—their biggest holding company—was purchasing stock in the Missouri Pacific, and thus was expanding the Van Sweringens' sphere of influence all the way to the Mexican border.

As a mere detail of their campaign of conquest and expansion they were rebuilding the whole central part of their native city. Their subsidiary corporations in Cleveland had been putting hundreds of millions of dollars

into a vast and splendid urban real-estate project: railroad terminals, huge office buildings, a hotel, a seven-hundred-foot tower. They were multi-millionaires, too; for pyramiding could be very profitable if the pyramiders and their top holding companies transferred blocks of stock to new holding companies at rising prices. On some of their transactions their profits mounted into the tens of millions.

Not only in Cleveland but in Wall Street, too, the name Van Sweringen had now become magical. Yet the brothers themselves remained as modest and self-effacing as ever. They appeared in public as little as possible. When a great dinner was held to celebrate the opening of their new Union Terminal, they stayed away from it. They refused to have a New York office; when they visited New York, they had their papers bundled up and taken from their private car to a hotel. They preferred the quiet of their Cleveland offices or of their Daisy Hill farm, where a private telephone operator took care of the urgent long-distance calls which came in from all over the country as they spun their web of power.

The foundation of the Van Sweringens' glittering success, in railroading as in real-estate speculation, was undeniably sound. Their railroads were well run, as Shaker Heights had been well planned. Bernet, their best operating man, had followed the focus of their interest in efficient management from the Nickel Plate to the Erie, and from the Erie to the Chesapeake and Ohio, and each of these roads had responded to his magic touch. But on this solid foundation of operating skill they had raised an immense financial pyramid built of debt and of hope.

At the top of this pyramid sat O. P. and M. J. Van Sweringen themselves. On the step below them was the Vaness Company. The second step from the top consisted of the General Securities Corporation. On the step below the General Securities, and controlled by it, was the Alleghany Corporation, which in turn (another step down) controlled the Chesapeake Corporation and the Nickel Plate, and was acquiring control of the Missouri Pacific. We now descend to the fifth step from the top. The Nickel Plate controlled the Wheeling and Lake Erie; the Chesapeake Corporation controlled the Chesapeake and Ohio; and this company in turn controlled (the sixth step from the top) the Hocking Valley and (with the assistance of the Alleghany Corporation) the Pere Marquette and the Erie.

There could be no more perfect example of the technic of remote control

through pyramiding than this system. For example, according to the figures published by Berle and Means, the financial interest of the Van Sweringens themselves in the General Securities Corporation (as of April 30, 1930) was 51.8 per cent; in the Alleghany it was 8.6 per cent; in the Chesapeake Corporation it had dwindled to a mere 4.1 per cent; in the Chesapeake and Ohio, to less than one per cent; in the Hocking Valley to the ridiculous figure of one-quarter of one per cent—and yet with this minute personal financial stake in the Hocking Valley, the men at Daisy Hill were the arbiters of its destiny, so astutely had they managed to pile holding company on holding company, and to induce the public to join with them in investing in each.

A very persuasive structure, this pyramid; so persuasive that the Morgan partners, far from looking askance at it as they looked askance at the unwieldy Insull pyramid and some of the other financial structures of the day, were hopefully engaged in selling building-blocks in certain parts of it to all and sundry. Yet it had its peculiarities, and these peculiarities had their wide economic consequences.

For one thing, the Van Sweringens and their companies were always borrowing largely from the banks: each new offensive in their campaign involved them in new debts. For another thing, the formation of each new holding company meant the issue of bonds or preferred shares which were dependent upon common-stock earnings.

In short, here was the old cream-separating business all over again; what you were buying, when you took an Alleghany Corporation bond, was a first call on a cream-separating machine which in turn was partly dependent on another cream-separating machine. This fact was significant from your point of view as an investor; but it was even more significant from another point of view. It meant that the Van Sweringens had locked themselves into a situation where their railroads *had* to earn common-stock dividends—even on stock which had once been considered speculative—or the huge debt structure which had been built upon the hope of these dividends would come crashing down in bankruptcy.

Meanwhile, in the city of Cleveland, the Van Sweringens' spectacular real-estate operations had involved their local companies in debts to the banks, and had also encouraged a general boom in urban real-estate, thereby involving the Cleveland banks in all sorts of investments and loans based on speculative valuations. Though the shy, soft-spoken men from Daisy Hill

were quite unlike Samuel Insull, their operations, and the operations which their dazzling career had suggested to others, had woven speculative values, as his had, deeply into the economic fabric.

Then came October and November, 1929, and—worse than that—the decline in values in the fall of 1930, and the slow avalanche of 1931 and 1932. An ugly time for borrowers; and for lenders too.

Not all the things which were done in those years of collapse make agreeable reading. Debt had hitherto weighed lightly upon the Van Sweringens; now its burden was terrific. They had to have money. One of their closest associates was the president of one of the Cleveland banks, the Union Trust. The Van Sweringens had borrowed so heavily from this bank that at last an unsecured loan to one of their companies was refused at the main office—but the president gave his oral approval and the loan was made. By 1930 they were so deeply obligated to the Cleveland banks that they could raise no more money there—in quantity, at least—and they had to borrow nearly forty million dollars from J. P. Morgan & Company. The Morgans required sound collateral, and it was vital to the Van Sweringens to remain in their good graces. Thereupon—to quote the words of the Senate Banking and Currency Committee—“substantially all of the collateral having any market value which was pledged with the Union Trust Company was released from the Cleveland loans and turned over to the Van Sweringens to hypothecate against the loans from J. P. Morgan & Company.” New York must be served, even if others suffered.

Again, the Missouri Pacific Railroad, which the Van Sweringens now controlled, was under terrific compulsion to show good earnings, not only for its own sake but for the sake of the Alleghany Corporation, which as we have seen had a big stake in its fortunes. The Missouri Pacific reported as income the dividends which it received from a subsidiary to which it was lending money at the time—the money going to the subsidiary in the form of loans and returning in the form of dividends. And it also took profits on transactions in its own stock between two of its subsidiaries—an improvement company and a motor-bus company!—thereby reminding observers of the old grand-piano-and-Oriental-rug game which had worked so neatly in the Insull system.

But enough of such examples. The twistings and turnings of men in the grip of circumstance are not always pleasant to watch. It is enough to set

down the facts of the situation as they stood in 1935.

The two biggest banks in Cleveland had crashed—ruined by their adventures in real estate and their other financial expeditions during the years of indiscretion, and by their frantic attempts to stave off failure during the years of reckoning. (It might almost be said that the Van Sweringen influence had found Cleveland a city of brick and wood, and had left it a city of marble—and of bad debts.) The Missouri Pacific road had gone into a trusteeship under the bankruptcy legislation of 1933. The Alleghany Corporation, unable to pay the interest on one of its issues of bonds, was negotiating a difficult capital readjustment. As for the Van Sweringens themselves, they still were in command of the railroads over which they had assumed dominion, but their stock was pledged as collateral against huge loans; if they were still afloat upon the sea of debt, it was because the lifelines of credit to which they clung were held at the other end by the strong hands of the Morgans and their banking allies. There were few people, any longer, who regarded the great Van Sweringen pyramid as one of the seven wonders of the financial world.

I have before me a photograph of the two brothers as they appeared when they came before the Senate Banking Committee for investigation in June of 1933. They are boys no longer, in that photograph, but elderly-looking men, solid and gray-haired, with old eyes.