CRUSADERS FOR AMERICAN LIBERALISM

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XXIV. THE PANIC OF 1907

A DEPRESSION was long overdue, for the development of trusts, now in its final stage and not to be halted by muckrakers or reformers, could not be accomplished without human sacrifice. The schemes of the Morgans and the Rockefellers led directly to an economic breakdown, not for them, certainly, but for those who were touched by their activities. Panic had all but broken loose during the Hill-Harriman fight for ownership of the Western railroads; it had threatened again in 1903, and many times during the following years when the muckraking attacks shook public confidence in the insurance companies and other business corporations in which it had invested. If exposure focused attention on palpably dishonest manipulations, like the shipbuilders' trust, it did not arrest or even deter the concentration of business. Free competition could not be enforced by either public demand or law. The banks dealt as they pleased with their reserves, and they dealt, as was to be expected, in the interests of those who controlled them. The irony and indignation of the muckrakers only emphasized that finance had been centralized and that the middle-class had been deprived of any ultimate control of it.

In January 1906 Jacob H. Schiff predicted that there would be a panic unless the currency system were reformed.[1] Schiff was primarily worried for the banks rather than the country at large; yet his warning was a reminder that no governmental effort had ever been made to lighten the effects of economic crisis, that no concern had ever been manifested by the government for the economic welfare of the nation except when wholesale bankruptcy and the stoppage of business had made action imperative. In those days each bank stood alone and a run on any one bank meant ruin to it. This had been relatively "fair" in the earlier time when banks were independent entities and reflected the policies of indi-

[1] See *Current Literature*, February 1906.

viduals. Now a bank was part of a system, unacknowledged but no less real; its directors were also directors of numerous other banks and companies. The ruin of any bank reacted upon other institutions, and the fall of an important bank was bound to have national repercussions.

To Socialists financial tragedy seemed the normal and inevitable concomitant of capitalism. For the depositor the issue of safety was more immediate, vital. Changes in the social system concerned him only when they touched him directly; and capitalism was acceptable so long as it did not destroy him. Whenever it threatened his peace or existence, and only then, his thoughts turned to government ownership and like radical solutions. His knowledge sometimes went beyond his practice, but never to the extent of influencing it.

When it came, the panic of 1907 formally introduced the new capitalism to Americans, and the sharp criticism that followed only served to stabilize and secure the new capitalism. This effect of criticism accounted for the bitterness of those radicals of later years who accused the muckrakers of having "saved" capitalism instead of allowing it to disintegrate through inefficiency and corruption. Most men during the crisis, however, and they included the broad masses of the population, were thankful to the muckrakers for their work, feeling that they not only had prevented chaos but also had laid the ground for further reforms. It is to be remembered that the movement of middle-class revolt was ascendant and was not intended to stop at any given point.

The spokesmen for capitalism blamed the muckrakers, and even Roosevelt, for capitalism's troubles. They contended that there would be no panics or depressions if they were let alone and allowed to conduct their businesses as they chose. Their point was undoubtedly true. But the terms upon which the financiers and capitalists could have stabilized their control would have meant an end of trade unionism, the public vote, in a word, democracy. It would have meant dictatorship with everything which that implies.

The idea of dictatorship was not distasteful to many business men and their intellectuals. Examples were culled from ancient history to prove that rule from above had resulted in "golden ages" of art and commerce. "Democracy" was not, at this time, a catchword for conservative demagogues; use of the word brought heaps of abuse on President Roosevelt among others. A fine contempt for the masses was frankly and even indignantly voiced in the more aristocratic of the magazines.

To the possibilities of financial dictatorship the muckrakers stood resolutely opposed. Their attacks upon the trusts and their concern for the small tradesmen bore witness to their determination that business as well as politics should be subject to popular will. It was, therefore, no accident that they should have followed the course of the Standard Oil Company of New Jersey and its subsidiaries so relentlessly. They struck often at the other trusts, but it was understood that the future of Standard would in all respects be the future of its brother corporations. From the publication of Tarbell's history until 1911 a full stream of criticism was directed at the ethics, history, and practices of the trust.

The hatred voiced by the muckrakers for large-scale business was shared by most citizens and the feelings of some citizens occasionally got out of hand. In 1905, for example, when Rockefeller contributed $100,000 to the American Board of Foreign Missions, Dr. Washington Gladden publicly denounced the acceptance of "tainted money" by his church. The matter became a subject for national controversy, heated arguments being conducted as to whether ill-gotten money—Standard Oil money—could conscientiously be used for worthy causes. Even John L. Sullivan, lecturing in behalf of temperance, gave his opinion. In the confusion it was entirely forgotten that Rockefeller had not been offering "conscience money." On the contrary, he had been importuned for a year by the American Board before he had consented to give them the money. Despite Dr. Gladden's protest, the money was spent, and was not returned. The willingness with which the public accepted the legend that the gift had been "refused," its satisfaction with the "rebuff" given the magnate, indicated a vengeful public mood which could not be placated by all the defenses and explanations of Rockefeller's agents.

Such public excitements were insignificant when compared with the prosecutions of Standard which the states undertook. In Kansas determined steps were taken to curb Standard's monopolistic and rebate activities; in Texas the famous Waters-Pierce Oil

Company, a subsidiary, was indicted for carrying on business in restraint of trade; and similar action of a kind not seen in twenty years was begun in other states. These suits were palpably of the highest importance. If future events were to prove that competition could not be revived in its older form, it was nonetheless felt that the suits were crucial tests of the power of government. No wonder the muckrakers kept an anxious eye upon them. Ida Tarbell, wielding the most influence, explained the Kansas situation for *McClure's* readers, and then, taken out of her role of historian, drew a portrait of Rockefeller as a man and as a type which proved that there were limits to her impartiality. As for Rockefeller himself—"Not a word. Not a word about that misguided woman," he said. He had been deeply hurt by the public's cynicism and its refusal to credit his religious and charitable convictions.

By 1907 the struggles between the government and Standard had come to a head. Early in January of that year the trust was indicted in the Ohio courts on five hundred and thirty-nine counts involving rebate practices. Two weeks later the Interstate Commerce Commission published what was recognized as a scathing indictment of Standard Oil and its leaders. On May 19 the Commissioner of Corporations issued a report charging that the oil trust had, by reason of its control of transportation, a practical monopoly over the petroleum industry.

Such was the tide of public antagonism against Standard that all the trust's news and publicity agencies could not check it. Nor was it by any means certain that the people's feelings could be controlled at the point of action. Rockefeller was sufficiently disturbed to issue an autobiography (published in *World's Work*) to offset biographies of him that had already been written. Frederick Upham Adams was commissioned to write in eloquent defense of the Waters-Pierce Company. Standard Oil was moved to the extent of purchasing space in such organs as *Collier's*, in which it appealed to American decency and impartiality.

Standard Oil, commented *Collier's*, was fighting for its life. This seemed hardly true, but it was not easy to foretell what the future would bring—particularly after the thunderbolts of the next several months had fallen. In June an Austin, Texas, jury rendered a decision for the state of over a million and a half dollars against Waters-Pierce, and recommended that the company be banished from the state because of its criminal activities. This action was sensational enough. But, in August, Judge Kenesaw Mountain Landis, sitting in judgment of the Indiana branch of Standard, electrified the country by imposing a $29,240,000 fine, following an earlier indictment of the corporation on 1,462 counts for the acceptance of rebates. Since the Indiana branch did not possess sufficient assets to pay the fine, Landis ruled that the holding company—that is, Standard Oil of New Jersey—must pay it. Landis's decision sounded, to the public, like the millennium. Rockefeller, however, vowed malevolently that Landis would be dead a long time before the fine was paid. The fine was not paid, and a "higher court" ordered the government to pay the costs of the prosecution.

At the time when news of the ruling was written large in headlines, a current of hope vibrated throughout the country. When, in September, Government Prosecutor Frank B. Kellogg brought suit for the dissolution of the trust under the Sherman Act, savage controversies began which seemed to point to the most violent showdown on the issue of big business in the history of the country. Standard Oil was not alone in the docket. The Harriman railroad lines were being investigated, and the American Tobacco Company was undergoing examination. In 1908 the Harvester trust was dissolved.

It should be remembered, however, that this pressure on the trusts was being exerted by men who would hardly have seemed fit instruments for revolution. Kellogg and Landis were not radicals; they were not even apostles of Populism. And the rulers of the Harvester trust were not made paupers through the dissolution; their profits, in fact, increased. Those who were profoundly excited by the antitrust proceedings failed to see that antitrust measures alone could not break up the financial system.

But meanwhile the panic and accompanying events helped to clear up certain confusions in men's minds and to explain—by bitter experience—what was happening to the country.

The depression was first indicated—but not frankly acknowledged—on March 14 when panic carried twenty standard railroad stocks to their lowest point in three years. The stock market continued to stagger and, later in the month, fell still further. All through the spring and summer it remained at ebb, and by October 24 it was many points lower than it had been at any time during the year.

This was the story of depression according to the ticker tape; and more was to come. In October, F. Augustus Heinze, the Montana copper king, attempted to corner United Copper. It shot up in value from 37¼ to 63, but dropped quickly to 36 and then, catastrophically, to 10. Heinze had bungled his corner. The stock-brokerage firm belonging to his brother was forced to close, as was another Stock Exchange firm through which Heinze had operated. The Mercantile National Bank, of which he was president and whose funds he had used, had to ask the Clearing House to meet its debit balance. The House did so, but not until Heinze and his directors had been compelled to turn in their resignations from the bank.

It would be proper to say that Heinze was sacrificed to his rivals in Wall Street, for his baronial methods of manipulating stock were not unique. Honesty did not triumph when the Mercantile was rid of his presence. Heinze had simply made the mistake of leaving an opening for opponents who did not approve of his power. This aspect of affairs was not publicized to any degree, for Wall Street was not in the habit of discussing its private business with the public.

The quick action of the Clearing House apparently saved the situation, closing up the ranks in business with no damage except to those who had investments in copper. Nevertheless, rumors concerning an unsteady condition of the banks circulated and fear became widespread. When the National Bank of Commerce sent out notice that it would not clear for the Knickerbocker Trust, one of the largest banks in America, which had been involved in Heinze's speculations, a frantic crowd collected at its doors, demanding money. Its president, Charles T. Barney, immediately resigned, but the damage was already done: $8,000,000 were paid out during a sensational run, and then the Knickerbocker closed its doors.

Panic was now in full swing. The stock market crashed completely, and banks all over the country found themselves unable to meet their obligations.

After the Knickerbocker Trust failed, the Trust Company of America became the second point of attack for depositors; it was all but closed on its first day, when it paid out $12,000,000 from its vaults. By that time it was certain that every other bank would be similarly besieged unless immediate action were taken to sustain all of them. J. P. Morgan, taking control of the situation, called upon all the financial leaders to help him break the panic. Rockefeller responded with a pledge to back him as far as necessary, and co-operation was offered by others of influence. Secretary of the Treasury Cortelyou put $25,000,000 of government money at the disposal of the banks, and announced his readiness to deposit with the national banks of the country $150,000,000 and more up to the limit of the law.

The Trust Company of America was saved. Public assurances that a united front among the financiers existed, and would continue to exist so long as it was needed, soon ended the runs which had threatened to destroy the banking system of the country.

So the panic ended. But the effects of the panic lingered as a depression. As Mark Sullivan has it, the country had to find its own "slow way to normal recovery." As for Morgan—he was hailed as a savior who had, almost single-handed, stopped the panic at its worst. It was true that he had emerged, mysteriously, with greater power than ever; it was likewise clear that Wall Street had been tolerating a system of banking which made banks vulnerable whenever co-operation among bankers was not forthcoming. But these considerations were not allowed to detract from Morgan's glory: he had saved the country. To quote Sullivan again, the financiers had come to him for guidance, some out of "voluntary deference," many "drawn irresistibly by that subtler and more powerful force" which individualized him. The public accepted this tale, if one can judge by the unreserved encomium which was accorded him. In any case, the panic was over, and there was no one else to praise for its termination.

The panic had been worse than the panic of 1893 and yet, significantly, it had done less damage. The reason, believes Professor Faulkner, was the "fundamental prosperity" of the country. It is also likely that the stakes of reform that had been driven into law saved the working-classes from being compelled to carry the full burden of the crisis. However the panic was analyzed, it was certain that common men would not again, in that generation, consent to suffer alone for such adventures in speculation as were launched in 1907.

There was another version of the panic. Upton Sinclair, visiting Edmond Kelly one day before the panic began, found him in great distress. Kelly, an internationally famous lawyer, a wealthy man, and a Socialist who had written important books on radical theory, told Sinclair his fears.

He—Kelly—had just left his friend, Charles T. Barney, the president of the Knickerbocker Trust, who had opened his heart to him. Barney had been in dire straits. Morgan had determined to ruin him, he said, and had therefore deliberately led him into entanglements and given him promises of support. Morgan had repudiated his pledges that very night. The Knickerbocker was doomed, and several other institutions were also marked for slaughter.

This was the gist of Kelly's revelations to Sinclair. That same night the press carried the story that Barney had committed suicide, and the next day his bank failed. The panic now reached its alarming proportions, threatened to get entirely out of hand, and was finally stopped.

So, while Morgan received plaudits for his statesmanship, Sinclair harbored what was not precisely a secret but was very close to one; namely, that Morgan was no deliverer but a man who had acted in the same way and with the same motives as Heinze, who, having failed, was being condemned as an irresponsible adventurer.

Sinclair now visited *The American Magazine* and offered to write a story on the theme. His subject was approved, a contract was signed, and Sinclair began to prepare his manuscript. Shortly after, however, according to *The Brass Check,* John S. Phillips came to him and begged to be released from the contract. Certain interests were displeased, it seemed, and might revenge themselves upon the magazine if the manuscript were published. Sinclair, therefore, freed Phillips from his obligation and set himself to finding another publisher.

Ida Tarbell denies the story: there was no "pressure" involved, she says, in *The American Magazine's* refusal to print Sinclair's

The Money-Changers. The manuscript was, she insists, rejected for no other reason except that it was second-rate. This remark can be compared with Sinclair's other reminiscence concerning the book. It was rejected also by Walter Page, of Doubleday, Page, on the grounds that it was inartistic work. When Sinclair heard this from Page's lips, he looked the editor in the eye and reminded him that a new novel by Thomas Dixon was being issued by his firm. He asked Page to tell him whether *that* was art.

Undoubtedly the subject matter of Sinclair's book had much to do with the fact that it was finally issued by a small and unimportant firm. It was noteworthy that no question about art had come up when *The Jungle* was finally accepted: that book was recognizably art. The truth is that Sinclair did not follow up *The Jungle* with anything of like power. *The Overman* was quite valueless; so was *The Metropolis*, for all its arresting gossip about the mad manners of smart New York. *The Money-Changers* had an important story to tell, but its characters were puppets, and the book hardly rose to dignity on any page. Not until 1909, when he published the novelette *Samuel the Seeker*, did Sinclair raise his style of fiction above mediocrity; then he achieved a certain Voltairesque brightness which compensated somewhat for the shallow story and trite characterizations.

And so the editors of *The American* were justified in their attitude at least to the extent of having been unwilling to wage a battle to defend, against inevitable criticism, such a slight work as Sinclair had to offer. The panic had greater significance than anyone realized who was merely concerned for his personal savings or investments, and it is by weighing such a book as *The Money-Changers* that we can fully grasp the power and importance of more substantial muckraking works that drew from that crisis in capitalism.

Although finance could not be taken out of the hands of the Morgan and Rockefeller circles, the muckraker could publicize facts which would end the cruder forms of speculation and protect the masses against men like Heinze. The middle-class was, unconsciously, digging in to preserve its outposts against destruction. Many writers now made contributions to exposure literature which helped to round out Lawson's dramatic story of gross fraud in high places.

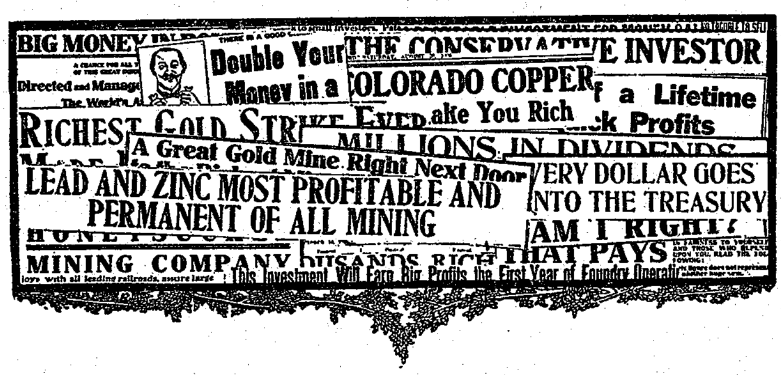
Edwin LeFèvre's novels and stories of high finance only capitalized, perhaps, upon the desire of the magazine and book reader to know more about the processes of business. They did, however, help him to such understanding and entertained him while doing so. Will Payne, also, drew from his experiences as a financial reporter and editor to write such fine stories as *The Automatic Capitalist*, which explained how finance was conducted and explained in the human terms the reader best understood.

Everybody's prided itself on its financial features. In June 1906, John O'Hara Cosgrave began Merrill A. Teague's series on "Bucket-Shop Sharks," which helped to reduce the number of such frauds. After the panic had passed Cosgrave printed a symposium on its causes, giving the opinions of men like James J. Hill, William Graham Sumner, and Lawson. Lawson's comment, written in his most vigorous style shortly before he repudiated muckraking, blamed "fictitious wealth." *Everybody's* also printed Charles Edward Russell's series "Where Did You Get It, Gentlemen?", in the course of which Russell raked over the careers of Thomas Fortune Ryan, William C. Whitney, Yerkes, and others, asking sardonically why anyone need be poor when such easy roads to wealth as these men had found were still open.

Other magazines were hardly less alert to the importance of the financial subject, particularly about the time of the crisis. It was *Success* and *Collier's*, however, which best told the truth about the stock market from the point of view of the small investor. Frank Fayant, who wrote the critical biography of Lawson, ran a series for *Success* entitled "Fools and Their Money" in which he treated financial firms and syndicates with startling familiarity. He also solicited correspondence from his readers and advised them regarding the solvency of specific firms. Elliott Flower, for his part, wrote for *Collier's* "The Diary of a Small Investor," and in it followed the actual path of the common man to the extent of recording real transactions, describing the "sucker's" market and elaborating on the question of promoters and their "references." Burton J. Hendrick and, later, John Moody and George Kibbe Turner also added chapters to that history of the financiers which was being written from so many approaches.

Such writings pioneered in the financial world, reduced considerably the effectiveness of brazen schemes for mulcting the public. By 1910 financial features were appearing regularly in the magazines. *Collier's* was even conducting a financial department for the benefit of its readers.

The masterpiece of all such writing, however, received no public honor. Gustavus Myers, completing his monumental *History of the Great American Fortunes,* could find no publisher for it. No



AN ILLUSTRATION FOR FAYANT'S "FOOLS AND THEIR MONEY"

wonder he resented a "latter class of writers, intent upon pandering to a supposedly popular appetite for sensation," and denied the value of muckraking ~~save as a reflection of~~ disordered times. Myers, now a Socialist, felt that the work of such men as Teague and Fayant and Elliott Flower was worthless when compared to the results of his own long investigation. Their work was not, of course, worthless; it was only less complete and of less ultimate importance; but it left its mark on the times. Myers's book was finally issued by the Socialist Kerr Company of Chicago.

The striking fact about all these books is that they were, first, bent on winnowing out fraud, and second, providing checks and balances upon finance. It seemed evident that centralization of financial power could not be indefinitely continued without pushing democracy into the discard. That danger accounted for the government's feverish efforts to purify finance and dissolve the trusts, and likewise for the earnest work of the muckrakers.

The difficulty was to determine how much purification and dissolution could be accomplished short of state Socialism. In 1909, for example, when the Hughes Commission on Speculation in Securities and Commodities conducted a timid survey and accomplished little, few commentators besides Lawson were able to say clearly just why the survey had failed. Wall Street had its place in the life of the country; honestly run it could benefit the nation. But it functioned entirely by individual enterprise, which was not easily controlled, and surely individualism in the form of the Rockefeller trust or the Morgan firm was dangerous. Agitation for a Federal Reserve Act, which would prevent such currency panics as had been witnessed in 1907, was finally begun among conservatives. Conservatives were also among those who approved the breaking up of the Standard Oil oligarchy, as well as among those who saw with alarm Morgan's domination of finance. Even millionaires were no longer safe, according to the rules of free competition, as Arthur Edward Stilwell could testify.[2]

The situation was further complicated by the fact that American finance had been drawn into international competition. Standard Oil, for example, no longer took its products about the world freely, for in 1903 the Royal Dutch Company and British Shell amalgamation had given Rockefeller a more formidable competitor than he had ever expected. Like mergers made it necessary for American finance to present a common front against foreign rivals. Tariff protection no longer sufficed to preserve old-style capitalism.

From 1909 to the time when President Wilson took the matter completely in hand, it was this need for adjustment which strengthened the campaign for curbing and defining capitalism. In 1911 the Standard Oil trust was dissolved. Shortly after, the American Tobacco Company was likewise ordered to dissolve by the decision of the Supreme Court. On another front, the Federal Reserve Bank was created to insure finance against such experiences as that of 1907. Louis D. Brandeis was to be found in the thick of such reforms; ~~and~~ when the Pujo Committee of 1912

[2] *Cannibals of Finance.* "Fifteen Years' Contest with the Money Trust," Chicago, 1912.

met to discuss whether or not a money trust existed in the country, it was Brandeis and men like him who were requisitioned to determine the facts. Brandeis later wrote the best account of these investigations for his friend and admirer Norman Hapgood, who had become editor of *Harper's Weekly*,[3] and in his account expressed the feelings and ideals which had motivated the anti-trust campaigners.

Centralization of business had been completed, but that did not mean that capital was free to act as it chose. More than ever did capital have to consider the aims and demands of organized labor. Industrial anarchy was definitely past; no one individual or group of individuals could any longer disorganize national affairs. What remained to be done, from the standpoint of those who had no place in the "higher brackets," was to continue such fights as political insurgents and magazine investigators could best carry on.

Government ownership as the next step in reform was the theme of Charles Edward Russell's book *Business: The Heart of the Nation.* A "moral awakening" no longer sufficed for him, as it had in 1905 when he investigated the beef trust. He amplified his more mature conclusions in the frankly Socialistic book in which he derided "government bunk" on the subject of the tariff and pointed out that the "dissolved" trusts had reorganized and were carrying on business as usual.[4]

That is to say, in the end the muckrakers were at the beginning: competition was not to be enforced, and the country was constrained to arrive at some utterly new understanding about a capitalism which was changing unpredictably—and beyond all question in ways that would affect the great reform movement to its foundations. Government ownership of essential industries was one solution that seemed to have possibilities, and Socialists talked often and at length of the advantages that would accrue to the public if capitalists were "bought out." The capitalists themselves had no enthusiasm for the proposal, and proletarian leaders scorned the idea that they would voluntarily surrender any of their power. If government ownership were the solution, it would have to be passed upon by those who stood between the political extremes.

[3] Published in Brandeis's *Other People's Money*, Stokes Co., New York, 1914.
[4] *Doing Us Good and Plenty*, Kerr Co., Chicago, 1914.