Chapter Twelve

THE OVERLORDS, 1929

LET us pause for a moment, while the big bull market L is still sweeping the prices of stocks irresistibly upward, and look briefly at the men involved in the financial drama now approaching its climax. It is the summer of 1929, that golden noon of the great age of American capitalism. We stand in the narrow canyon of Wall Street, half deafened by the uproar of riveters fashioning yet taller and more confident palaces of fortune, and watch the men surging past us on their varied errands. This is the capital of the American economy; these men are the insiders, who wield such far-reaching and expanding powers, and their allies and associates and emulators and underlings. What sort of people are they? Do they form a distinct ruling caste? In what sort of society do they move? What are their interests and preoccupations outside business, their standards of ethical conduct in business, their influence upon the quality of American civilization?

The difficulties of generalization are immense. One does not easily find common denominators for the personalities of, say, Thomas W. Lamont and Amadeo P. Giannini, or of John D. Rockefeller, Jr., and John J. Raskob. Yet the attempt must be made if we are to understand what happened to the American economy. It may be somewhat facilitated if, as in the third chapter of this book—when we glanced at the careers and influence of some of the colossi of American finance as of the year 1905—we analyze a few samples in the process of arriving at our conclusions.

It is interesting to note, by way of preliminary observation, that the leaders of American finance and industry in the latter nineteen-twenties were hardly better known to the public at large than their predecessors of twenty-odd years before, despite the diligent ministrations of public-relations experts and the swollen popular respect for financial and industrial success.

You may recall that in Chapter III we compared the number of lines in the *Reader's Guide to Periodical Literature* for 1900–04 which were given to listing magazine articles about ten leading financiers and also about ten

leading politicians of that day; and that the tabulation gave us a total of only 88 lines for the financiers as against 799 lines for the politicians. Suppose we make a similar comparison between the number of lines given to listing magazine articles about ten leaders of finance and industry and ten politicians in the *Reader's Guide* for 1925–28 (a considerably larger volume). Such a tabulation may give us a rough suggestion of the extent to which the general public knew about these men as individuals and were interested in their careers and personalities.

	Number of Lines		Number of Lines
J. P. Morgan (the younger)	6	Calvin Coolidge	427
Thomas W. Lamont	6	Herbert Hoover	353
Otto Kahn	7	Alfred E. Smith	312
Owen D. Young	29	William E. Borah	98
Charles E. Mitchell	6	Charles E. Hughes	71
Albert H. Wiggin	0	Charles G. Dawes	69
The Van Sweringens*	8	Andrew W. Mellon	52
Samuel Insull	7	George W. Norris	46
Henry Ford	150	Robert LaFollette (senior)	41
Pierre duPont	7	Albert C. Ritchie	34
Total	226	Total	1503
(Total without Henry Ford, 76)			

* We may perhaps be forgiven if we combine the two Van Sweringens and regard them as if they were a single man.

Clearly the road to financial and industrial power was not a road to wide personal renown—at least of the sort that is reflected in magazine articles—even in the nineteen-twenties. Ford, of course, was a shining exception to this rule; but Ford was clearly exceptional in other ways too. A financial maverick, he did not distribute the shares of his company, did not collaborate with the banking powers, eschewed Wall Street and all its ways; and he had a peculiar gift for dramatizing himself and his achievement. Some of the other men listed in the left-hand column of our table have been much publicized since 1929—but that goes only to show that a banker's name does not become a household word in America until he is investigated.

The men whom we see about us as we stand in the Wall Street of 1929 and survey the passing crowd are mostly well groomed, conservatively and impeccably tailored, pleasant-voiced, easy and courteous in address. There are, of course, rough diamonds among them, particularly among the playboys of the stock market, but it is doubtful if there are so many in 1929 as there were in 1905, and the dominant type is smoothly polished; even the go-getting Babbitt tends to straighten his necktie and lower his voice and adopt a more gracious demeanor in these patrician precints. Wall Street is a school of manners. Go into one of the luncheon clubs where the men of the Street gather and you will note with half an eye that most of them have the air of gentlemen. How does this happen, in a nation whose business men, according to the observations of generations of foreign commentators and to the strictures of the contemporary Menckens, have been among the most strident—if also the most kindly—members of the human race?

One explanation, of course, would be that the Wall Street standard, in dress and in deportment, is set by men of assured wealth and the social and cultural advantages which wealth can bring, and that the others imitate them. But there is perhaps another explanation. There are fewer farmers' sons, laborers' sons, and ex-grocers' boys in the Wall Street of 1929 than in that of 1905. As the population of the United States slackens its growth and frontier opportunities are cut off and the increasing size of the big corporations sets directors and executives farther apart from their armies of workers, it is becoming harder for young men to climb, as Rockefeller and Carnegie and Baker did, from the lower levels of fortune to the upper. The roaring stock market is making new fortunes every day—but only for those who have at least a little capital to begin with or a favorable position close to the insiders. The American people are slowly settling into economic strata; and the upper stratum of all—or at least that part of it which is represented in Wall Street—is tending in some degree to become self-perpetuating.

You may recall that in the third chapter of this book we found that of the ten financial leaders of 1905 whose careers we examined, only one had been to college. Of the ten financial and industrial leaders of 1929 whom we listed a moment ago, six had been to college. But suppose we examine a list, not of ten men of 1929 but of fifty (in order to secure a broader basis for generalization, not merely on this but on other points); that we limit it to New York men (in order to facilitate various later comparisons); and that we make

it up chiefly of bankers and other financial leaders rather than of industrialists such as predominated in James W. Gerard's list of "sixty-four rulers of America" (drawn up in 1930). This list of ours—including the ten senior Morgan partners in New York, six other private and investment bankers, eleven commercial bankers, and a scattering of insurance company heads, powerful private investors, brokers, market operators, industrialists, utility executives, etc., as indicated in the footnote on this page*—would make, of course, no pretence to include the fifty *most* powerful or influential men in the Wall Street of 1929, but it would be at least reasonably representative of the much-abused and much-feared influence of the Street, the temper of the financial leadership at the heart of the American system.

We find that of these fifty men, no less than forty had been to college or had had equivalent training. (Eleven of them had been to Harvard, five to the Massachusetts Institute of Technology, four to Yale, three to Amherst, three to Cornell, and the rest to scattered institutions—not, as it happened, including Princeton.) A very distinct change had taken place since 1905.

Incidentally, it is interesting to note that when, in 1932, Taussig and Joslyn published a study of the origins of 7351 "business leaders" of America—men who occupied important business positions throughout the country—they found that 45.3 per cent of these men had been to college. They also found that among the men in this big group who were connected with very large business concerns—the men who might be said to represent "big business"—the proportion who had been to college was considerably above 45.3 per cent; it was 53.8 per cent. If among our fifty representative Wall Street leaders the proportion ran as high as 80 per cent, the conclusion would seem to be inescapable: the higher one went in the scale of economic influence in the nineteen-twenties, the fewer graduates did one find of that traditional alma mater of the successful American business man, the school of hard knocks. For this fact the increasing prestige of the colleges was no doubt partly responsible. Yet presumably the sequence of cause and effect sometimes went the other way. Many a self-made man sent his sons to college not primarily to get an education but to "meet the right people."

Many of the fifty men in our list had won their way to financial preeminence from beginnings which would hardly have suggested the promise of future Wall Street success. Owen D. Young, for example, had been brought up in the simple frugality of a farm in upper New York State.

John J. Raskob was the son of a struggling cigar-maker in Lockport, New York, and began his business career at the age of nineteen as a five-dollar-a-week stenographer. (Just as Insull started on the road to success by becoming Edison's secretary, so young Raskob profited by the lucky chance of becoming secretary to Pierre S. duPont.) Albert H. Wiggin's father was a Unitarian clergyman in a Massachusetts town, and young Wiggin went to work as a bank clerk in Boston at the age of seventeen. Clarence Dillon's father, born Samuel Lapowski, was a clothing merchant and small banker of San Antonio.

Yet there were other men in the group who might fairly be said to have been born to the financial deep purple: men like the Morgans, George F. Baker, Jr., John D. Rockefeller, Jr., Percy Rockefeller, Vincent Astor, or William Woodward. And as the sons of the privileged swarmed each year into downtown New York from the older universities, it was difficult to escape the conclusion that the number of those who owed their favorable positions at least partly to inherited advantage was growing. There was pretty surely a tendency toward the formation of a ruling financial caste.

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But this tendency had not as yet gone very far, as the instances of Owen Young and Raskob suggest, to say nothing of Insull and the Van Sweringens and Giannini. And the complexity of the economic class structure of America was accompanied and perhaps accentuated by a marked social complexity, nowhere more striking than in New York City itself, the metropolis whose centripetal force attracted financial talent and financial ambition from other cities and towns throughout the country.

New York had changed greatly since those early days of the twentieth century when there were no fifty-story skyscrapers, and automobiles were still playthings of the rich, and traffic policemen and traffic lights were unknown, and Central Park was gay of a spring afternoon with the victorias and barouches of the well-to-do, and the outlying clusters of population in Westchester and the New Jersey hills and on Long Island were still country villages. The social world in which prominent metropolitan financiers now found themselves had changed likewise. Society as Mrs. Astor had hopefully visioned it—a strict, self-contained group of men and women whose

members all knew one another and took their aristocratic position seriously—had less of a semblance of reality than ever before; even the leadership of Mrs. Stuyvesant Fish, after Mrs. Astor's death, had failed to maintain the precarious prestige of the inner group. The battle for social recognition still went on, of course; it will continue to go on so long as men and women still know envy and vanity and pride; in various other cities of the country there were still fairly definite barriers of caste which controlled admission to the Assemblies or the Cotillions of the fashionably assured, and there were large numbers of people to whom these barriers were important, reluctant though they might be to admit it; but in New York, the outlines of Society had become so faint as to be almost invisible except to those who insisted upon seeing them. It became a truism for members of the passing generation to say that Society no longer possessed accepted authority.

For this change there were many reasons. One was that the city had become too huge for its society to remain under the domination of any one group of mutual acquaintances. Not only had the population of New York increased from a scant four million in 1905 to a full six million in 1929, with an even sharper increase in the outlying suburbs of the metropolitan area; there had also been a vast growth in the number of New Yorkers of great wealth. According to the income tax returns for 1928, there were as many as 243 people in New York State with incomes of a million dollars a year or more; presumably the great majority of these people lived in the city or its environs. New York had become the new frontier, the land of promise which beckoned to rich and poor the country over. It is a characteristic fact that of our fifty financiers, not more than sixteen had been born in New York City or its immediate environs. (Of the others, twenty-one were born in the Eastern States; eleven came from the Middle West, West, or South; two were born in Germany.) Rare was a dinner-party of the prosperous at which a majority of the guests were native New Yorkers. Society was swamped by sheer numbers.

Another reason for the change in the social texture, perhaps, was the fashion—led by those who in the early nineteen-twenties had attracted the shocked attention of the country as the "younger generation"—for carefree disregard of social conventions, for the cultivation of "amusing" people outside the almost-invisible social boundaries, for speakeasy life with its attendant social promiscuity.

Whatever the reasons may have been, prosperous New York in the latter nineteen-twenties consisted of a great confusion of loosely connected social groups. Indeed, one might with some plausibility argue that just as there were enormous opportunities for economic privilege and great wealth, but there was little accepted leadership or control among the insiders who seized these opportunities, just so there was an enormously enlarged plutocracy, without that cohesion or that firmness of tradition which characterizes an aristocracy.

In this confused social scene the financial powers of the day played varying but in the main substantial parts. Let us glance for a moment at our fifty representative men.

The great majority of them lived in what might loosely be called the Park Avenue district—reaching roughly from Fifty-ninth Street to Eighty-sixth Street and from Fifth Avenue to Lexington Avenue, Manhattan. Four of them maintained their winter headquarters in the suburbs; two of them had gone eastward in the migration of many of the well-to-do to the shores of the East River; the Morgans and George F. Baker clung conservatively to their old strongholds in the Murray Hill section, a mile or two to the south; a few others had taken up their abode in the apartment houses just north of the Grand Central Station. But most of the fifty lived farther north in Park Avenue—that monotonous street of huge packing-box apartment houses—or in Fifth Avenue, overlooking Central Park, or in the narrow side streets between Fifty-ninth and Eighty-sixth: if one marks their town houses upon a map, one finds the center of concentration to have been not far from Park Avenue and Seventy-second Street. It had moved a mile or so northward—and a little to the east—since 1905.

These fifty men were well represented in the fashionable and dignified clubs of the city. Six belonged to the Knickerbocker (three of them being Morgan partners). Fifteen belonged to the Racquet and Tennis, three to the Union, five to the Brook, eleven to the Creek, eight to the more intellectual and less fashionable Century, at least twenty-one to the New York Yacht Club, and no less than twenty-six to the Metropolitan—thereby enhancing its long-standing claim to the nickname of “millionaires’ club.”

Furthermore, nineteen of them belonged to the Piping Rock Club on the north shore of Long Island—a circumstance which introduces us to another characteristic fact about metropolitan men of wealth in the nineteen twenties: the extent to which this Long Island shore had become the out-of-town

capital of the financiers. Naturally these fifty men had country houses as well as town houses (or apartments); some of them, indeed, had three or four. If one dots these out-of-town residences on a map, as many as eighteen of them will be found clustered near the northern edge of Long Island. The rest were widely scattered: there were a few in Greenwich or thereabouts, a few in northern Westchester County, or in Englewood or Morristown or Far Hills, New Jersey; or at Southampton, or at Tuxedo, or at Newport (still the headquarters of the old guard of formal metropolitan fashion); and there were summer homes on the Maine coast, "camps" in the Adirondacks, winter places in the South; but Long Island was definitely the favorite place for out-of-town living, especially for the bankers of the group and above all for the bankers within the Morgan sphere of influence.

Newport was very far from New York, for men whose fingers must constantly be on the financial pulse, and its social ritual was too solemnly punctilious to appeal to a free-and-easy generation. Tuxedo had no inviting waterfront. The Berkshire hills had long since ceased to attract the rich, and many of the grand estates of Lenox, with "FOR SALE" signs at their splendid entrances, were now growing up to weeds. On Long Island one was close to business; here were the sheltered waters of Long Island Sound for yachtsmen, here was Piping Rock—along with a dozen other clubs—for golf, here were gentle hills and pleasant valleys for riding.

The favorite sport of these fifty men, if we consider them collectively as a group, was perhaps golf, but there were many horsemen among them (and proprietors of racing stables, like William Woodward, owner of Gallant Fox) and hunters and duck-shooters and grouse-shooters; and collectively they owned twenty-eight yachts, ranging in size from little racing sailboats to Arthur Curtiss James's *Aloha* (165 feet long), George F. Baker, Jr.'s *Viking* (217 feet), J. P. Morgan's famous black *Corsair* (254 feet), and Vincent Astor's *Nourmahal* (260 feet). And as the year 1929 drew to its close, Morgan was building a new *Corsair*, 343 feet long: it was to be the largest private yacht in the world.

4

"I do not scruple," wrote Anthony Trollope in his Autobiography, "to say that I prefer the society of distinguished people, and that even the distinction

of wealth confers many advantages. The best education is to be had at a price as well as the best broadcloth. The son of a peer is more likely to rub his shoulders against well-informed men than the son of a tradesman.… The discerning man will recognize the information and the graces when they are achieved without such assistance, and will honor the owners of them the more because of the difficulties they have overcome;—but the fact remains that the society of the well-born and of the wealthy will as a rule be worth seeking."

The financial leaders of America unquestionably enjoyed the sort of cultural opportunities which Trollope described—though some had not acquired these until they had reached mature years and the patterns of their intellectual life had been set beyond the possibility of fundamental change. What sort of use did they make of these opportunities?

Here we venture upon very treacherous ground for generalizations. Certainly there were in Wall Street—particularly among the speculative plungers and their throng of eager imitators, a throng larger and more reckless in 1929 than ever before—a great many callous, money-minded vulgarians, who for all their superficial polish and their *bonhomie* were essentially thick of skin, limited in outlook, and vulgar in taste. There were also, in greater if not in predominating number, men of finer grain who yet wore the blinders of Wall Street conventionality. Of this type were hundreds of the correct young men who drifted almost inevitably into bond-selling from the approved universities, where as a matter of course they had not "cracked a book" except under the pressure of dire necessity and had been quite content with the bare passing-marks expected of privileged indolence. Pleasant of aspect—though some of them, with the passing of the years, began to look as if a season of asceticism would do them good—these men possessed that ease which is the product of social experience; they possessed also a well-trained sense of what a conventionally fastidious taste would approve in books and plays and etchings and furniture; yet in most cases they were mentally unadventurous, incurious, bound by the intellectual fetters of their class, slaves to the economic and political and social orthodoxy of the moment. Culturally they were willing followers, seldom contributors. Yet among them and among the diversity of other types which so large a collection of individuals must inevitably include, one found other men, especially in the higher ranks of the banking class, who had made full use of

those advantages for "information and graces" to which Anthony Trollope referred. Some of these men, it might be added, were more sensitive of perception, more catholic and elastic of mind, than the majority of the radical critics who imagine all bankers to have resembled the gross, dollar-marked millionaire of the popular cartoons.

One thinks offhand of a powerful banker (a member, as it happens, of our group of fifty) who knew most of Gilbert and Sullivan by, heart—and a good deal of Shakespeare as well; of another who, though he worked nine or ten hours a day under full steam of energy, yet found time to read voluminously, and could outmatch most professional publishers in first-hand knowledge and critical understanding of the current literary output; of at least two men who from time to time served as publishers' readers without pay, criticising not books on finance but fiction and memoirs; of another whose collection of modern paintings was known wherever artists and connoisseurs are found; and of other collectors—whether of paintings or books or of *objets d'art*—who combined with zeal in accumulating treasures a laboriously acquired knowledge of their significance and a genuine love of their beauties. One thinks of Morgan the Younger, to whom the enhancement of the huge collections built up by his father was not merely a duty but a pleasure. And of course one thinks of Otto Kahn, who not only was the heart and soul of the Metropolitan Opera but aided the Theatre Guild, the Provincetown Playhouse, Eva LeGallienne's Civic Repertory Theatre, and heaven only knows how many other artistic enterprises and how many individual artists and writers.

It would be grossly unfair not to recognize that men such as the best of these—men who were at home in the society of people of other nationalities and other vocations, familiar with the finest products of many cultures, and intent upon nourishing as well as enjoying that of their own country—lived up to a high tradition of the cultural function of the man of wealth and thereby helped to leaven our business man's civilization. If America was slowly coming of age culturally, if the man of means thought a little less instinctively in 1929 than in 1905 of art as something which you go to Europe to buy, if there had been real progress toward the development of native rather than derivative arts, and if there had been a little—a very little—mitigation of the common ugliness of the general American scene, to such men must go at least a share of the credit.

The pity was that there were so few of them (though there were more, perhaps, in Wall Street than in any other place where business men congregated), and that to the majority of successful American business men the stuff of which civilization is made was a mere decoration for a life dominated by the clatter of the adding-machine and the ticker.

5

Another change which strikes the eye of anybody who compares the record of the financial leaders of 1905 with that of the leaders of 1929 is in religious affiliations and activities. Of the ten men in our 1905 list, at least seven were churchgoers and at least six were active in church affairs. Among the fifty men in the 1929 list, only about half either mentioned any church affiliations in *Who's Who* or were otherwise publicly known to have a part in church affairs, and the available evidence would seem to suggest that some of these affiliations were nominal. Although at least eight were actively engaged in church organizations—as wardens, vestrymen, or trustees of churches, or otherwise—it is pretty clear that the tradition that a man prominent in finance should also be prominent in the church was breaking down. This, of course, is not surprising: the churches no longer occupied so vital a place in the community as in earlier days.

That the tradition of good works had not broken down, but had simply become secularized, is however equally apparent. These fifty men made an impressive record in the holding of college trusteeships, and trusteeships or other offices in charitable institutions, settlements, hospitals, and institutions dedicated to science or to art. For example, they held, between them, no less than eighteen university or college trusteeships or directorships in educational foundations or associations. There were also, in this group of fifty men, five trustees of the Metropolitan Museum, five of the New York Public Library, three of the American Museum of Natural History, and three of the New York Zoological Society; five officers or directors of the various organizations responsible for the Metropolitan Opera, and one officer of the Philharmonic Orchestra Society.

Naturally, one reason why such men were invited to hold such positions was that they were rich. No director of a struggling charity—and nearly all charities are struggling—but yearns to have a millionaire on his board who at

an opportune moment might say, “I’ll take care of that.” College officials, too, have been known to succumb to the temptation to woo wealth in the hope of new scholarships or a new chemical laboratory. It may be pertinent that the fifty financiers on our list had been awarded, up to 1930, a total of forty-six honorary degrees—nearly one apiece on the average! (Owen D. Young was high man, with 15; David F. Houston was second, with 8, mostly awarded while he was a member of President Wilson’s cabinet; J. P. Morgan was third, with 5.) It is likely that some of these degrees were awarded in the remembrance or the hope of gifts. Yet to say this and no more, would be to misinterpret the position which these men held in the community.

They were eagerly sought after as trustees—and were awarded honorary degrees—because they were held in genuine admiration. By the great rank and file of business and professional men of what might be called the middle class, their judgment of policies and of men was considered the best that could be got. Their mere names had a great prestige value, standing as they did in the opinion of the well-to-do classes for success, power, hard sense, and reliability; and never before had this prestige value risen so high as it rose in 1929.

These men undertook their service as trustees of colleges and charities and civic institutions as their tribute—sometimes but by no means always perfunctory—to the principle of *noblesse oblige*. To this principle hundreds of men in Wall Street paid scant attention, but in the banking sector, at least, it was deeply rooted; in fact, there were so many prominent men of affairs on the boards of some of the local charities that many a young man with a shrewd eye for advancement would accept a gruelling assistant secretaryship or assistant treasurership in a local charity in the hope of falling under the appreciative eye of a grand panjandrum of the Street.

To the objective observer, the benefactions and public services of the wealthy might appear as attempts at partial reparation for the cruelties and uglinesses brought about by the order which made them rich. The objective observer might be reminded of Carnegie’s giving to the cause of peace the millions which he had made manufacturing armaments. But to the men themselves such a parallel would have seemed grossly unfair. They did not regard themselves as responsible for the defects of the social order; and many of them conscientiously felt that their responsibilities to this order were being fully discharged by their services to educational and charitable and cultural

enterprises.

6

What of the ethical standards of the men of Wall Street in their daily work?

Here we must take leave of our list of fifty men, for we enter a realm of motive which objective facts and statistics will do little to illuminate.

At the outset of the discussion we shall do well to remind ourselves that we are dealing with thousands of men who ranged all the way from the incorruptible to the predatory; and also that this body of men was made up of various groups with different sorts of obligations and hence with different codes. The best we can do is to arrive at very tentative approximations of the prevailing standards—not of the exceptionally scrupulous or exceptionally unscrupulous, but of the rank and file of the financially powerful.

We shall do well to remind ourselves, also, of the background against which any such discussion must be carried on: the general standard of conduct of American business as a whole. So flagrant have been some of the financial operations uncovered during the past few years by the receding tide of business that many excellent people have come to believe that Wall Street was a haunt of natural villains, of men of lower principle than elsewhere. To believe this is to forget how widespread in the business world as a whole was and is the doctrine of anything for profit.

This doctrine perverts selling into an effort to unload goods by hook or by crook, regardless of the real advantage of the purchaser. It perverts advertising into a blast of half-truths and soothsayers' myths such as the radio pours daily into millions of ears. It perverts business-getting into a contest in the offering of favors and inducements; indeed, so instinctively does the average American male take for granted the inevitability of such offers that when a business man is caught giving a bribe to a public official, the recipient may be condemned but the giver seldom is: the implicit verdict of public opinion is that he was only doing what other business men would do in his place. The doctrine of anything for profit perverts the labor policies of companies large and small into an effort to get the utmost in production with the least in concessions. It perverts legislation into a compromise between the objectives of paid lobbyists working for the advantage of various business groups without the slightest concern for the general public interest. Few are

the American corporations, large or small, which could submit all their transactions to the examination of Ferdinand Pecora's accountants, and all their policies to the glaring light of a congressional investigation, without a tremor of uneasiness. The generally prevailing standard of ethics of American business is perhaps not much higher than that succinctly expressed by Mayor Jimmy Walker of New York when Governor Franklin Roosevelt was examining him on the witness stand at Albany: "I don't think it is ethical for anybody to do anything illegal."

Never, perhaps, has the distinction between disinterested service and profit-hunting greed been so obscured by the haze of sentimental adulation for business success as in the nineteen-twenties; but the profit imperative was nothing new in our life. Look at the image of Uncle Sam—a smart trader indeed, if his appearance does not belie his character—and you will realize how long it has been accepted as characteristically American.

It is probable that the general average of character and scruple was as high in the financial world as elsewhere in American business during the period which we are discussing; that, man for man, the financiers had at least as keen a sense of honor as one would be likely to find among the business men of the average small city. The only question is whether their principles were commensurate with their great opportunities and powers.

Another fact must be borne in mind. In almost every occupation one will notice that the relations among those who are engaged in it are on a higher standard than their relations with their customers or clients. The code of medical ethics, for example, is in effect largely a code of fair practice between physicians, for their mutual benefit; the protection of the patient is a secondary consideration. So with the elaborate codes of ethics drawn up by many trade associations: the primary purpose is to prevent men within the trade from damaging the business of their fellows. Just so in the financial world. There are many matters in which the standards are very high because they have to be, or everybody in the Street would suffer. For example, all transactions on the Stock Exchange are oral. When one man on the crowded floor of the Exchange offers a hundred shares of Steel at 42 and another man says "Take it," no documents are exchanged, yet there is no question in the mind of either man that this sale is as valid as if it were embodied in a written contract. Millions of dollars' worth of securities thus change hands every day at Broad and Wall Streets. Or consider the way in which orders involving

hundreds of thousands of dollars are casually negotiated by telephone; or, if you prefer, how completely any depositor may take for granted that his bank will keep the tally of his balance honestly. The standard of integrity in such matters has long been very high, and naturally so; for otherwise it would be impossible for the bulk of financial business to be carried on.

Also it can hardly be denied that in certain of the established relationships between those inside the financial world and those outside it, the standard of decency had on the whole risen. For example, the attitude of men powerful in industrial management toward their employees was on the whole somewhat more civilized in the nineteen-twenties than a generation earlier. This, to be sure, is not to say much: the story of American industrial relations is one of the blackest chapters of American history. Nor had the advance, such as it was, come about without much pressure of outside opinion—without bitter labor warfare, long agitation, and the passage of humane laws opposed and defied by numerous employers. Yet there had developed, on the whole, a somewhat more decent regard for the safety and health of employees and for the provision of tolerable living conditions for their families. Enlightened men like William Cooper Procter, Henry S. Dennison, and Henry B. Endicott and George F. Johnson had done much to offset the disgraceful record of coal and steel companies which still regarded the laborer as a serf, to be fenced within his slatternly company town and terrorized into acquiescence by hired guards. There was even, during the nineteentwenties, considerable lip-service paid to the idea that the worker was after all a consumer and that the payment to him of adequate wages might be advantageous in the long run to industries dedicated to the principle of mass production and therefore dependent upon wide markets.

Again, there were certain distinct improvements in the relations between the insiders of the big corporations and their stockholders. The managers of concerns like the General Motors Corporation were publishing more adequate and comprehensible financial statements than had been offered to stockholders of the preceding generation, and their example was being more and more generally followed; the New York Stock Exchange itself was working to make the publication of quarterly reports the accepted practice among the larger companies, to the advantage of the proxy-signers.

Yet the new corporate devices which now flourished opened up whole new areas for irresponsibility and rascality on the part of insiders. Just as the

corporation lawyer is usually two jumps ahead of the legislator, so is he often two jumps ahead of his own conscience and that of the banker or corporation executive whom he serves—to say nothing of the public conscience, which generally is not heard from at all until the dubious practices in question have been exhumed in the ruins of a disaster, at which moment the public flies into a brief and indiscriminate fury. These new areas for irresponsibility and rascality—some of which have been surveyed in previous chapters of this book—were very inviting; and as yet there were few exhibits of the possible dire results of invading them, to serve as warnings to men who stood at their borders. The visibility was not so good in 1928 and 1929 as in 1932 and 1933.

Furthermore, the long-sustained rise in the value of securities and the generally rising trend of profits were enough to dull any but the keenest conscience. For example, the insider who speculated in the shares of his own company—unloading stock upon men and women to whom, as a director or an officer of the company, he stood in a responsible position—could easily excuse such a performance to himself with the argument that before long the stock would look dirt cheap at the price. Or the insider who did a little juggling with the accounts of corporate subsidiaries could argue to himself that earnings would be bound to go up next year and that all he was doing was anticipating the future. Or the banker who lent his depositors' money to the bank's affiliated investment company and then speculated with it could argue that all he was doing was putting the depositors' money to its most fruitful use. Specious arguments, all of them, yet they go far to explain the general relaxation of the financial conscience in the warm airs of prosperity. No Pied Piper of Hamelin ever made more tempting music than the stock tickers of 1929.

As for the effect of these temptations upon the conduct of even the better sort of men in the financial world, we need only to listen to the restrained words of Justice Harlan F. Stone of the United States Supreme Court, speaking at the dedication of the Law Quadrangle at the University of Michigan in June, 1934:

"I venture to assert that when the history of the financial era which has just drawn to a close comes to be written, most of its mistakes and its major faults will be ascribed to the failure to observe the fiduciary principle.… No thinking man can believe that an economy built upon a business foundation

can permanently endure without some loyalty to that principle. The separation of ownership from management, the development of the corporate structure so as to vest in small groups control over the resources of a great number of small and uninformed investors, make imperative a fresh and active devotion to that principle if the modern world of business is to perform its proper function. Yet those who serve nominally as trustees, but relieved, by clever legal devices, from the obligation to protect those whose interests they purport to represent; corporate officers and directors who award themselves huge bonuses from corporate funds without the assent or even the knowledge of their stockholders; reorganization committees created to serve interests of others than those whose securities they control; financial institutions which, in the infinite variety of their operations, consider only last, if at all, the interests of those whose funds they command, suggest how far we have ignored the necessary implications of that principle. The loss and suffering inflicted on individuals, the harm done to a social order founded upon business and dependent upon its integrity, are incalculable."

7

Another source of mischief in the financial world, and indeed the larger business world—even among men of probity—was the very prevalent reliance upon what might be called laissez-faire ethics, under circumstances which rendered such a code inadequate.

According to the accepted rules of free competitive business in a laissez-faire economy, each man serves his own interest, and the law of supply and demand takes care of the results. Business is a game, and to let slip an opportunity to score a point in this game is as needless—indeed, as foolish—as for a tennis player soft-heartedly to let slip an opportunity for a smash at the net. I make the best bargain I can for myself; it's up to the other fellow to do the same for himself. My corporation is out to clean up big profits, and the way to do this is to buy as cheap as possible—whether goods or services—and sell as dear as possible. If my margin of profit is large, that is something which the law of supply and demand will ultimately take care of in the public interest: competitors will come in and force prices down. Meanwhile I naturally take advantage of every opportunity that comes my way. Likewise the stock market is a game. Unless everybody takes every opportunity to buy

low and sell high, speculation will not perform its traditional function of stabilizing prices. If I buy at a hundred and sell at a hundred and fifty, the fortunes of the man who buys from me at the higher price are no affair of mine. He may suffer, but that's all a part of the game: the smartest man wins; he ought to win. After all, I do not force anybody to buy that stock from me at a hundred and fifty. The buyer takes it of his own free will. And if, as it happens, I have knowledge or power which gives me the edge over him—well, isn't that the way life is?

This code was a very comfortable one to do business by. It made self-interest almost identical with the public interest.

The trouble with it was that there were considerable areas of the national economy in which it was no longer valid. It depended for its validity upon the free play of supply and demand, and in these areas the law of supply and demand had been at least partially nullified. Here are some of the things which had worked to nullify it:

1. The control of prices by big corporations, through monopolies, secret pools, or other arrangements, so that the going price was not a competitive price.

2. The fact that large-scale production not merely deprived the worker of ownership of the tools of his trade (the ancient lament of the unionist) but collected him and his fellows in huge groups, often isolated from other factories or businesses which might employ him, and powerless to reach them. The law of supply and demand, as applied to labor, naturally presupposes that the laborer, if offered an inadequate wage or laid off, can go elsewhere to seek employment. But suppose he is a penniless miner in a West Virginia mining town, in debt to his company (which may not necessarily mean that he has been improvident) and with a family on his hands? Or suppose he is a steel worker in a town hundreds of miles from the nearest other mill? In such circumstances the law of supply and demand is a mockery, no matter how pretty it may sound in the mouths of academic lecturers.

3. The power of propaganda: a very great power which, as we noted in Chapter VIII, was available to those who had plenty of money to spend on advertising and on what were known as "educational campaigns."

4. The power of political influence, going in some cases so far as to put the police under corporation control. (This, if we regard business competition as

a game, was tantamount to bribing the umpire.)

5. The stimulation of speculative markets by groups of manipulators so strategically situated and so well equipped with funds that for a time, at least, they exercised a controlling influence. What becomes of the law of supply and demand in a market of which it is commonly said, “Stocks don’t go up—they’re put up”?

These and other forces—such as we have seen at work in earlier chapters of this book—were undermining the validity of laissez-faire economics, the economics of free competition. Naturally they undermined also the validity of laissez-faire ethics. Increase the size and power of a corporation sufficiently, or combine under one management a whole hierarchy of corporations—such, for example, as Insull’s—and you have a force at large which, if its managers live by the code of *sauve qui peut* and their urge for profits does not happen to coincide with the public interest, may be as dangerous to the citizenry as a ten-ton truck at large on a crowded city street. The law of supply and demand may not be able to stop it until the damage has long been done.

Though there was much sheer rascality in the Wall Street of the nineteen-twenties, much sheer greed roaming at large, and a widespread betrayal of the fiduciary principle, it may be that none of these things did as much damage to the country, in the sum total, as the sheer irresponsibility of men who, possessing vast powers, played the game of profit and loss without regard for the general public interest. To say that such men were not deliberate plunderers, that they were—as a jury has said of Samuel Insull—not guilty of fraud, is not to say the last word about them. They were living by a code no longer adequate for men whose decisions swung such collossal weight.

They were able men, nearly all of them; wise men, many of them. They were not quite wise enough to realize what they and their like had done to revolutionize American life, and what new responsibilities to their fellow countrymen now rested upon their shoulders.

8

The golden summer of 1929 drew toward its close. Stock-market prices roared higher and ever higher. Investment trusts were being born every minute: a Wall Street broker estimated that sixty per cent of the financing done in the month of August was for these trusts. Sober citizens were

becoming persuaded that a panicless, depressionless era had begun. Never had the well-groomed men of Wall Street trod their narrow canyon among the skyscrapers with mightier assurance.

Labor Day, 1929, came on the second of September. It was a very hot day in the East. The congestion of holiday-makers returning to New York City that evening was unprecedented. Fifty thousand automobiles clogged the highways of New Jersey, inching their way toward the bottle-neck of the Holland Tunnel; at midnight, sweltering men and women by the scores were abandoning the attempt to drive home and were parking their cars in Jersey City and Newark and riding to Manhattan through the stifling Tube. The congestion had broken a record, announced the newspapers. This was prosperity.…

But the next day—an even hotter day, with the temperature edging up to 94.2—a rather more important record was broken. It was on that third of September that the Stock Exchange price averages reached their highest point of all time.

There were no big headlines to mark the event; what were new highs to the headline-writers then? It was only long afterwards that the significance of that torrid September day became clear. It was the moment when the wave of prosperity, Coolidge-Hoover prosperity, speculation-driven prosperity, insiders' prosperity, reached its towering peak.

* J. P. Morgan, Charles Steele, Thomas W. Lamont, Thomas Cochran, Junius S. Morgan, George Whitney, Russell C. Leffingwell, Francis D. Bartow, Arthur M. Anderson, William Ewing; Otto Kahn, Frederick Strauss, Clarence Dillon, Charles Hayden, Arthur Lehman, Mortimer L. Schiff; George F. Baker (senior), George F. Baker, Jr., Albert H. Wiggin, Charles E. Mitchell, Paul M. Warburg, Seward Prosser, William C. Potter, George W. Davison, William Woodward, Harvey D. Gibson, Jackson E. Reynolds; John D. Rockefeller, Jr., Vincent Astor, Frederick H. Ecker, Darwin P. Kingsley, David F. Houston, E. H. H. Simmons, Bernard M. Baruch, John J. Raskob, Percy A. Rockefeller, Matthew C. Brush, Owen D. Young, Alfred P. Sloan, Jr., Pierre S. duPont, Myron C. Taylor, Walter C. Teagle, Jesse I. Straus, Walter S. Gifford, Sidney Z. Mitchell, Floyd L. Carlisle, George H. Howard, Matthew S. Sloan, Arthur Curtiss James, Leonor F. Loree.

(Here, for comparison, is the Gerard list, with asterisks marking the names

of men included also in the other: *Finance*—Andrew W. Mellon, J. P. Morgan, * William H. Crocker, George F. Baker, * Charles Hayden, * John J. Raskob, * Thomas W. Lamont, * Albert H. Wiggin, * Charles E. Mitchell, * Walter Edwin Frew, Amadeo P. Giannini. *Mining and finance*—Daniel Guggenheim, William Loeb. Oil-John D. Rockefeller, Jr., * Walter C. Teagle, * R. C. Holmes. *Automobiles-Henry* Ford, Fred J. Fisher, Charles T. Fisher, Lawrence P. Fisher, William A. Fisher, Edward F. Fisher, Albert J. Fisher, Howard Fisher. *Steel*—Myron C. Taylor, * James A. Farrell, Charles M. Schwab, Eugene G. Grace. *Explosives and Manufacturing*—Pierre S. duPont, * Irénée duPont, Lammot duPont, H. F. duPont, Eugene duPont, A. Felix duPont, Eugene E. duPont. *Railroads*—O. P. Van Sweringen, M. J. Van Sweringen, W. W. Atterbury, Arthur Curtiss James, * Daniel Willard. *Utilities—P*. G. Gossler, Sosthenes Behn, Walter S. Gifford, * Samuel Insull, Sidney Z. Mitchell.* *Electrical equipment*—Owen D. Young, * Gerard Swope. *Copper*—John D. Ryan, Daniel C. Jackling. *Aluminum*—Arthur V. Davis. *Coal*—Edward J. Berwind. *Lumber*—Frederick K. Weyerhaeuser. *Motion Pictures*-H. M. Warner, Adolph Zukor. *Tobacco*—George W. Hill. *Mail-Order Retailing*—Julius Rosenwald. *Publishing*—Adolph S. Ochs, W. R. Hearst, Robert R. McCormick, Joseph Medill Patterson, Cyrus H. K. Curtis, Roy W. Howard. *Labor*—William Green, Matthew Woll.)