Chapter 21

RAID

Morgan had reserved the suite of rooms he always took at the Grand Hôtel in Aix. Mary Burns accompanied him to the spa in 1901, and his daughter Anne left Fanny in Paris to join them—Fanny went on with her maid to visit Jack and Jessie in London.

The hot springs in the hills of southeastern France, famous for its mountain views and Roman ruins, had been attracting European royalty for centuries. In recent decades Aix's eminent visitors had included Queen Victoria (who traveled, hardly incognito, as the "Countess of Balmoral"), her cousin Belgium's King Leopold II, the Emperor of Brazil, George I of Greece, and the Empress Elizabeth of Austria. Illicit love affairs carried out under the pretext of medical necessity had made the spa's *chronique scandaleuse* as renowned as its cure. Morgan's daily regimen there consisted of thermal baths and long massages in the morning, followed by lunch with his companions; in the afternoon he answered letters and cables, and took a drive through the countryside—over the years he had visited every beautiful spot within twenty miles. After dinner he played cards until bedtime. Although he enjoyed the attentions of the spa physicians, he adamantly refused the exercise and foul-tasting mineral waters they prescribed. He once told a reporter that the secret of health was "contentment, cheerfulness, and not to expect too much from others"—implicitly attributing his ailments to depression. On arriving at Aix in the spring of 1901 he made a large contribution to the local hospital. The mayor presented him with a bouquet as official thanks, and the town eventually named a street the Boulevard Pierpont Morgan.

On Saturday, May 4, Morgan was settling into his spa routine when a messenger brought him a cable from New York. Slicing it open, he learned that hostile raiders had launched a secret attack on one of "his" railroads, the Northern Pacific.

Events, it seemed, were not going to concede him a vacation. He had been connected with the Northern Pacific for twenty years, having raised $40 million for the last phase of its construction in 1880, and three years later rescued the road from bankruptcy. Like the Reading, the NP had gone on an expansion spree after its five-year, banker-controlled voting trust expired, and had loaded itself up with so much debt that it had defaulted again in the summer of 1893, requiring Morgan to step in once more.

James J. Hill, head of the Great Northern Railway, had been watching the NP closely. Born in Canada, he had moved to Minnesota in the 1850s, and by 1893 his Great Northern ran from Duluth to Puget Sound. His entrepreneurial gifts and short, stocky build had earned him the moniker Little Giant. Like many Gilded Age tycoons, he saw himself as an American Napoleon, and had commensurate dreams. None of the big east–west roads yet reached all the way across country, but Hill hoped to build a truly transcontinental system from coast to coast that would link up with shipping lines for trade with Asia and Europe. If his well-managed Great Northern cooperated with the Northern Pacific, two hundred miles to the south, they could construct an efficient, low-cost system of trade between America's breadbasket and the markets of the Pacific; their competition would be not with each other but with foreign transport systems as the United States laid claim to international commerce.

Hill and his financial backers, the Deutsche Bank and New York's Kuhn, Loeb, proposed to Morgan that they end competition between the two big northwest roads by merging them into a single system to be managed by Hill. The Little Giant from St. Paul with his bushy beard and shoulder-length gray hair was another unlikely Morgan ally: he looked as though he would be happier in buckskins than dinner jackets, yet his expertise spoke for itself and his aims coincided with those of 23 Wall Street. Morgan and Coster cabled their London associates in July of 1895: "proposed plan in every way desirable all interests."* The proposed plan was not in fact desirable to Morgan's lawyers. Stetson thought it would constitute an illegal restraint of trade. He was right: Minnesota's Supreme Court invalidated the plan, and in March of 1896 the U.S. Supreme Court rejected a constitutional challenge to the state statute that prohibited mergers between parallel or competing railroad lines.

* The Great Northern agreed to guarantee an issue of Northern Pacific mortgage bonds up to $175 million and, in return, to take half of Northern Pacific's capital stock and appoint five of the road's nine directors.

A month later, representatives of the Great Northern and Northern Pacific met in London and agreed privately to "form a permanent alliance defensive, and in case of need offensive" to avoid competition and protect their common interests: neither road would encroach on the other's territory by building or buying control of competing lines. Hill and his associates purchased about $16 million of Northern Pacific stock—roughly 10 percent of the total; these shares, combined with those held by Morgan's people, brought the two groups effective joint control of the NP.

A voting trust reorganized the Northern Pacific in 1896, changing its name from Railroad to Railway.* J. P. Morgan & Co. formed a syndicate with the Deutsche Bank to take $45 million of new NP securities, and the road prospered after its second Morganization, paying a 4 percent dividend on its preferred shares by 1898, and 2 percent on the common a year later.

Hill turned out to be a political power broker as well as an expert railroad manager. As the NP reorganization got under way in May of 1896, Coster forwarded him a telegram from a Washington informant reporting that one of the fifteen members of Congress who lived along the NP route had "declined to sign the request that the federal reorganization bill be taken up immediately": the holdout was Representative Joel P. Heatwole of Minnesota, "whose district lies largely on the line of the Great Northern, and he is in doubt as to whether you would approve his signing. Please wire him to do so."

Hill apparently authorized the congressman to sign. He earned a large profit from the NP reorganization, since he had bought nearly 260,000 shares of stock (par value $26 million) in the bankrupt road for $4 million. He had, however, hoped to control this resuscitated rival. Instead, Morgan ran the new voting trust, put Bacon, Coster, and Stetson on the board, and appointed two presidents of the NP whom Hill did not like—first Edwin Winter, then Charles S. Mellen. From 1896 until 1901, the Great Northern and the Northern Pacific abided by their peace treaty, but Hill wasn't satisfied.

The cable that reached Morgan at Aix on May 4, 1901, informed him that a combination of bankers and railroad men had secretly managed to buy up

* The name change had to do with raising money. The original NP charter stipulated that the road could issue bonds only for equipment and construction, not for new financing. To get around that provision, Morgan's lawyers found an unbuilt road in Wisconsin with a more liberal charter, the Superior & St. Croix; they bought the St. Croix, changed its named to the Northern Pacific Railway, and had it buy the NP Railroad.

Testifying about the road a few years later in court, Morgan needed help remembering its name. He said, "I made up my mind that it was essential that the Northern Pacific Railroad Company—railway, or whatever you call it—what is it?"

Mr. Stetson: "Railway."

Morgan (continuing): "Railway . . ."

more than half of Northern Pacific's stock on the open market. Leading the raiders in this "battle of financial giants" was Edward H. Harriman, a diminutive former stockbroker with a droopy mustache, wire-rimmed glasses, a penchant for stock manipulation, and a history of conflict with Morgan. He now controlled the Union Pacific, which ran from Kansas City and Omaha to Promontory Point, Utah (where it had met the Central Pacific in 1869). Like Hill, Harriman considered himself an American Napoleon and was known in railroad circles as a Little Giant. Also like Hill, he wanted to build a worldwide network of railroads and shipping lines based on his own companies. Unlike Hill, Harriman did not play by the Morgan rules: he favored guerrilla warfare over cooperative covenants.

He had taken charge of the Union Pacific by stealth. In 1895, when the bankrupt UP appealed to Jacob Schiff at Kuhn, Loeb for reorganization, Schiff deferred to Morgan, who had been one of the road's bankers and part of an earlier reorganization plan: "That is J. P. Morgan's affair," said Schiff. "I don't want to interfere with anything he is trying to do." Only after learning that Morgan wanted nothing further to do with the UP but was willing to help did Schiff take on the job.

While the Morgans had been channeling British capital to U.S. railroads, the German-Jewish firm of Kuhn, Loeb had been doing the same thing with money from Germany and France, and though the top Yankee and Jewish investment houses did not work together, they maintained gentlemanly agreements not to invade each other's territory. Schiff's plan for the Union Pacific was about to go into effect late in 1896 when things mysteriously began to go wrong among shareholders, journalists, and politicians. A baffled Schiff checked with Morgan, who knew nothing about the disturbance but promised to find out, and reported a few weeks later, "It's that little fellow Harriman. . . . you want to watch him carefully."

When Schiff confronted "that little fellow," Harriman said he was fighting Schiff's plan because he wanted to reorganize the UP himself, and he soon maneuvered his way onto the railroad's board and executive committee. Over the next few years he managed to turn the bankrupt UP into a strong, profitable line. Once he secured connections to the Pacific coast, his system posed a threat to the NP and GN. And in 1901 he acquired control of the huge Southern Pacific, running from Los Angeles to New Orleans.

Meanwhile, he was fighting with the other Little Giant, Hill, over a 7,911-mile rail network called the Chicago, Burlington, & Quincy. Both men wanted this dense web of midwestern roads for its access to Chicago, which offered connections to the Atlantic seaboard. Harriman had tried and failed to buy the CB&Q in 1900. Hill and Morgan acquired it for the joint account of the Great Northern and Northern Pacific in late March 1901. The road's Boston Brahmin owners explicitly chose Morgan over Harriman: "if Hill means also Morgan and the Northern Pacific, as he says it does," they explained, "that would be the stronger and safer place for us to land." Harriman demanded a third of the deal, but Hill and Morgan turned him down. They did not want this belligerent spoiler "butting in."

Harriman, of course, did not regard himself as butting in. He saw Hill and Morgan as filching the CB&Q out from under him—the new combination would be much stronger than the UP—and he quickly came up with a Napoleonic plan for revenge: to secure the CB&Q he would take over the giant Northern Pacific.

Buying stock out from under Morgan's formidable nose would be next to impossible, however. Harriman was going to need a great deal of luck and even more cash, and to assure himself of the latter he turned to Kuhn, Loeb and to the commercial National City Bank. Between 1891, when James Stillman became president of the City Bank, and 1901, the amount of its deposits had multiplied nearly ninefold, and its total assets had risen from $22 million to $194.5 million. William Rockefeller, John D.'s brother and chief financial officer, had chosen the City as the Standard Oil bank, and he and Stillman had been helping Schiff and Harriman refinance the Union Pacific.*

Morgan's lofty manner and dominant position on Wall Street had not endeared him to his rivals, and Hill later claimed that what came next had more to do with banks than with railroads—that the "City Bank crowd" backed Harriman in order "to show the world that Morgan was not the only banker in America," and to challenge his assumption "that all other Banking Houses were nothing more than his clerks." Stillman, said Hill, talked of "cutting [Morgan's] wings."

Schiff, working for Harriman, began to buy Northern Pacific shares as soon as Morgan left for Europe at the beginning of April. McKinley's second election had promised more heady times for Wall Street, and bullish investors were pushing volume and prices on the New York Stock Exchange to new highs. In January 1901 the market had its first 2-million-share day. In April, millionaires created by the steel merger, called the "Pittsburgh crowd," descended on New York ready to gamble, which provided perfect cover for Harriman's raid.

Morgan and his associates controlled the Northern Pacific board but owned less than half of its common stock; they assumed that no one would dream of trying to take over a $155 million railroad. NP common had ranged in price from 45 to 86 in 1900. It closed at 96 on April 1, 1901, on a heavy volume of 437,000 shares, and continued to climb all month. Kuhn, Loeb occasionally

* National City and the First National merged in 1955 to become the First National City Bank of New York, predecessor of Citibank.

sold shares to modulate the rise and allay suspicion, attributing the run-up to Northern Pacific's increased value after the CB&Q acquisition. The stock hit 103 on April 22, and 105 three days later. On April 30, volume on the Stock Exchange soared to a record 3.3 million shares.

Harriman had calculated that the Morgan partners in their Senior's absence would not take alarm at the unusual activity in NP stock. The unsuspecting Bob Bacon actually sold 20,000 of Morgan's own shares to profit from the rise, which seemed to confirm Hill's prediction a year earlier that Coster's death would leave the railroad end of Morgan's business "unprotected." John W. "Bet-a-Million" Gates told a reporter in May, "It looks as though the little boys . . . commenced while the big boy was away. If Mr. Morgan had been here this never would have happened." By Wednesday, May 1, NP common was trading at 115, and on Sunday, the *New York Herald* looked back at "the most colossal week of speculative trading in the world's history."

Hill was in New York that week, and though he had noticed the upward pressure on Northern Pacific, he did not know that Harriman was behind it—until Schiff told him.

Schiff had been Hill's own banker until 1897, when Harriman demanded Kuhn, Loeb's exclusive attention, and Hill began to work more closely with Morgan. Both Kuhn, Loeb and the Great Northern had offices at 27 Pine Street, a block north of J. P. Morgan & Co., and it was there on Friday, May 3, that Schiff explained the situation to Hill. According to Hill, the banker invited him to join the effort to "throw Morgan overboard," promising him the presidency of the Northern Pacific and "all manner of things by way of control of the Union and Southern Pacific as well." Schiff said his group had spent $79 million, and held 420,000 of the NP's 750,000 preferred shares and 370,000 of the 800,000 common—in other words, nearly majority control of the road. Adding Hill's stock to this inventory would give Harriman a huge margin of victory, but Hill, on his own account, refused to "abandon Morgan" and join this "plan of piracy." Hill may have embellished the story he told, but he did not invent its most surprising feature—that Schiff was mounting a brazen attack on the reigning lord of American finance.

Schiff may have shared Stillman's desire to clip Morgan's ample wings, but his formal manners, German accent, white goatee, and refined tastes spoke more of Old World *haute banque* restraint than of hostile takeovers and secret stock raids, and he had been careful not to "interfere" with what Morgan was trying to do in the UP reorganization. Perhaps in 1901 he had succumbed to pressure from Harriman and the "City Bank crowd," hoping that Hill would join them in a bloodless coup.

Hill disguised his shock at this astonishing information on Friday, May 3, then left Schiff and raced down Broad Street to 23 Wall. There, poring over stock-transfer books, he and Morgan's partners discovered to their immense relief a hitch. Since the road's directors—virtually all Morgan men—could retire the preferred shares as of January 1, 1902, the common stock was the controlling factor, and Harriman did not yet have fully half of it. It was at this point that Bacon cabled his senior partner, and from Aix late Saturday afternoon Morgan wired instructions to buy 150,000 shares of NP common.

In New York that Saturday morning, Harriman was in bed with a cold and vaguely uneasy about not having 51 percent of the NP common. He sent a message to Schiff to acquire another 40,000 shares (the Stock Exchange was open on Saturdays till noon). Schiff got the order but decided not to carry it out. Perhaps he thought he already had a majority of the stock—or perhaps, having tipped his hand to Hill, he had belatedly realized the implications of trying to outfox Morgan, and determined not to deliver the coup de grâce. Had he bought 40,000 more shares on May 4, his group would have taken control of Morgan's road.*

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On Monday, May 6, brokers for the Morgan/Hill group went onto the exchanges in London and New York to buy all the Northern Pacific stock they could. They used cash supplied by the big life insurance companies—chiefly, Perkins's New York Life. Northern Pacific shot up to 127½ by the end of the day in New York, and closed on Tuesday at 149¾. When Hill ordered his London associates not to sell NP common, one of them replied: "Friends here will stand firm. Much surprised Schiff should join in attempt to wrest control of NP from you. Keep me posted." Not even the railroad's managers knew what its bankers were doing. From St. Paul on Tuesday, NP president Charles Mellen wired his vice president in New York, "Cannot you give me some idea what is transpiring, to explain tremendous movement our stock?"

Short speculators had for days been selling into the rise, certain that it could not continue, and expecting to make a killing by contracting to deliver at $140 stock they would buy more cheaply as the price came down. On Tuesday, however, when the Morgan traders stopped buying at $146, the price did not come down. The market had gone berserk.

The risk for a buyer of stock has a boundary of zero—a share bought at $100 cannot lose more than 100 percent of its value. For short sellers, how-

* Schiff was at synagogue when the message reached him on Saturday, and most versions of this story say he did not execute the order out of obedience to Jewish laws forbidding work on the Sabbath. Yet if he could not buy stock on Saturday, he could have instructed the partner who brought him the message to do the job. Instead, he told the man not to buy the shares, since it was not necessary, and said he would take full responsibility for the decision.

ever, the risk is boundless, since the price can go up indefinitely and the seller is obligated to deliver what he has pre-sold regardless of what he has to pay. On May 7 and 8, 1901, other stock prices crashed as the NP shorts dumped everything they had to cover their sales, and on "Blue Thursday," May 9, NP leaped to a preposterous $1,000 a share. Speculators grimly realized the market was effectively cornered: they had sold 100,000 more shares than had ever been printed, and could not buy the stock at any price.

The Morgan/Hill group had acquired 150,000 shares in two days. If they paid an average of $129 a share, they had spent nearly $20 million. They had also precipitated a major Wall Street panic. Aware on Blue Thursday that countless brokers and stockholders would be ruined and the markets ravaged if the panic was not contained, the bankers at J. P. Morgan and Kuhn, Loeb agreed to postpone delivery of stock they had bought, and to sell enough shares at $150 to allow the shorts to cover. Hill and Harriman made a public promise to negotiate peace, with Morgan appointing a new board of Northern Pacific directors. The panic subsided.

It had actually been the short sellers, not the buyers, who drove the market to the frenzied heights of Blue Thursday, and it had been the Harriman group's raid, not the Morgan defense, that had set the action in motion. Still, what the world saw was Wall Street bankers diving like great white sharks after their prey, and Morgan took responsibility for repairing the damage. He had issued instructions by cable from Aix all week, but on Blue Thursday he abandoned his holiday and went to Paris, then London, where the crisis was threatening to derange the English markets. At Princes Gate, Fanny noted in her diary: "Pierpont is coming tomorrow. . . . Tremendous excitement in Wall Street, over Union & Northern Pacific."

Morgan found the City anticipating a "disastrous" panic, but once he and Kuhn, Loeb's English associates offered London brokers the same terms advanced in New York, the British markets calmed down.

When Hill and Morgan's New York partners counted up their NP stock, they learned that they had only 394,830 shares of the common, and needed 400,001 for a majority. They quietly bought more, mainly in London, and by May 18 had 420,000 shares, 52.5 percent of the total.

From New York on May 15, Hill cabled a partner at Baring's, using the code name "Feejee" for Morgan: "everything clearing here . . . feejees strength increasing daily general feeling city and country runs high against Schiff's conduct all our friends firm enemy making overtures."

The next day, Schiff wrote Morgan a long, self-justifying letter, explaining that he had bought Northern Pacific stock in order to protect the Union Pacific with regard to the CB&Q—"not with a view of actually taking away the control and management of the property from those in whose possession it was," but only to secure a position of influence on its board—and that he had told Hill of the purchase in order "to bring about the harmony and community of interest which other means and appeals to him had failed to produce." Blaming most of the trouble on Hill, Schiff assured Morgan that the "Union Pacific interests" had never intended "to do aught meant to be antagonistic to you or your firm," and that he and his banking partners had "at all times wished, as we continue to do, to be permitted to aid in maintaining your personal so well deserved prestige." Both Kuhn, Loeb and the Union Pacific were

> entirely ready to do anything in reason that you may ask or suggest, so that permanent conditions shall be created which shall be just to all interests and not bear within them the seed of future strife, discord, and possible disaster. Trusting, then, dear Mr. Morgan, that you will understand the spirit in which this letter is written, and hoping that the rest of your stay abroad may be pleasant and not interrupted by any unsatisfactory events, I am, with assurances of esteem,
>
> Yours most faithfully,
> Jacob H. Schiff

Morgan considered interrupting his European trip to deal with the "unsatisfactory events" that had just occurred, but the recovery of market equanimity persuaded him he could remain abroad. There is no record of his response to Schiff, or to the partners who almost lost a property he had been working on for twenty years—a road he thought he controlled, but had had to pay top dollar on the open market to secure, with horrendous consequences.

On May 15, Fanny's birthday, he left London at 10:00 A.M. for Paris. He met Adelaide and her daughter there, and brought them back to England two weeks later. Fanny noted in her diary on June 2 that Mrs. Douglas and Sybil joined a dinner party at Princes Gate, and on the fourth that the Douglases came to call with Annette Markoe and her elder daughter, Dagmar Wetmore. On the fifth, Fanny sailed for home.

The uncrowned king of American finance was invited to lunch early that June with the new King of England (who would not be officially crowned until 1902). The royal family was still in mourning for Queen Victoria; Morgan, Jack, George Bowdoin, and Morris K. Jesup drove down to Windsor Castle in black frock coats and top hats. Edward VII gave them a tour of the palace art collections and lunch in the Orangery.

A few weeks later Morgan had another royal encounter, with Edward's second cousin Leopold II of Belgium. He had declined an invitation to meet Leopold in Brussels in May, writing from the Hôtel Bristol of his "extreme" regret. With the panic on both sides of the Atlantic under control, he was probably more interested in seeing Adelaide than Leopold (whose chief historical distinction, unconscionable exploitation of the Congo, had mired him in debt). On June 21, Jack reported to Fanny: "Father . . . went down to Gravesend last night with Dawkins and dined with the King of the Belgians who wanted to see them about some business and brought his yacht over because Father could not go to Brussels. Rather amusing; they spent the night on board."

Henry Adams had described with delight the "abject terror" of London and Berlin as Morgan's nose "approached hourly nearer their bank vaults" in early April. Two months later, Swiss newspapers reported that the American *Trustmeister* was planning to take over Switzerland's watch industry to protect New England watchmakers from competition. Morgan, still trying to take a vacation, was probably buying watches, not factories.

Jack reported to Fanny in mid-June that his furloughed father had spent a full day on the Thames ("I did not ask who were the party"), and "actually came to the office yesterday where he lunched and left almost at once." Morgan surprised his son even more three days later. Just before leaving New York that spring he had received a call from two Boston doctors, Collins Warren and Henry Bowditch, who were raising money for a new Harvard Medical School campus near the Fenway. As the Bostonians laid out architectural sketches, Morgan in a characteristic hurry pointed to three structures and asked how much they would cost. Dr. Warren said he did not yet know the exact costs. "When you have gotten your plans and estimates," said Morgan, "let me know." Warren sent him the figures in London that June. Morgan wired back that he would give $1 million for three buildings in memory of his father. He called Jack into his office at Old Broad Street and showed him the cable without a word. "You had better believe I was pleased," Jack told his mother. "I don't know that there is anything he could have done which would have pleased me more, though I realize it was not done with that object!"

The senior Morgan returned to New York on the *Deutschland*, sailing June 28, with Charles Lanier, Waldo Story, and Mr. and Mrs. Clinton Dawkins. Adelaide and her daughter stayed on in England—in July they signed the Visitors Book Morgan had just begun to keep for people who came by private invitation to see his collections at Princes Gate.

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For years Hill and Morgan had been trying to create a solid "community of interest" among the northwest roads, and the 1901 crisis provided both occasion and urgent motive. In the wake of the panic, Hill told his friend Lord Mount Stephen, a Canadian banker and railroad president now living in England, that he was spending all his time trying to unite "the Great Northern, NP, and CB&Q under one control. This will give us within five years the best railway property in America with larger annual income for dividends than the Pennsylvania and the New York Central combined. Had we delayed the opportunity would never again have arisen. . . . With the large fortunes of this country it is absolutely necessary for permanent safety to lock up control." Morgan was thinking along the same lines. Mount Stephen cabled Hill on June 6: "Have just seen Morgan. . . . Wants prompt unification of 2 roads. Delay might lead to serious consequences." Hill replied the next day: "Nothing more can be done [in the United States] until Morgan arrives."

Once Morgan did arrive in early July, he installed a new board of Northern Pacific directors that included parties from both sides of the recent conflict—Harriman, William Rockefeller, and Hill—"in order," he said later, "to show there was no hostility." And as announced in May, the former adversaries devised a plan for permanent railroad peace in the Northwest—a giant holding company that would control the securities of the Northern Pacific, the CB&Q, and the Great Northern. Morgan was so impatient to wrap up this consolidation, and so cavalier about the antitrust law, that one of his attorneys snapped, "What do you want to do? Do you want to go to jail?"

While Stetson and his associates worked out details of the unification plan, Morgan turned his attention to another urgent conflict—a strike at U.S. Steel. The Amalgamated Association of Iron, Steel and Tin Workers had steadily lost membership after the Homestead strike of 1892, and its leaders saw the formation of the giant steel trust as an opportunity to revitalize the union. The corporation had recognized the Amalgamated where it was already established in April 1901, but refused to allow it to organize nonunion mills. The labor leaders moved quickly, convinced that if they did not act before U.S. Steel solidified its position, the union "would be virtually banished from the industry."

That spring, Amalgamated president T. J. Shaffer demanded a union wage scale and recognition in all the mills of two U.S. Steel subsidiaries, and when the two companies rejected the plan for plants not previously under union contract, he called a strike against them. By July 10, thirty-six thousand steelworkers had walked out, and Shaffer was threatening to shut down U.S. Steel. He expected railroad and miners' unions to join the fight.

At the end of July, when Amalgamated leaders met with U.S. Steel officials, Morgan proposed a compromise: the corporation would pay union wages across the board, but hold the line against organizing nonunion mills. He said he was not opposed to organized labor, and expected all U.S. Steel plants to have union contracts within two years; for the moment, however, it was impossible to impose a single policy on the subsidiaries. At the urging of other labor leaders, Shaffer agreed to Morgan's proposal, but his executive board rejected it, and on August 10 the Amalgamated called for a general strike against U.S. Steel. While other unions debated sympathy walkouts, the corporation hired strikebreakers. In late August, John Mitchell, head of the United Mine Workers of America, persuaded Shaffer to reconsider Morgan's initial proposal plus reinstatement for all strikers. This time, Shaffer managed to get his board's approval, partly because its members thought that Mitchell's UMW would join the strike if the new negotiations failed.

When Mitchell, Samuel Gompers of the AFL, and other labor representatives took the recycled Morgan proposal to U.S. Steel headquarters on September 4, however, Charles Schwab rejected it. He said he would not sign union contracts for nine of the mills that had been union the preceding year, but would take no action against anyone who participated in the strike; he proposed to leave this offer on the table for twenty-four hours. Mitchell urged Shaffer to accept it and end the strike. Shaffer asked for a day's extension to consult his board, but produced no answer twenty-four hours later. Neither the UMW nor the AFL joined the strike. On September 14, the Amalgamated was forced to accept far harsher terms than either Morgan or Schwab had proposed, and lost fourteen mills that had been unionized when the strike started. According to the labor historian Philip Taft, the outcome of the steel strike was "disastrous" to the Amalgamated "and to the labor movement generally."*

A year after the strike, George Perkins put into effect a plan that would allow rank-and-file U.S. Steel workers to buy its preferred stock on installment at special prices. His aim was to provide employees with a stake in the corporation's productivity and profits—to "people-ize" the industry, he said, as well as to forestall unionization and offset public antipathy to corporate giants.

Profit sharing was not a new idea at the beginning of the twentieth century. Albert Gallatin, Treasury Secretary from 1801 to 1814, had tried it at his Pennsylvania Glass Works in 1795, and sharecroppers and fishermen had always taken portions of their yields. By 1900, U.S. companies with profit-sharing plans included the Illinois Central Railroad, Procter and Gamble, the National Biscuit Company, New York Life, Pittsburgh Coal, and Carnegie Steel.

The program Perkins devised at the largest corporation in the world went further than its antecedents, offering preferred stock at a discount to every employee, with payment on an installment plan and bonus incentives for long-term employment. Those most able to take advantage of the plan were executives and skilled workers at the highest salary levels, but 10 percent of the company's 122,000 unskilled workers, earning an average of $550 a year, signed up as well. Gary claimed that the plan made "the wage earner an actual partner." The journal *Finance and Commerce* predicted that employee stock ownership would turn the country into "a nation of conservative Bourbons."

* In the aftermath of these events, Gompers accused Shaffer of rejecting "the good will and kindly assurances of J. P. Morgan that the steel corporation might recognize the unions in a few years if the union would not now 'attempt to drive him further than it was possible for him to go.' "

Not surprisingly, it didn't, although it tended to take the pressure off wage questions and to undermine union bargaining power. The *American Mining Congress Journal* called employee stock ownership "a prophylactic against government ownership," and Samuel Gompers dismissed it as a genteel surrogate for factory police and strikebreaking Pinkertons. Thousands of people dropped out of the U.S. Steel plan in its first few years, unable to afford even discounted shares, yet in 1911 over 30,000 workers owned company stock, and 42,258 by 1918.

Perkins, sounding a little like the author of *Fraternity*, regarded the program as "socialism of the highest, best and most ideal sort." He stressed the moral and psychological investment that came with stock ownership, criticizing managers who used similar programs not in "a true, an honest, and a fair spirit of cooperation," but simply to exact higher returns from labor. He also claimed that this program had reduced the "strike menace to almost nothing." Though he was offering what the unions regarded as paternalistic tokens, Perkins genuinely thought he could replace worker-management conflict with mutually beneficial accord—just as he and Morgan thought corporate cooperation could supplant "ruinous" warfare.*

Sir Thomas Lipton sent a second *Shamrock* to challenge New York for the America's Cup in 1901, and that August—just as Shaffer called for the general strike against U.S. Steel—Morgan went by yacht to Bar Harbor to watch the trials. He returned to New York when Louisa's baby arrived a week early. Satterlee wrote to his mother on September 1: "The Commodore has come several times and held the baby [named Mabel] to his and also her great satisfaction. He says that 'barring Louisa' she is the prettiest baby he has ever seen."

At the end of September the Commodore took a party of friends to Sandy Hook, New Jersey, on *Corsair* to watch the first race between the new *Shamrock* and *Columbia*, the defender. *Columbia* won by seconds. As soon as she crossed the finish line, Morgan left the course, sailed up the East River, boarded a launch for shore, and was driven to Grand Central Station, where a train was waiting to take him to San Francisco for the Triennial Episcopal Convention.

Signalmen from New York to California routed trains to side tracks so the Morgan "special" wouldn't have to stop. Among those on board were Bishops

* Most early experiments with "welfare capitalism" collapsed during the depression of the 1930s. The evidence from more recent employee stock-ownership, profit sharing, and management-participation plans suggests that under the right circumstances they effectively increase worker income and satisfaction as well as productivity and innovation. (See Roger Alcaly, "Reinventing the Corporation," *The New York Review of Books*, April 10, 1997.)

Henry Potter and William Doane, Jim Goodwin, Adelaide's cousin Amy Townsend, and Frank Stetson. Morgan's Attorney General, also an active lay member of the Episcopal Church, had the plans for the northwest railroad consolidation so firmly under control that before leaving New York he had given an associate the *minutes*—not the agenda—of a forthcoming Northern Pacific stockholders meeting.

In San Francisco, Morgan put his friends up for three weeks at a house he had leased from the railroad builder and banker Charles Crocker, and consigned all culinary arrangements to the New York restaurateur Louis Sherry, whom he had imported for the occasion. During the ecclesiastical councils at San Francisco's Trinity Church, messengers brought him telegrams about the yacht races taking place off Sandy Hook. Morgan read these bulletins aloud, and the night *Columbia* won the Cup he held a Sherry-catered dinner for the votaries of church and yacht.

After the convention he took his party up the coast to Oregon and Washington, where he bought them all furs. Northern Pacific Railway president Charles Mellen met the group in Portland—a friend teased him about "entertaining Bishops and other ecclesiastical dignitaries and escorting them in their beautiful lawn sleeves along the bottom of copper mines." In late October, Morgan escorted the dignitaries home.

Adelaide Douglas moved from 28 West 57th Street to 4 East 46th in 1901, and as soon as Morgan returned to New York that fall he bought objects for her new house at the Duveen Brothers gallery on Fifth Avenue. The New York City street directories list Adelaide and her husband at 46th Street and Douglaston, Long Island—she may have stayed primarily in town, he in the country. A clerk at Duveen's annotated the lists of Morgan purchases in 1901, marking some pieces as going to "House" (219), some to "Museum" (the Metropolitan), some to 55th Street (the Markoes); the items sent to "4 East 46th" in the fall of 1901 included Chelsea porcelains, Dresden candlesticks, a silver lamp bracket, a green velvet embroidered coverlet, antique Italian gilt and carved wood candlesticks, and a Louis XIII armchair. Adelaide apparently encouraged Morgan's interest in the decorative arts of the French court, for among the objects he gave her over the next few years were a "coffret de mariage de Marie-Antoinette," Riesener furniture, a Louis XV secrétaire, groups of Sèvres and Meissen porcelain, books on *Les Femmes de Versailles* and *Napoléon et les Femmes*, and a silver-plated "Temple of Love" by the Parisian silversmith André Aucoc. Working in the late-nineteenth century, Aucoc was well known for closely copying eighteenth-century models, and the neoclassical "Temple" Morgan gave to Adelaide—standing seventeen inches high on a ten-inch solid-silver base—is reminiscent of table centerpieces used for royal occasions in late-eighteenth-century France. She kept it in the center of her dining table.

On November 12, 1901, lawyers for Morgan and Hill chartered a New Jersey holding company called Northern Securities, authorized to issue $400 million of capital stock. The next day the new, Morgan-appointed board of the Northern Pacific Railway voted to retire its preferred stock at par, and to pay for it with a $75 million issue of convertible bonds; since Harriman sat on the board and owned a majority of these shares, his assenting vote put a final full stop to the raid. Also on November 13, J. P. Morgan & Co. bought Harriman's NP common shares and sold them to the Northern Securities Company. The new corporation quickly acquired 76 percent of all Northern Pacific stock and 96 percent of the Great Northern's, issuing its own shares in exchange; it gave Harriman's Union Pacific group a $9 million premium for trading in their shares. Although the GN and NP would remain separate entities, Northern Securities created the huge regional community of interest that Morgan and Hill had been trying to establish for years.

Hill headed the Northern Securities board. Among the other directors were Morgan partners Bacon, Perkins, and Steele, First National Bank president George Baker, Northern Pacific officers Charles Mellen and Daniel Lamont, and the erstwhile raiders, Harriman, Stillman, William Rockefeller, and Schiff. In addition to the NP, GN, and CB&Q, the holding company acquired steamships, land grants, timberlands, coal properties, and iron mines. Hill thought $200 million a low estimate for the value of the nonrailroad assets.

Morgan, questioned five months later about his motives for organizing Northern Securities, talked about securing "moral control." When news of the raid reached him at Aix, he said, he had instantly realized what was at stake: "I feel bound in all honor when I reorganise a property and am morally responsible for its management to protect it, and I generally do protect it; so I made up my mind that it would be desirable to buy 150,000 shares of stock, which we proceeded to do, and . . . that actually gave us the control."

He had done an enormous amount of work on the Northern Pacific since 1880. "Protecting" it in 1901 had meant buying nearly $20 million of its stock on the open market, then combining it with the Great Northern into a holding company so large and closely held that it would not be susceptible to hostile raids: "We didn't want convulsions going on," he explained. Since the court he addressed in 1902 was considering whether or not Northern Securities violated the antitrust law, Morgan stressed *size* as the key to "protection," even though his long experience with railroads (and the raid on Northern Pacific) had convinced him that only majority stock ownership guaranteed control. He had thought the $155 million NP safe from "being absorbed by a competing line without our knowledge or consent," he said. When it turned out not to be, he concluded that greater size would ensure stability: "The capital of the Northern Securities Company was so large [at $400 million, that] I did not believe in a night or week anybody would ever be able to get control of it."

What he wanted was to be able to "go to Europe and not hear next day that somebody had bought it for the Boston and Maine, or I don't know what other company. I wanted the Northern Pacific stock put where nothing could interfere with the policy I had inaugurated and for the carrying out of which we were perfectly satisfied and morally responsible."

To people concerned about railroad monopolies and the stifling of competition, these statements sidestepped the essential problem: that parallel and competing carriers had been brought together under one corporate roof. Morgan was looking at a different set of problems, and he regarded the outcome in this case—the ending of regional warfare, the inclusion of former enemies on one corporate board, the promise of steady transport between the country's agricultural interior and its ports, and the positioning of U.S. commercial interests to compete with Europe—as an ideal solution.

Yet he and his associates had also taken steps to protect their consolidation which he could not have called "moral," and would not have been willing to discuss in public. On November 18, 1901, six days after the incorporation of Northern Securities, Minnesota Governor Samuel R. Van Sant invited the governors of neighboring states to join him in an effort "to fight the great railway trust." For various reasons the other governors declined, but they passed a resolution on December 31 declaring the consolidation "contrary to sound public policy" and approving Minnesota's challenge. On January 7, 1902, Minnesota asked the Supreme Court for leave to file a complaint against Northern Securities as an illegal combination in restraint of trade—a request the Court denied. Minnesota's attorney general brought suit in state court.

Hill had assured Van Sant that since neither the GN nor the NP controlled the other and each remained independent, "no law of the State of Minnesota is being avoided or violated." Still, criticism mounted in the local press. Suspecting that rival railroads were behind it, Hill instructed his son to "try to get Minnesota Journal & Tribune, Pioneer Press and Globe" to tell his side of the story: "You should spend Forty or Fifty or Seventy-five thousand, if necessary, to good advantage. . . . It may be best to smoke out the opposition of the other roads."

Charles Mellen, who hated Hill, urged Morgan to keep the Great Northern and its president "in the background." The Northern Pacific, Mellen claimed, was far more popular in Minnesota than Hill's GN, and could "do many things without much expense that can only be done by the other party through such a lavish use of money as borders on scandal." Since Mellen himself was engaged in bribing public officials, it seems to have been the amount rather than the fact of corporate payoffs that justified calling the kettle black.

In late January 1902, two weeks after Minnesota moved against Northern Securities, Mellen told Morgan in a letter marked STRICTLY CONFIDENTIAL that Van Sant was about to recommend to a special session of the state legislature new laws regarding railroad rates "of a nature we should term retaliatory, and it is my belief that he can be dissuaded from such a course, and his message be made wholly silent on the subject."

Though "not prepared to say definitely that this can be done," Mellen thought he had an avenue "by which it can be accomplished, and my object in writing you is to ask if you will personally place at my disposal a modest sum of money, available, in my descretion [*sic*], in case I secure the desired result." Practically blushing and scraping the floor with his toe, he said he had in mind "no unreasonable sum; my experience in such matters has been of a modest character; and I feel sure the amount will meet your entire approval." It turned out to be $5,000. Mellen was appealing to Morgan in order to disguise the fact that the money would be coming from the Northern Pacific, he explained: once the "desired result" was accomplished, the banker could recover the sum from the NP "in ways that will occur to you, and that have been used before, and keeping the matter wholly a confidential one between you and myself."

Mellen assured Morgan that none of the money would "either directly or indirectly, ever reach the Governor" himself, "for I think he is beyond anything of the kind." Mellen's coy rectitude—he claims "modest" experience with these matters, and appears to respect a politician who is "beyond" bribery: paying off those who were *not* beyond it (probably members of the governor's staff) might be dirty work, but somebody had to do it—suggests that he was worried about someone else's scruples. "Should this matter appeal to you," he concluded to Morgan on January 25, 1902, "I beg you will telegraph me yes or no."

Four days later, Morgan replied, "Yes."

On February 1, Mellen reported the matter "well in hand," although the governor was "weak . . . suspicious" and "unreliable." On the third he wired Morgan, "We are all right, message will be satisfactory." He elaborated by mail that it would be "silent on the question of legislation as to railroad rates," and would recommend "no legislation on the merger question other than an appropriation to continue the [antitrust] litigation."

With this mission accomplished, Mellen turned immediately to another. The Minnesota legislature was now likely to "attack us through rate bills" on its own, he told Morgan, and also to impose a heavy new tax on iron ore, "in which [he hardly needed to remind his correspondent] the United States Steel Corporation is greatly interested. Sub rosa we are advised bills have been prepared, attacking in this direction." Mellen thought he could head off *this* threat for a sum that would be "inconsiderable as compared with our former experience with legislatures here." And in what amounted to a fine illustration of Saint Jerome's lesson about "strong men in controversy . . . justifying the means by the end," he went on: "I assume you want success, or rather, in this instance, immunity, and the method is not so important as the result."

Two weeks later Morgan wired, "Quite approve your going ahead: would like to know maximum amount required."

Mellen: "Not in any event to exceed twenty five."

Morgan: "All right, do whatever is necessary."

At the beginning of March, Mellen reported that he had put $25,000 "in the hands of a third party" and arranged for there to be no "adverse legislation" regarding railroads or steel. He asked Morgan to credit $25,000 to his account: the Northern Pacific, Great Northern, and US Steel would "equitably" repay the advance.

Although the sums involved in these purchases of political inaction were relatively small—"inconsiderable as compared with our former experience with legislatures," volunteered Mellen—they would have confirmed the public's worst fears about Wall Street and the corrupt use of corporate cash, had they or their predecessors come to light. Morgan probably did not much like these activities—several things he would not have wanted posterity to see *did* escape the censors, and there are few instances of outright graft—but accepted them as the cost of doing business. He had a capacious definition of "moral responsibility" that covered what seemed necessary to achieve the goals he had in mind: "the method," as Mellen obligingly put it, was "not so important as the result"—"immunity" from rate regulation, ore taxes, and legislation hostile to the Morgan clients' interests.

Even without knowing about the Minnesota transactions, nervous democrats saw in Morgan a symbol of everything they feared about the imperious power of Wall Street. In his *annus mirabilis* (also *horribilis*), he had organized the steel trust, halted the Northern Pacific panic, and set up a giant monopoly of railroads in the Northwest. The business community applauded Northern Securities as a constructive extension of Morganatic harmony. Most of the country condemned it as another nefarious trust, and feared that Morgan was indeed, as Henry Adams quipped, trying to swallow the sun. From London at the end of December, Clinton Dawkins condoled with his American partners about the "disagreeable and exasperating" time they were having, and sympathized "with Flitch [Morgan] over the interminable bother and trouble that the villainous raid on NP has brought in its train."

Chapter 22

TROUBLE

"Disagreeable and exasperating" times for the house of Morgan were just beginning. On September 6, 1901, an anarchist named Leon Czolgosz had shot President McKinley at the Pan-American Exposition in Buffalo, New York. According to *The New York Times*, Morgan was about to leave his office late that afternoon—he was glancing over a ledger at a clerk's desk, hat on, cane in hand—when a reporter ran in with the news. "What?" Morgan demanded, seizing the man's arm and searching his face. The journalist repeated the story. Morgan dropped his cane, returned to his own desk, and asked an associate to confirm the report. For several minutes he sat in his office, staring at the carpet, until another newspaperman came in with an "extra" on the attempted assassination. Morgan read it slowly, then told the journalists, "This is sad, sad, very sad news. . . . There is nothing I can say at this time."

Responding to rumors that he would call a conference of financiers that night, reporters stationed themselves outside his bank, Delmonico's, the Fifth Avenue Hotel, and the Union, Metropolitan, and New York Yacht Clubs. The country's unofficial central banker spent the night on *Corsair*, anchored in the Hudson. Police authorities were afraid that Czolgosz was part of a larger anarchist plot, and when Morgan arrived at 23 Wall Street the next morning he found the building guarded by half a dozen detectives. Later in the day he issued a statement to the press: "The financial situation is absolutely good. There is nothing to derange it. The banks will take care of that. You need not worry about it."

On September 14, McKinley died.

Mark Hanna had warned the Republicans against putting Theodore Roosevelt on the ticket in 1900. A year later the man he called "that damned cowboy" was President of the United States.

Morgan had known and admired the senior Theodore Roosevelt, and supported the junior at the New York State Assembly in the early eighties. The Harvard-educated Knickerbocker from Oyster Bay had turned in a heroic performance for the Republican ticket and the gold standard in 1896, and Morgan reportedly gave $10,000 through Easy Boss Platt to Roosevelt's 1898 gubernatorial campaign. Once in the Albany State House, Roosevelt made it clear that he, not Mr. Platt, would govern New York, and began to challenge the comfortable alliance between big business and party bosses that had come to be known as the "invisible government"—pushing through a corporate franchise tax over Wall Street's protest and publicly criticizing the trusts. Platt promoted Roosevelt for Vice President in 1900 largely to get him out of New York.

A month after the Republican victory that fall, well aware that he alarmed his party's "respectables," Roosevelt made a gesture of deference to the Old Guard by giving a dinner in Morgan's honor. He wrote to the Secretary of War, Elihu Root, on December 5: "I hope you can come to my dinner to J. Pierpont Morgan on the 29th inst. at the Union League Club. . . . You see it represents an effort on my part to become a conservative man, in touch with the influential classes, and I think I deserve encouragement. Hitherto I have given dinners only to professional politicans or more or less wild-eyed reformers. Now I am hard at work endeavoring to assume the Vice Presidential poise."

Writing to the honoree about the event, Roosevelt addressed him as "My dear Mr. Morgan," signed his note "with great regard," then added that Jack was invited as well—"I have always known him as 'Jack' and I am not certain whether he is J. Pierpont Morgan Jr. or not."

Morgan left no account of the dinner at the Union League Club, nor of his thoughts on TR as the country's second in command, but the "Vice Presidential poise" in December 1900 was one thing, the presidential nine months later altogether another.

With McKinley in the Executive Office, Morgan had known more or less what to expect: minimal antitrust prosecution, regular consultation between Wall Street and Washington, virtual carte blanche to promote the market stability and economic policies favored by the conservative elite of both parties. As Morgan finished up the organization of U.S. Steel in 1901, Senator Beveridge of Indiana reported to George Perkins on a "bully talk" he had recently had with President McKinley, in which both men agreed that Morgan was "not only a financier but a statesman."

From Roosevelt, however, widely regarded on Wall Street as a "bucking bronco," Morgan had no idea what to expect. The new President was six weeks

Theodore Roosevelt.

(Culver Pictures, Inc.)

shy of forty-three when he took the oath of office—the youngest man yet to occupy the Executive Mansion. Radiating energy and determination, he had been a sickly, asthmatic child who schooled himself in strenuous altheticism. A moral idealist who had mastered pragmatic politics, he adored public life and glorified war (coming upon a dying Rough Rider at San Juan Hill, he grasped the man's hand and said, "Well, old chap, isn't this splendid?"), but was also drawn to remote wilds of nature, and was passionately devoted to his family. Romantic jingoist, militant imperialist, soldier, scholar, naturalist, hunter, author, crusader, dealmaker, dude—he had so many interests and facets that one friend called him "polygonal."

Roosevelt kept his distance from the plutocrats. During the 1896 Republican victory celebrations he told his sister he could see "all of Brooks Adams' gloomiest anticipations of our gold-ridden, capitalist-bestridden, usurer-mastered future" coming true. In 1897 he criticized the cozy relations between "corrupt wealth . . . the Pierpont Morgan type of men" and "powerful, unscrupulous politicians" such as Platt: "I am glad I am out of it." He was not entirely out of it. He knew how to use Platt's machine, accepted campaign contributions from Perkins's New York Life and "the Pierpont Morgan type of men," and courted Morgan himself as soon as he was elected Vice President.

Part of what made for Roosevelt's political success was an unusual combination of intelligence, personal conviction, supple principles, superhuman energies, an instinct for centrist popular sentiment, and a conspicuous love of the limelight. "He would go to Halifax for half a chance to show off," said Mark Twain, "and he would go to hell for a whole one." Oliver Wendell Holmes, Jr., thought TR had the talent "of a first class megaphone." With his glinting spectacles, barrel chest, toothy grin, upper-class accent, and rasping, articulate voice (someone said he "used adjectives like hammers"), Teddy was a favorite subject for cartoonists, which only increased his prominence. The English historian John Morley described him as "an interesting combination of St. Vitus and St. Paul," as much a "wonder of nature" as Niagara Falls. Henry Adams reflected: "Power when wielded by abnormal energy is the most serious of facts, and all Roosevelt's friends know that his restless and combative energy was more than abnormal. Roosevelt, more than any other man living within the range of notoriety . . . was pure act." Adams admired thought more than action, but Roosevelt became the first President since Lincoln whose stature was commensurate with the office.

As Governor of New York he had advocated the regulation of big business, and the major question at the start of his presidency was whether he would continue McKinley's laissez-faire policy toward the trusts. In early October 1901, with the country in mourning and Morgan attending the Episcopal Convention in San Francisco, Bob Bacon and George Perkins called on the new

President at the White House. Roosevelt liked both men, especially Bacon, whom he had coaxed into the boxing ring at Harvard, reporting gleefully that he might have landed a punch if only his arms had been longer—or Bacon's shorter. The sparring match at 1600 Pennsylvania Avenue in early October 1901 concerned the trusts. U.S. Steel had just issued its first quarterly report.

According to Roosevelt, Perkins asked him to retract various proposals he had made to turn a "searchlight" on the trusts, since corporations financed by the Morgan bank had voluntarily begun to disclose their earnings and losses: "Perkins wanted me to do nothing at all, and say nothing except platitudes," the President told his businessman brother-in-law, Douglas Robinson, "accept the publication of what some particular company chooses to publish, as a favor, instead of demanding what we think ought to be published from all corporations as a right." Although he considered the ambassadors from the house of Morgan to be men "of the highest character . . . genuine forces for good as well as men of strength and weight," he thought "on this particular occasion they were arguing like attorneys for a bad case, and at the bottom of their hearts each would know this if he were not personally interested; and especially if he were not the representative of . . . so strong and dominant a character as Pierpont Morgan."

Roosevelt, adept at playing both sides of the street, wrote a second letter to Douglas Robinson that day, marked "to give to Mr. Perkins." In it he said he was "delighted to see the publication made by the steel company. It is in every way a good thing. I much enjoyed the visit from Perkins. I am particularly desirous to see him and Bacon as often as possible."

When Mark Hanna and other Republican leaders urged TR to "go slow" about the trusts, he promised to follow McKinley's lead. He showed a draft of his first message to Congress to Hanna, who took out a section on overcapitalization, but the speech as delivered on December 2, 1901, did address the problem of the trusts. Ignoring the Perkins-Bacon request, Roosevelt said that in order to protect the public's general welfare, "the Government should have the right to inspect and examine the workings of the great corporations engaged in interstate business." Still, he praised businessmen who were promoting economic stability and national prosperity, and insisted that he did not aim to "do away with corporations"—"on the contrary, these big aggregations are an inevitable development of modern industrialism, and the effort to destroy them" would be likely to "work the utmost mischief to the entire body politic." He wanted to *regulate* big business, not annihilate it: "We draw the line against misconduct, not against wealth."

Finley Peter Dunne's Mr. Dooley immediately mocked the President's temporizing: " 'The trusts,' says [Roosevelt], 'are heejous monsthers built up be th' inlightened intherprise iv th' men that have done so much to advance progress in our beloved counthry,' he says. 'On wan hand I wud stamp thim undher fut: on th' other hand not so fast.' "

Eager to assert Washington's power over Wall Street, however, Roosevelt did move "fast." He took direct aim at what one historian has called "the very Sanhedrin of the nation's financial oligarchy"—Morgan, Schiff, Stillman, William Rockefeller, Harriman, and Hill—the men responsible for the Northern Pacific panic and the latest giant trust. Working quietly with his Attorney General, Philander Knox, the President did not even consult the other members of his cabinet before he announced in February 1902 that his administration would prosecute the Northern Securities Company under the Sherman Act as an illegal restraint of trade.

The stock market shuddered. Morgan was stunned. His lawyers had put together Northern Securities with a careful eye on the antitrust law. He thought the President should have conferred with him, given him a chance to resolve their differences and make whatever adjustments might be in order, before publicly branding him an outlaw.

From London, Clinton Dawkins wondered by mail how the President reconciled his "brutal assault" on Northern Securities with "his fine language about 'leaving unhampered the strong, forceful man, upon whom the success of business operations rests[.]' " Jack, also in London, pronounced himself "very sorry that Teddy did not stop to ask the opinion of someone interested before making an announcement of that sort," as it had made things "extremely uncomfortable over here."

In Washington, Henry Adams hooted to Elizabeth Cameron that "our stormy petrel of a President" had "suddenly, this week, without warning . . . hit Pierpont Morgan, the whole railway interest, and the whole Wall Street connection, a tremendous whack square on the nose. The wicked don't want to quarrel with him, but they don't like being hit that way." Although Morgan was invited to a dinner at the White House for Prince Henry of Prussia, the brother of Kaiser Wilhelm, "the Wall Street people are in an ulcerated state of inflammation," and "Pierpont has declined the White House dinner."

Adams, who was no great admirer of Morgan and unable to resist any opportunity to make fun of his nose, nonetheless credited him with having more than self-interest at heart: "Pierpont is furious," he told Mrs. Cameron, "because Theodore, suddenly, without warning, at a critical moment of the market when very large amounts of money were involved and borrowed on collateral, had hit him an awful blow square in the face. . . . Pierpont says that Roosevelt should have given him warning so that he could have had time to support the market."

Morgan went immediately to Washington to confer with the President and the Attorney General. He arrived at the White House on February 23, accompanied by Senators Hanna and Depew. According to Roosevelt, who left the only surviving account of this meeting, Morgan wanted to know why he had not been warned.

Warning Wall Street, said Roosevelt, was "just what we did not want to do."

Morgan: "If we have done anything wrong, send your man [Knox] to my man [Stetson] and they can fix it up."

Roosevelt: "That can't be done."

Knox: "We don't want to fix it up, we want to stop it."

Northern Securities was not the most vital concern at 23 Wall Street, and Morgan wanted to know how far the President intended to go. "Are you going to attack my other interests," he asked, "the Steel Trust and the others?"

Roosevelt: "Certainly not, unless we find out . . . they have done something that we regard as wrong."

The President, by his own account, told Knox as Morgan and his companions left the White House: "That is a most illuminating illustration of the Wall Street point of view. Mr. Morgan could not help regarding me as a big rival operator, who either intended to ruin all his interests or could be induced to come to an agreement to ruin none."

The two men *were* essentially "big rival operators," each convinced that he had the country's long-term best interests at heart, and ready to use any means in his considerable arsenal to bring about the future he had in mind. One of them was President of the United States, looking forward to imperial dominance abroad and intent at home on publicly subjugating the "mighty industrial overlords of the country" to governmental authority. The other was a private banker who looked exclusively to economic efficacy, confident that military and political questions would take care of themselves if the United States had stable markets and steady productive growth.

From Morgan's point of view it was wildly irresponsible of "the politicians" to interfere with the delicate financial mechanisms over which he was unofficially presiding as the balance of economic power shifted from the Old World to the New. Half a century after his father moved to England to funnel European capital to America, two decades after Morgan syndicates sold U.S. government bonds abroad, and five years after Morgan himself secured foreign gold for the Treasury, the British government was raising capital in the United States.* In putting together Northern Securities and U.S. Steel, Morgan was, as he saw it, building unassailable systems to compete in world markets and launch an American century. If his enterprises succeeded, they would benefit steelworkers and coal miners as well as bankers, and he counted on intelligent men in government to back him up.

* J. P. Morgan & Co., acting as agent for the Bank of England, had taken $12 million in subscriptions to a British loan for the Boer War in March 1900. Two months later the firm joined Drexel & Co., Kidder, Peabody, and Baring, Magoun in New York to handle a $30 million Ex-

By 1902, however, relatively few of Morgan's compatriots shared his point of view. The country now objected so strenuously to the dominion of big business that groups who traditionally feared state authority—labor, farmers, small businessmen, the growing middle class—began looking to the government for protection. It was a political moment to which Theodore Roosevelt could not have been more perfectly suited. He wrote later that "the absolutely vital question" of the government's power to control corporations "had not yet been decided." The Supreme Court decision in the 1895 case against the sugar trust (*E. C. Knight*) "had, with seeming definiteness, settled that the National Government had not the power." TR was determined to prove that it did.

After meeting with the President on February 23, Morgan dined at Chauncey Depew's with Wayne MacVeagh, who occasionally worked with Stetson's law firm.* "The whole party was black," reported Henry Adams, "in spite of dear Wayne's efforts to cheer it up. Pierpont sulked like a child. From the White House came a telephone [call] inviting the party to come over. Pierpont refused but they made him go. There the President was very cordial, and they sat about for a while and went home. The [Morgan] party had come on to see whether some arrangement could be made so that they could go on with their consolidation-scheme, but as far as Wayne saw, not a beginning of a step had they made."

Morgan reluctantly attended the President's dinner for Prince Henry the next evening after all, then returned to New York. Early in March he took Adelaide, the Markoes, and his daughters Anne and Juliet to Jekyl Island for a week in the sun (Fanny was touring Italy with her sister Clara). He stopped in Washington on the way down and back to confer with Hanna as the administration built its case against his railroad trust.

Henry Adams's antic running commentary on the Morgan-Roosevelt clash that spring cast the banker as competent adult and the President as obstreperous child. On March 2: "Theodore's vanity, ambition, dogmatic temper, and cephalopodic brain are all united on hitting everybody, friend or enemy, who happens to be near. . . . He has knocked the stockmarket silly, and has made enemies of pretty much every man in Congress."

chequer loan, and in 1901 the Bank of England authorized this same group plus Rothschilds to take subscriptions for another $300 million. The British government was worried about turning to the United States for help (just as Grover Cleveland had worried about relying on Britain and Wall Street in 1895), but ultimately decided it had no choice. Morgan shared in a last issue of £32 million in April 1902, just a month before the end of the Boer War.

* An influential Philadelphia Republican who had been Garfield's Attorney General and represented the Pennsylvania Railroad in the West Shore deal, Wayne MacVeagh was the father of Stetson's partner, Charles, and a close friend of Henry Adams. Called "one of the knightliest figures in the courtroom," he joined Bangs Stetson Tracy & MacVeagh for three years in the eighties, and later was "of counsel" to the firm.

March 4: "Theodore is blind-drunk with self-esteem. He has not a suspicion that we are all watching him as we should watch a monkey up a tree with a chronometer. Cleveland was a mere donkey beside this bucking broncho [*sic*]. . . . Luckily for him, all his . . . friends and enemies hate each one the other worse than they hate him. . . . What he would never enjoy or forgive is to become seriously conscious that his father's old friends look at him with precisely the same curious interest with which they regard . . . a naughty boy who breaks china when his mother isn't looking."

March 11: "I do not know whether Pierpont Morgan can once more hold up the market and save a panic."

On April 6, as the markets grew increasingly bearish: "Wall Street is in a desperate state of mind since Roosevelt so nastily struck it his foul blow on the Northern Securities; and Pierpont Morgan and Hanna insist that, at any cost, Hay and Root [the Secretaries of State and War] must stay. Until they have worked Roosevelt into harness, or he has fairly kicked over the traces, the old machine has got to be kept running. You can see how necessary it is for Wall Street to lose no more ground here."

April 7: "Hanna [who maintained his interests in Ohio steel mills] says that not an order has been booked in Cleveland beyond November, and all on account of the Northern Insecurities."

Conflict with the government did not slow the pace or diminish the scale of Morgan's consolidations, but trouble was erupting on other fronts as well. Early in 1902 the "gigantic, nerve-wracking business and pressure of the Morgan methods" took their toll on another partner—Bob Bacon. After a year of work on the organization of the steel trust, the Northern Pacific panic (for which he bore some responsibility), White House communications, and the controversy over Northern Securities, the former all-star athlete suffered a nervous breakdown. He took a leave of absence at his physician's insistence.

He hoped to return to 23 Wall Street after an extended rest in Europe, but the doctors warned him he would "smash up completely" if he did. During his young friend's recuperation, Morgan put him on the board of U.S. Steel and visited him in Europe. The Boston Adonis withdrew from the firm at the end of his leave.

As Governor of New York in 1900, Roosevelt had urged Bacon to give up banking for politics. As President in 1905, he appointed Morgan's former partner Assistant Secretary of State under Elihu Root, and when Root resigned in 1909, Bacon served as Secretary for the final weeks of Roosevelt's second term. The federal government was apparently an easier taskmaster than the house of Morgan, since Bacon's health held up well. Pierpont and Jack stayed in close touch with their former partner at the State Department and after he became William Howard Taft's ambassador to France.

Things were not going well at U.S. Steel when Bacon left for Europe early in 1902. Having outraged public opinion with the size of its initial capitalization, the corporation found after less than a year that it needed another $50 million in cash—primarily to repay construction loans incurred by the constituent companies before the merger; though consolidation had made the additional building largely unnecessary, the companies could not cancel their commitments. Perkins, who replaced Bacon as chairman of the Steel Finance Committee, came up with a plan to retire $200 million of the company's preferred shares in exchange for $200 million of 5 percent second mortgage bonds, and to sell an additional $50 million of bonds for cash. Since the preferred shares paid a 7 percent dividend, the exchange was expected to decrease the company's annual charges by $1.5 million.

Morgan, busy with other projects, assented to this plan even though he generally opposed increasing debt—and just about everything possible went wrong. Jack paraphrased the reaction he expected from London: "Here is the greatest company in the world, with the largest capital ever known, only running 9 months, and which has got to call for 50 million of new capital. We do not understand, but feel were fully justified in mistrusting at the beginning." Shareholders were reluctant to trade stock paying 7 percent for bonds paying 5 percent, even though bonds carried less risk. When J. P. Morgan & Co. organized a syndicate in March to underwrite the conversion, Perkins had such trouble securing participants that he had to promise matching commitments from the Morgan bank.* In May and June, two groups of minority shareholders sued to stop the exchange, objecting to the syndicate's 4 percent commission and the increase in bonded debt, among other things. (One litigant offered to drop the suit if Perkins gave him a call on 20,000 shares each of Steel preferred and common.) The lawsuits held up the conversion until February 1903, when a court ruled them groundless, but by that time the steel business had entered a decline, share prices and earnings had plummeted, and it was impossible to effect the exchange. The conversion offer expired in May with only $45 million

* In April 1902 the syndicate agreed to offer shareholders the right to trade preferred stock for bonds, and to buy (also with stock) whatever bonds the shareholders did not take. It guaranteed subscriptions to $100 million of the bonds, with $80 million payable in preferred shares and $20 million in cash. Syndicate members put up the $80 million of preferred shares in the spring of 1902, promising to hold them until October 1903, then effect the exchange: J. P. Morgan & Co. and John D. Rockefeller started things off by each depositing $10 million worth of shares in a joint account. Syndicate earnings were set at 4 percent on the aggregate amount of bonds sold or delivered; Perkins thought it would not be a "particularly profitable" contract.

of stockholders' shares (separate from the syndicate's commitment) converted into bonds and a mere $12,000 raised in cash. A desperate Perkins extended the syndicate's term to June 1904, but in the fall of 1903 the corporation called the whole thing off.*

Internal conflicts at U.S. Steel were as troublesome as its finances. There had been two distinct groups with potentially clashing aims all along—the Gary/Morgan lawyers and bankers, interested chiefly in industry stability, steady profits, and staying out of court, and the production-oriented steel men

* In the end, only about $170 million of the proposed $250 million in bonds were issued in exchange for stock and cash. Of that total, the syndicate subscribed for roughly $125 million—$114 million in the stock conversion, $11 million bought with cash. J. P. Morgan & Co., acting for the syndicate, delivered approximately $7 million in cash in 1903, and another $4 million early in 1904—slightly over half of its $20 million cash commitment. Gary's second annual report, in March 1904, said the corporation could call for the remaining $9 million at any time, but that "in order to avoid the unnecessary burden of interest upon bonds issued for money not immediately needed," it would not call the remainder "except when and as the cash shall be needed by the Corporation."

There is no accurate record of the syndicate's profit or loss on this transaction, nor can there be, in part because it is impossible to say what the members would have done with the preferred shares had they not pledged them to the conversion. When the plan was set up, the bonds were selling at about 95 and preferred shares at 94. By March of 1903, when the plan went into effect, the bond price had fallen to 88, the preferred to 85, and the gap continued to widen: by November the bonds were trading as low as 65, the preferred under 50. As a result, the syndicate had to exchange shares it had furnished at 94 for bonds worth far less (in November 1903 the paper loss would have been $29 per share, or a total of $23.2 million on the $80 million pledged in preferred stock). Still, that loss was smaller than what the members would have sustained had they *held* the preferred as its value declined from 94 to 50—a loss on paper of $44 per share, or a total of $35.2 million.

The syndicate offset some of its losses in the fall of 1903 by buying about 250,000 preferred shares on the open market and exchanging them for the higher-priced bonds, at a gain of about $10 per share (roughly $2.5 million). Since the conversion plan was proving no more advantageous to U.S. Steel than to the syndicate, the Finance Committee asked the Morgan bank on November 19 to terminate the contract, which it immediately did.

All told, the syndicate delivered *more* than the $100 million it had guaranteed, but in different proportions—not $20 million cash and $80 million in preferred shares exchanged for bonds, but $11 million cash and $114 million converted preferred; the additional shares probably came from the open market operations in the fall of 1903. If the syndicate did lose roughly $23.2 million on its delivery of preferred shares, if it gained back $2.5 million by buying shares in the fall of 1903 and trading them for bonds, and if it earned a $6.8 million fee (4 percent of $170 million), its total loss would have been about $14 million. Over the long run, the preferred stock sold at much higher prices than the bonds, which meant that stockholders and syndicate members who traded shares for bonds had sacrificed significant potential profit.

represented by Schwab. Schwab's dream of a centralized, superefficient firm never came true, and he blamed its failure largely on Gary's opposition to the aggressively competitive policies that had made Carnegie Steel a success. Yet Schwab's own actions and imprudence contributed to his undoing.

As president of U.S. Steel, Schwab alienated colleagues already worried about the company's image by attracting exactly the kind of notoriety they did not want. When he announced to the graduating class of a New York City trade school in May of 1901 that boys going into business did not need college educations, speakers and writers all over the country fulminated against him, Big Steel, the decline of American culture, and a "delirium of material drunkenness." After he told an industrial commission that unions reduced their members to the "level of the cheapest workman, instead of the most capable and highest priced," Hearst's *Journal* reported that the Steel Trust was planning to destroy unions once it had tricked the public into buying its worthless stock. Executive Committee chairman Gary had to deny rumors that Schwab earned $1 million a year, saying, "He is a very wealthy man, a large holder of the stock of the company, and does not need and would not accept an extravagant salary." Schwab apparently did need an extravagant house, for he began in 1901 to build a multimillion-dollar mansion, modeled on Chenonceaux in the Loire, with ninety bedrooms, six elevators, a 116-foot tower, a sixty-foot swimming pool, a bowling alley, a gymnasium, and its own power plant. It took up an entire city block at 73rd Street and Riverside Drive.

These crimes against conservative decorum paled next to the scandal that erupted when reporters spotted Schwab at a Monte Carlo casino in January 1902. SCHWAB BREAKS THE BANK read the headline in the New York *Sun*, and newspapers played up the story for days. Carnegie was so outraged that he cabled his former protégé: "Public sentiment shocked. . . . Probably have [to] resign. Serves you right," and wrote to Morgan: "I feel . . . as if a son had disgraced the family. . . . He is unfit to be the head of the United States Steel Co.—brilliant as his talents are. . . . I recommended him unreservedly to you. . . . I have had nothing wound me so deeply for many a long day, if ever."

Morgan did not share Carnegie's rhadamanthine views. When Schwab offered to resign "if Morgan thinks I should," Perkins replied that the uproar had not made "the slightest impression on Mr. M. Do not give the matter any further thought. . . . Go ahead and have bully good time."

"Many thanks," wired back Schwab, "appreciate Mr. Morgan attitude more than possible to express," and continued by mail: "Steel Co. first—me second . . . I'll do anything Mr. Morgan wants. He's my idea of a great man. Carnegie has condemned me without a hearing. Mr. Morgan a new friend is broader gauged by far. I'm his to command."

When Morgan saw Schwab for the first time after this episode, in March

1902, he told him to "forget it, my boy, forget it." The press, however, was not willing to forget the "moral delinquency" of the head of the Steel Trust, nor was the narrow-gauged Carnegie, who subjected his former understudy to such a barrage of condemnation that Schwab had a nervous breakdown. In August 1902 he retreated to Aix-les-Bains (probably at Morgan's urging) and stayed abroad for nearly a year. When he finally decided to resign from U.S. Steel in 1903—having also been charged by a New York court with "ruinous extortion" in connection with a shipbuilding trust—Morgan helped him make a graceful exit, praising his "unequalled powers as an expert in the manufacture of steel," attributing his departure entirely to ill health, and keeping him on as a member of the Steel board and Finance Committee.

Carnegie's prodigal son may not have been the right man to run the Morgan/Gary consolidation, but Morgan had correctly assessed his expertise. In 1904 Schwab took over management of Bethlehem Steel, a small Pennsylvania producer of rails and specialty items, and over a decade built it up into the second largest firm in the country, the chief rival to U.S. Steel.*

After Schwab's departure, his assistant, William E. Corey, became president of U.S. Steel, but it was Gary who effectively set company policy for the next twenty-five years. He did not follow Schwab's prescription for geographic rationalization, unified sales facilities, and innovative research, nor did he carry forward Carnegie's hard-driving, cost-cutting, price-slashing lead. Instead, he presided over a loose holding company of intact subsidiaries, and created a structural umbrella that allowed the giant firm and its smaller competitors to maintain steady prices even in fluctuating markets. He and Morgan wanted primarily to stabilize the country's fundamental industry—and secondarily to avoid antitrust prosecution—and under their governance U.S. Steel squandered the advantages it inherited from Carnegie. Its share of the American steel market declined from about two thirds in 1901 to one third by the 1930s.

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The presidential waffling that Finley Peter Dunne lampooned ("On wan hand I wud stamp [the trusts] undher fut; on th' other hand not so fast") accounted for much of Morgan's consternation at the move against Northern Securities.

* Schwab had bought Bethlehem Steel in June 1901 for roughly $7 million. He sold it to the U.S. Steel syndicate at that price, then bought it back in 1902 for $7.2 million and sold it to his U.S. Shipbuilding Company for $30 million of its stock and bonds. He gave the Morgan syndicate 50,000 shares of the stock as profit on the resale, but the shipping venture failed in July 1903. In December 1904 Schwab secured a New Jersey charter for the Bethlehem Steel Corporation, sold off extraneous facilities, and concentrated on making commercial steel.

Roosevelt had recently given a dinner in honor of the country's "Railroad Bismarck," and even as he filed suit against the northwest rail consolidation in February 1902 he was encouraging Morgan to organize a giant international shipping trust (see Chapter 23).

In the fall of 1902, TR welcomed Morgan's help in settling a major labor-management dispute. Workers in Pennsylvania's anthracite coal mines—most of which were owned by Morganized railroads such as the Erie and the Reading—had gone on strike in the late summer of 1900 for a wage increase (which they had not had in twenty years), an eight-hour day (instead of ten), better working conditions, an end to excessive charges at company stores, and union recognition. UMW President John Mitchell negotiated a settlement that fall with the help of Morgan and Mark Hanna, who convinced the railroad presidents that a prolonged strike would hurt Republicans in the last weeks of a presidential election campaign (the party slogan was a "Full Dinner Pail" for American workers). The settlement included a 10 percent wage increase, recognition of workers' grievance committees, and two related promises—Mitchell would guarantee a year of no strikes in the coal regions, and Morgan would try to get the mine operators to recognize the union.

Neither side proved able to keep its promise: local, unauthorized strikes continued, and the coal-road presidents adamantly opposed union demands. The conflict came to a head again early in 1902. Mitchell, who had meanwhile tried to mediate between workers and executives in the 1901 U.S. Steel strike, met with Morgan in February 1902, and reported to Hanna that the banker said he would "do what was right when the opportunity for action came"—that "if the railroad presidents were wrong he would not sustain them; if the miners were wrong he would not help them." Ralph Easley, head of the National Civic Federation, a group of industrialists and labor leaders organized to head off violent confrontations and promote industrial peace, told Mitchell that Morgan was "a good deal in the same fix with these coal roads, as he was last summer with the Steel Corporation. He has a lot of unruly presidents on his hands who are willing to resign any minute if he undertakes to coerce them. He has not got a lot of men standing around to put in their place." Easley counseled patience, assuring Mitchell that in time "we will have friendly men instead of hostile old cranks at the head of [the coal roads]."

In May, after a futile meeting between Mitchell and the railroad presidents, 140,000 miners went on strike. Over the next few months Mitchell earned the union widespread popular support by curtailing violence and emphasizing to the press the strikers' honesty, reasonable demands, and willingness to negotiate. The mine owners, by contrast, were arrogant and harsh. Easley considered them "forty years behind the times in their attitude toward organized labor," which seemed an understatement when the Morgan-appointed president of the Reading Railroad, George F. Baer, answered a clergyman's appeal for settlement by saying that the "rights and interests of the laboring man" would best be protected "not by labor agitators, but by the Christian men to whom God in his Infinite Wisdom has given control of the property interests of the country." After Baer's letter was published in the press, Clarence Darrow pronounced him "George the Last," and the *Chicago Tribune* said that the "real subverters of law and order" were not the strikers but the coal-road presidents.

The striking miners supplied new words to the popular song "Just Break the News to Mother":

> *Just break the news to Morgan that great official organ,*
> *And tell him we want ten per cent of increase in our pay,*
> *Just say we are united and that our wrongs must be righted,*
> *And with those unjust company stores of course we'll do away.*

When Morgan returned from Europe in August, Mitchell, Easley, Hanna, and Chauncey Depew tried to get him to arbitrate between the owners and strikers—Samuel Gompers and James Duncan at the AFL told National Civic Federation leaders that they believed "in the absolute integrity and fairness of Mr. Morgan." According to Herbert Satterlee, Morgan thought the two sides should reach an agreement on their own, and if they couldn't, it should be the government, not he, who stepped in. Nonetheless, Mitchell said Morgan began working for settlement behind the scenes in August. Between May and October the price of coal rose from $5 to $30 a ton. Morgan helped set up, supply, and pay for a depot on the Lower East Side of Manhattan, where people could buy coal below cost.

In September, New York's Democratic State Convention endorsed nationalization of the mines, and a rally of ten thousand people in Madison Square supported the strikers. A Socialist organizer in Pennsylvania said the coal strike had "done more for the cause of Socialism than all the events that ever happened in the United States before." Jacob Riis warned Roosevelt that if he did not find a remedy, "the arrogance of the money power will bring a revolution."

Roosevelt feared the democratic "mob" even more than he disliked "corrupt wealth." His speeches against Bryan and other radical extremists had come from the heart, as had his early opposition to organized labor. He believed in the rights of property owners, but in 1902 the coal barons' "wooden-headed obstinacy and stupidity [TR's terms]," the threat of social upheaval, and the rising price of coal as cold weather and the midterm election approached, induced him to intervene.

He invited the mine owners and Mitchell to meet at the White House on October 3. Mitchell agreed to accept arbitration by an independent commission, but Baer refused to "waste time negotiating with the fomenters of this anarchy," and demanded that the President use the army to end the strike. Roosevelt, who already had ten thousand troops in the coalfields, considered using them to take over the mines instead. News of the owners' inflexibility increased public support for the miners, who voted on October 8 not to end the strike.

It was at this point that the administration turned to Morgan. On October 11, Secretary of War Elihu Root took a train to New York, and on board *Corsair* that afternoon he and Morgan drafted a statement for the coal-road presidents to sign. Morgan negotiated with these men all the next day—they insisted on several changes (probably adding bombast about labor's "reign of terror" and protests about their own small profits and fair practices), but ultimately adopted the proposal, which Morgan delivered to Roosevelt in person on October 13. The presidents agreed to arbitration by an independent commission, but not to negotiations with the union. They named five categories of men to arbitrate the dispute—an engineer, a judge, an "eminent" sociologist, a military officer, and a mining expert. Mitchell the next day objected to their rhetoric and attempt to pack the commission, but agreed to arbitration if Roosevelt would add two more mediators—a priest (most of the miners were recent immigrants and Catholic) and a union man.

Root telephoned Morgan with this news. On October 15, George Perkins and Bob Bacon, just back from his recuperation in Europe, went to Washington to say that Morgan could not get the owners to accept the two extra men. "A most comic incident ensued," wrote Roosevelt a few days later. "For two hours I talked with Bacon and Perkins, both of whom were nearly frenzied." While agreeing with the President on the imminent dangers of "anarchy and war," they insisted that the owners would never admit a labor representative to the board. Finally, Bacon said nobody would care *who* the arbitrators were as long as they came under the categories named—and Roosevelt realized that the mine owners' "mighty brains . . . had formulated the theory that they would rather have anarchy than tweedledum, but that if I would use the word tweedledee they would hail it as meaning peace. In other words . . . they had not the slightest objection to my appointing a labor man as 'an eminent sociologist.' " He proposed exactly that, and "to my intense relief this utter absurdity was received with delight by Bacon and Perkins, who said they were sure the operators would agree to it!" The President promptly named a commission that was accepted by both sides.

"My dear Morgan," he wrote the next day: ". . . it really does begin to look as if there was light ahead. And now, my dear sir, let me thank you for the service you have rendered the whole people. If it had not been for your going into the matter I do not see how the strike could have been settled at this time, and the consequences that might have followed upon its being unsettled when cold weather set in are in fact dreadful to contemplate. I thank you and congratulate you with all my heart." By October 23 the miners were back at work.*

Morgan had waited until the government asked for his help—perhaps because it gave him a stronger hand with the "unruly" presidents—but he was accused of forcing the owners to the table simply to protect his "personal" interests. John Mitchell came to his defense. "To my personal knowledge," Mitchell told a reporter, "Mr. Morgan has been trying to settle the coal strike ever since he came back from Europe two months ago. If others had been as fair as Mr. Morgan was, this strike would have been settled a long time ago. . . . Mr. Morgan could not very well have been forced to do something which he had been trying to achieve for several weeks."

Morgan's interest in ending the strike had to do not with personal profits but with averting a national fuel shortage and containing the conflict the owners' egregious behavior provoked. Richard Hofstadter has noted the irony that it was Morgan and Hanna, "paramount symbols of the bloated plutocracy," who helped Roosevelt end this crisis. Where previous Presidents had intervened on the side of management—Hayes in the railroad strikes of 1877, Cleveland in the 1894 Pullman Strike—Roosevelt in 1902 made labor a full party to the settlement, and his action underlined the new status of the federal government as objective authority, broker of the "square deal." Hofstadter could not "refrain from adding that it ill accorded with the stereotypes of Progressive thinking that 'Dollar Mark' Hanna and J. P. Morgan should have attended as midwives at the birth of the neutral state."

Articulating the fears of a nation in dramatic flux, Roosevelt was the first chief executive to address the complex problems created by a modern industrial economy, and the first to pose old federalist questions about the relations between government and business in this new context. That the United States by 1902 had become the leading industrial nation in the world was due more to private enterprise than to government policy. Could Washington begin to exercise a measure of control over the stupendously powerful "interests" and still maintain the country's economic momentum? How did private property rights weigh against public responsibilities in the operation of vast transportation systems and industrial enterprises? Could the government define and protect the interests of "the common man"? Could it effectively impose public accountability and regulatory restraints on the trusts? Roosevelt actually had no

* Five months later the commission gave them a 10 percent raise and a nine-hour day, but did not recognize the union; instead, it created a conciliation board with worker representation. It also allowed the owners to raise coal prices 10 percent. Radical leaders denounced Mitchell for selling out the union.

quarrel with Morgan's objectives of industrial consolidation, economic stability, and U.S. dominion in world markets; he wanted chiefly to check abuses of financial power and end government subservience to Wall Street. Although the Northern Securities prosecution established his reputation as a trustbuster, neither he nor Knox meant to stop industrial combinations. They were trying to work out a "right" balance between competition and consolidation, with government as the judge of what was right.*

The President appreciated Morgan's assistance in settling the coal strike, and over the next few years he often worked closely with the bankers at 23 Wall Street. In 1903 George Perkins from the heart of trust country helped set up government agencies to regulate private industry—a Department of Commerce and Labor, with a fact-finding branch called the Bureau of Corporations. Judicious railroad executives had for years seen federal regulation as likely to help stop rate declines and cutthroat competition, as well as to override restrictive local measures, and they greeted the 1903 Elkins Act, which finally made the granting of rebates to big shippers such as Standard Oil and Carnegie Steel

* Many years later, in his autobiography, Roosevelt offered an analysis of the questions he had faced, and laid out the case for regulation. The nineteenth century in America, he wrote, had witnessed a "riot of individualistic materialism," and the "total absence of governmental control had led to a portentous growth in the financial and industrial world both of natural individuals and of artificial individuals—that is, corporations. . . . In no other country in the world was such power held by the men who had gained these fortunes. . . . The power of the mighty industrial overlords had increased with giant strides, while the methods of controlling them, or checking abuses by them, on the part of the people, through the Government, remained archaic and therefore practically impotent. . . .

"One of the main troubles was the fact that the men who saw the evils and who tried to remedy them attempted to work in two wholly different ways, and the great majority of them in a way that offered little promise of real betterment. They tried (by the Sherman law method) to bolster up an individualism already proved to be both futile and mischievous; to remedy by more individualism the concentration that was the inevitable result of the already existing individualism. They saw the evil done by the big combinations, and sought to remedy it by destroying them and restoring the country to the economic conditions of the middle of the nineteenth century. This was a hopeless effort, and those who went into it, although they regarded themselves as radical progressives, really represented a form of sincere rural toryism. . . .

"On the other hand, a few men recognized that corporations and combinations had become indispensable in the business world, that it was folly to try to prohibit them, but that it was also folly to leave them without thoroughgoing control. These men realized that the doctrines of the old *laissez-faire* economists, of the believers in unlimited competition, unlimited individualism, were in the actual state of affairs false and mischievous. They realized that the Government must now interfere to protect labor, to subordinate the big corporation to the public welfare, and to shackle cunning and fraud exactly as centuries before it had interfered to shackle the physical force which does wrong by violence."

illegal, with relief. In December 1904 *The Wall Street Journal* found it "noteworthy" that, contrary to expectations, the "financial interests in control of the railroads and the industrial corporations" *favored* regulatory laws that would, "if carried into effect, deprive them of so much of their present power. . . . [T]his is of vast significance. . . . [S]ome of the foremost railroad men of the country are at this time at work in harmony with the President for the enactment of a law providing for federal regulation of rates which shall be equitable both to the railroads and the public."

Roosevelt had made his symbolic move against Northern Securities. As the case made its way through the courts, he did not even shake a regulatory stick at Morgan's combinations for the remainder of his time in the White House.

Far more problematic for Morgan than TR early in the new century was a profound national shudder of revulsion against big business—the widespread clamor for reform that came to be known as progressivism. Encompassing a range of impulses and ideologies, this latest wave of antipathy to the "money power" had a broader, less radical, more urban, middle-class base than the agrarian and silver movements, and stronger moral and intellectual leadership.

Some progressives, hoping to restore the moral cohesion of earlier times, looked back in what Roosevelt called "sincere rural toryism" to the small-scale antebellum economy with its relatively free markets and individualistic values. At the same time, urban reformers tackled the social consequences of industrialization head-on. Lay and clerical activists made national issues of child labor laws, industrial safety, workmen's compensation, public housing, and public health. Moral hygienists tried to outlaw alcohol and prostitution. Political theorists who believed with Roosevelt that the United States could have the benefits of an advanced industrial economy *and* a humane society raised searching questions about the public interest and the nature of democracy in a modern corporate state. To the left of the mainstream, Socialist Eugene V. Debs won 3 percent of the vote in 1904, 2.8 percent in 1908, and 6 percent in 1912.

Dramatic economic changes contributed to the national sense of unease. Americans accustomed to declining prices and a steady increase in the purchasing power of the dollar during the long period of post–Civil War deflation suddenly found prices going up. The increase in gold production after 1897 had led to monetary expansion and price inflation in all the gold standard countries, including the United States, and the cost of living for American families rose about 35 percent between 1897 and 1913. Cheaper dollars made life easier for farmers and other borrowers, but people on fixed incomes were able to buy less, the value of dollar-based assets declined, and wages for skilled labor did not rise nearly as quickly as costs. AFL membership went from 548,000 in 1900 to more than 1.5 million by 1910.

A newly aggressive cultural realism gave urgent force to the pressure for reform, as did a talented group of investigative journalists who focused national attention on the disparity between what America promised and what it had become. With the success of mass-circulation magazines in the late nineteenth century, information had become big business, and editors competing for readers simultaneously created and fed the public's appetite for human interest stories, moral crusades, and political exposés.

The literature of exposure had its unofficial inauguration in *McClure's* magazine at the beginning of 1903. Samuel S. McClure, whom Morgan had invited to take over Harper's in 1899, had continued his own publishing ventures, and his stable of skillful, meticulous writers was making journalism glamorous. McClure announced in his editorial for the January 1903 issue of the magazine that three of its articles, revealing a contempt for law at all levels of society, amounted to such an "arraignment of the American character as should make every one of us stop and think." At once enunciating the era's challenge to corrupt authority and appealing to its new ethos of personal responsibility, McClure concluded: "There is no one left; none but all of us."

Lincoln Steffens led off with "The Shame of Minneapolis," an exposé of municipal corruption that chronicled flagrant collusion between politicians, criminals, and the police—including photographs of a ledger listing specific bribes. A piece on the 1902 anthracite coal strike by Ray Stannard Baker, called "The Right to Work," indicted the UMW for its treatment of the seven thousand workers who did *not* join the walkout. And Ida M. Tarbell, the leading female journalist in the country, published an installment of her carefully researched, devastating portrait of Rockefeller's Standard Oil.

Appearing in book form in 1904, Miss Tarbell's *History of Standard Oil* proved to be one of the most influential accounts of business ever published in America. Tarbell had grown up in the Pennsylvania oil regions, where her father, an independent oil producer, had been ruined by the Rockefeller trust. When Franklin Tarbell learned what his daughter was undertaking, he warned her, "Don't do it, Ida. They will ruin the magazine." She did it anyway, bringing to her task both special knowledge and an obvious bias. She gained access to company officials and their archives, studied affidavits, legislative records, and judicial proceedings, interviewed people all over the country who had dealt with Standard Oil. What she found, and serialized in riveting detail month after month in *McClure's*, was "as nearly a perfect machine, both in efficiency and monopolistic power, as ever has been devised"—and a shocking record of bribery, espionage, special privilege, ruthless tactics, and industrial deceit. "Mr. Rockefeller has systematically played with loaded dice," Miss Tarbell concluded, "and it is doubtful if there has ever been a time since 1872 when he has run a race with a competitor and started fair."

Her exhaustive indictment briefly made her the most famous woman in America. It made Rockefeller, for considerably longer, the most hated man. Most reviewers praised her documentation and dispassion, although *The Nation* issued a notable dissent. Still the voice of high-minded reform, the magazine criticized her for recklessly stirring up "popular hatred," for using insinuation rather than proof, for painting her villain too black and her victims (the independent producers) too white: "We need reforms badly enough, but we shall not get them until we have an electorate able to control its passions, to reserve its condemnation, to deliberate before it acts. When that time comes, a railing accusation will not be accepted as history."

Rockefeller never responded directly to Tarbell's charges. A neighbor described his attitude as "that of a game fighter who expects to be whacked on the head once in a while. He is not the least disturbed by any blows he may receive. He maintains that the Standard has done more good than harm."

The Tarbell study eventually led to local and federal prosecutions of Standard Oil, and to an increase in Rockefeller's philanthropy. In its wake came a flood of further exposés, some painstaking and serious, others inaccurate and sensationalistic—of the insurance industry, meatpacking, railroads, child labor, racial discrimination, slum housing, patent medicines, high finance, and the Senate. Novels by Theodore Dreiser, Frank Norris, Jack London, and Upton Sinclair added to the graphic picture of a nation ravaged by predatory capital, as did the speeches of Robert La Follette, paintings by members of New York's urban-realist Ashcan School, and the photographs of Jacob Riis. When Sinclair's best-selling 1906 novel about conditions in the Chicago stockyards, *The Jungle*, led to passage of the country's first serious consumer-protection measure, the Pure Food and Drug Act, the author complained: "I aimed at the public's heart, and by accident I hit it in the stomach."

Investigative journalists documented abuses of power at all levels of American society, but the paramount villain in the popular imagination was Big Business and its apotheosis, the Trust. Ray Stannard Baker's articles on the coal strike and U.S. Steel did not vilify Morgan, but later pieces by other writers and cartoonists did. Morgan left no response to his critics, and paid little attention to the country's striking shift in sensibility. He probably would not have changed course even if he had been more in touch with the progressive national mood, since he did not think he was doing anything wrong.

Corsair *in Venice, 1902.*
(Courtesy of the late Annette M. Schieffelin)

Chapter 23

COMMUNITY OF INTEREST ON THE ATLANTIC

Pierpont Morgan . . . is carrying loads that stagger the strongest nerves," wrote Henry Adams in April 1902. "Everyone asks what would happen if some morning he woke up dead."

It was a good question. Morgan had just turned sixty-five, and though he had no intention of waking up dead, he was beginning to ease out from under his nerve-staggering load. When he left for Europe as usual that April, he was organizing the U.S. Steel bond-conversion syndicate, the defense of Northern Securities, and a gigantic international shipping trust.

None of the ideas for his major consolidations originated with him. Charles Coffin and Lee, Higginson & Co. had proposed the merger that became General Electric, Judge Gary broached the idea of Federal Steel, Charles Schwab sketched out the initial plan for U.S. Steel, and James J. Hill first argued for the union of competing northwest railroads that developed into Northern Securities. The maritime trust was no exception. It started at the instigation of men in the shipping trade.

A Philadelphian named Clement A. Griscom was the dominant figure in American transatlantic transport in 1900. His International Navigation Company, chartered in New Jersey, owned U.S., British, and Belgian lines that ran merchant ships between the eastern seaboard and Europe. Like E. H. Harriman and James J. Hill, Griscom had dreams of stretching America's transportation empire around the world—of rail-ship links that would make it possible to send American grain on American carriers all the way from the midwestern plains to Liverpool and Hong Kong.

In the 1830s the United States had carried 90 percent of its relatively small international trade under its own flag, but high construction and operating costs, as the industry shifted from sail to steam, had caused a dramatic decline in domestic shipbuilding after 1850. By 1900 only 10 percent of U.S. foreign trade moved on U.S. ships. Griscom, aiming to expand the American merchant marine and free the richest country in the world from dependence on foreign carriers, had procured a federal subsidy for mail in 1891, and lobbied throughout the nineties for further government aid. Then the Boer and Spanish-American Wars stimulated shipbuilding, and a tremendous surge in U.S. exports between 1898 and 1900 won political as well as commercial support for greater American participation in oceangoing trade.

In this auspicious climate, Griscom decided to refinance some of his debt and build new ships. He engaged Drexel & Co. to float a $13 million loan for his INC in 1899. The ink on the bonds was barely dry when he learned that the largest freight carrier in the North Atlantic, Britain's Frederick Leyland & Co., was about to acquire his only domestic rival, the Baltimore-based Atlantic Transport Company. British ownership of the ATC would threaten not only the INC but also the prospect of a strong U.S. presence in North Atlantic shipping—which was probably how Griscom described the situation to Morgan.

Exactly when and how he secured Morgan's interest is not clear. The Leyland-ATC deal fell apart in May of 1900. When other bankers, possibly representing Leyland, approached Morgan about a "large shipbuilding combination" that July, he told his English partners, "I do not think favorably of entertaining shipbuilding business." By the end of the year he had changed his mind. The highly competitive shipping industry had earned record profits in 1900, which may have helped persuade him that if a "large combination" could reduce rate wars, consolidate operations, and build fast new ships, it would be able to stabilize international trade and yield even greater returns.

In December 1900, Morgan agreed to finance a merger of the INC and the ATC, to advance cash for building new ships, and to bring in two more lines. He expected Congress to subsidize a U.S.-based merchant marine that would service the busiest trade route in the world.

One of the additional companies brought in under this agreement was Leyland & Co. Just months after the prosperous British freight line threatened to take over America's oceangoing transport, the direction of the takeover reversed. Early in 1901, as Morgan worked on the organization of U.S. Steel, his associates in London negotiated for Leyland. Its chairman, John R. Ellerman, was an experienced financier who held out for three times the Americans' initial $3.5 million offer—his shareholders got $11 million, in *cash*. The house of Morgan advanced the $11 million, since the merger's funding was not yet in place.

Before the Leyland purchase, Morgan had been acting simply as banker for Griscom's plan—issuing credit, preparing to sell securities, organizing the merger. Once his bank committed $11 million, however (roughly equivalent to $165 million in the 1990s), he had an investment in transatlantic shipping. At some point in 1901, ownership of the Leyland shares was divided equally among the INC, the ATC, and J. P. Morgan & Co.

The fourth company the combination set out to acquire early in 1901 was not a cargo carrier but White Star, the most profitable and prestigious of Britain's luxury passenger lines, and Morgan's personal favorite. By June—after the formation of U.S. Steel, the Northern Pacific raid and panic, Morgan's aborted vacation at Aix, and his lunch at Windsor with Edward VII—men acting for him in London had arranged to purchase the White Star line for $32 million. They negotiated chiefly with William J. Pirrie, the second-largest holder of White Star securities and head of the prominent Belfast shipbuilding company, Harland & Wolff. The president of White Star, and the largest shareholder, was J. Bruce Ismay, son of its recently deceased founder.*

Rumors about these secret negotiations circulated immediately, but the British took nearly a year to panic over U.S. acquisition of their major freight and passenger lines. Germany reacted at once. Two Germans in particular were keeping a wary watch on Britain's maritime fortunes and Morgan's oceanic ambitions—Kaiser Wilhelm II and Albert Ballin, head of the Hamburg-Amerika line (HAPAG).

The Kaiser had embarked in 1898 on a program of aggressive naval expansion intended to challenge Britain's long-term supremacy at sea, and to consolidate the plans for a German Empire set in motion by Otto von Bismarck in 1871. Wilhelm's admirals worked quickly, as did the owners of Germany's commercial fleets: by 1900, HAPAG was the largest steamship company in the world. Ballin called it "the embodiment of the national purpose of a 'greater Germany' and of imperial power."

Although Germany's military and industrial growth dwarfed that of Great Britain in the last third of the nineteenth century, England expected the blood ties between the Prussian Hohenzollerns and the largely Germanic British royal family (Saxe-Coburg-Gotha until 1917, when George V changed the

* The privately held White Star had no market price in 1901: $32 million amounted to ten times its record 1900 earnings. Ten times earnings was not an unusual price for a transportation company at the turn of the century, but the basis itself (earnings of $3.2 million) was extremely high—almost a third larger than White Star's average earnings for the previous five years, which included no recessionary time. The Americans had expected to pay $24 million, wisely basing their estimates on average rather than peak earnings.

name to Windsor) to ensure peace. The Kaiser was Queen Victoria's grandson: his mother, Princess Victoria, had married Crown Prince Friedrich of Prussia in 1858. Wilhelm, however, managed to infuriate Buckingham Palace as soon as he succeeded his father in 1888, when his "Uncle Bertie" was still Prince of Wales. Willful, grandiose, and insecure, he complained that the Prince treated him "as an uncle treats a nephew" instead of recognizing him as an emperor. The Queen dismissed this grievance as "*perfect madness*"—"it is really too *vulgar* and too absurd." Prince Edward said his nephew ought to learn that he was living at the end of the nineteenth century, not in the Middle Ages.

Queen Victoria's death at the beginning of 1901 brought personal hostilities to a temporary halt, although the poet and diplomat Wilfrid Scawen Blunt predicted that it would "mean great changes in the world, for the long understanding among the Emperors that England is not to be quarrelled with during the Queen's lifetime will now give place to freer action. The Emperor William does not love his uncle, our new king."

The Emperor William soon raised the stakes in his quarrel with England. Hearing the rumors about an Anglo-American alliance in the North Atlantic, and fearing that Morgan railroads would give preferential rates to Morgan ships, he dispatched Mr. Ballin to London to investigate. Ballin, a German Jew, had been trying to control competition in the transatlantic lanes for years. He met with Pirrie, the temporary spokesman for the trust, and suggested establishing a "community of interest" between the Anglo-American combination and Germany's major shipping companies, HAPAG and North German Lloyd. Negotiations proceeded slowly. In February 1902 Ballin went to New York to meet with Morgan.

He had noted in his diary six months earlier that the American financier was reputed to combine "the possession of an enormous fortune with an intelligence which is simply astounding"—a view he endorsed when he and Morgan saw eye to eye in New York. On Thursday, February 20, the Germans and Americans signed agreements to divide Atlantic traffic geographically for ten years, to stay out of each other's waters, cooperate on rates, and share certain profits and ventures—including the purchase of the British Cunard and Dutch Holland-America lines. Ballin reported that Morgan gave a dinner in honor of his new friends "at his private residence which abounds in art of all descriptions." After the two men cabled news of their agreement to Berlin, the Kaiser awarded Ballin the Order of the Red Eagle, and invited Morgan to meet him on the imperial yacht at Kiel in June.

It was in the midst of these negotiations that Roosevelt announced the prosecution of Northern Securities. Morgan went to Washington as soon as he could leave the Germans. He divided his time in the capital between trying to defend his railroad trust against the President's "attack" and trying to secure federal support for his maritime trust, with the President's approval. Roosevelt, who took an internationalist view of America's new manifest destiny, was waving his antitrust banner with one hand and beckoning Wall Street to promote a stronger U.S. presence at sea with the other. Other champions of the shipping trust in Washington included the Secretaries of War and State, Elihu Root and John Hay, the influential naval historian Alfred T. Mahan, and Senators Hanna, Depew, Nelson Aldrich, and Henry Cabot Lodge. Congress that February was debating a shipping subsidy bill. Morgan partner Charles Steele reported to London on February 26 that he, Morgan, and Griscom had just returned from Washington where "Senators in charge of Shipping Bill" were "enthusiastic about general plan [for the merger] but request delay publishing for three weeks within which they predict final action will be taken by U.S. Congress."

On March 17 the shipping subsidy bill won Senate approval and went to the House.* The impending maritime merger gave Morgan until April 30 to form an underwriting syndicate—he had the right to withdraw from his commitment at any time before that date, although the sellers did not: all parties were waiting to see whether Congress would authorize the subsidy. Planning to go abroad at the beginning of April, he organized a provisional syndicate pledged to raise cash in exchange for bonds of the as yet unnamed transatlantic trust. He had no trouble finding participants: men profiting from the U.S. Steel syndicate eagerly signed on.

Morgan gave testimony to a U.S. Circuit Court in the case against Northern Securities on March 26—a special examiner had been sent to depose witnesses in New York—then sailed for Europe on April 2 with his daughter Anne. In London he conferred with the owners of White Star and its chief rival, Cunard, while his American partners kept him posted on the subsidy measure. Western congressmen, adamantly opposing what they saw as yet another Wall Street swindle, amended the bill to *prohibit* U.S. assistance to foreign-built ships, which included most of those in the proposed combine. On April 10, Perkins and Steele reported that their friends in the Senate were "willing we should go ahead to bring out shipping combination" without waiting for the House vote. Perkins had "talked freely with President of U.S. on subject," and found him reluctant to sign the radically weakened bill even if it passed. Morgan's resourceful Secretary of State suggested that announcing the combination might help

* With popular hostility to Wall Street running high, Senate positions on the subsidy divided sharply along East/West lines. Of the four senior conservative Republicans who usually acted as a unit—Nelson Aldrich of Rhode Island, Orville Platt of Connecticut, William Allison of Iowa, and John Spooner of Wisconsin—the easterners voted for the bill, the westerners against.

defeat the now unwelcome legislation, a plan that "appealed strongly to President and he was most enthusiastic in urging such a course." The bankers had little to lose by making the combine public, counseled Perkins, especially as it "would help materially with President in disposing of Northern Securities case"—presumably by doing him a favor on the high seas.

Morgan replied, "fully agree your views"—he thought Cunard more likely to join later in any case—and added after a week, "quite willing go ahead now and form Syndicate."

The decision not to wait for federal aid proved in one sense wise, since the subsidy bill died in the House. Going ahead without government assistance, however, meant that the combine would have to bear the full cost of building and operating expensive new ships—and the economics of the industry had radically changed between 1900 and 1902. The shortages created by the Boer and Spanish-American Wars had produced unprecedented earnings and a shipbuilding boom. Over 4 million tons of new ships entered the water between 1896 and 1900, their owners following the prevalent if improvident practice of adding to capacity at the end of an upturn. Then, in 1901–2, tonnage commandeered for the Boer War returned to compete for trade, a depression on the Continent reduced freight traffic, the American corn crop failed, and U.S. immigration began to wane. Freight rates fell 30 percent during 1901, and profits were cut in half. Passenger lines suffered as well: Cunard's earnings plummeted 50 percent in 1901, and in March of 1902 Cunard paid out more than it had earned to issue half of its expected dividend.

Morgan was free to withdraw his commitment in April 1902. If he had simply dissolved the provisional syndicate, the deal would not have gone through. He knew that with shipping profits down and no federal subsidy, the prospects for selling the combine's securities looked bleak. On the other hand, his firm had invested nearly $4 million (a third of the $11 million paid for Leyland) in the merger, plus additional funds for building new ships, and a great deal of time and work. Also weighing in on the side of proceeding were the agreement he had negotiated with the Germans, the earnings history of White Star and Leyland, the inclusion of the Belfast shipbuilders, Harland & Wolff (whose costs were 30 percent lower than those of American yards), and political support from the U.S. President, cabinet, and Senate.

Still, it is surprising that he did not try to renegotiate terms with the shippers in 1902, given the industry downturn. Perhaps he thought the terms didn't really matter, since the sums involved were small compared with U.S. Steel—or perhaps he expected the combination to help solve the industry's problems. The purveyors of conventional wisdom had been skeptical about his ability to float securities for U.S. Steel, and the market had proved them wrong. In mid-April, he decided to go ahead.

On the nineteenth, his London partners leaked news of the shipping combine to the press. The next day, Morgan went to Paris with Anne, and on the twenty-second Henry Adams reported people wondering what would happen "if some morning he woke up dead."

Morgan met his wife, the Laniers, and the Bacons in Paris at the Hôtel Bristol on April 20. Three days later, Fanny left for London and New York with her hired companion, a Miss Janes. Anne stayed on with her father in Paris.

London was in an uproar over his transatlantic trust. Just before the semi-official announcement in the press, Ballin had told Germany's London embassy that the Morgan bankers would try to present the combination "in the light of a big Anglo-American 'community of interest' agreement . . . the fact that it virtually cedes to the United States the control of the North Atlantic shipping business will be kept in the background, as far as it is possible to do."

It wasn't possible at all. The British government and House of Commons were "*boulversèd* [bowled over] by Morgan's latest little combination," reported Dawkins to Alfred (now Viscount) Milner, who was still British high commissioner in South Africa, on April 25: "Ships this time." Britain's politicians, preoccupied by the Boer War, had taken considerably longer than the Kaiser to recognize the "American peril" on the Atlantic, and by the time they woke up to the danger, three of their greatest maritime assets—Leyland, White Star, and Harland & Wolff—were disappearing into the maw of the Morgan trust.

Dawkins ruefully explained the situation to Lord Milner in light of England's incontrovertible decline: "I don't like it and wish that it were we who exported across the Atlantic and controlled the transportation from a vast hinterland to the coast," but "the facts are that the Americans say [']we raise the wheat and cotton ferried over, we haul it thousands of miles to the Seas, we insist on a large share in carrying it further, and we back our claim with more spare money than you have, and that money can be realized and disposed of by a commanding genius at these games[']"—i.e., by Morgan. The essential point, Dawkins thought, was that "under Morgan's auspices the great railways and growing shipping lines in the U.S. have become as thick as thieves. The railways control all the Atlantic ports except New York, which remains an old-fashioned entrepôt port. Consequently the railways had begun to give and threatened to go further in giving preferential rates to cargo taking American boats, and our boats might have been squeezed out of all ports but New York."

Berlin's *National Zeitung* pointed out with more than a hint of schadenfreude that "The blow to England is all the greater since the German companies have been able to keep out of the trust and maintain their independence."

Dawkins had discreetly tried to warn his friends in the government ahead of time—as had the chairman of Cunard, Lord Inverclyde—to no avail. In a nice display of outrage over information they had had for some time, ranking members of His Majesty's government denounced Morgan's "latest little combination" in April on grounds of national security and honor: the Royal Navy, they declared, had to be able to requisition freighters and passenger liners in times of crisis, and under no circumstances would English vessels fly the American flag. Having dominated world shipping for two hundred years, Britain was not about to let Morgan rule the waves.

The financial community was more pragmatic. Gaspard Farrer at Baring Brothers told James J. Hill: "If the U.S. have the money and desire to own ships assuredly nothing we can do will prevent her: & I would rather JPM bought our old ones at high prices than build new ones when prices are low."

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As of April 23, "JPM" was on vacation. Cables about the shipping trust followed him to Paris and then Aix, where news of the Northern Pacific raid had cut his holiday short the previous spring. In 1902 he issued occasional instructions as he traveled, but turned most of the wired queries back to his partners. On April 24, when Dawkins asked for advice about the combination's capitalization and voting trust, Morgan replied from Paris: "Difficult in fact impossible for me to instruct or act at this distance without papers and agreement before me, all questions must be decided in NY unless some questions asked me direct." The next day, informed that costs for White Star's new tonnage were far higher than estimated—the calculations had been based on "conjecture" since the line's president, J. Bruce Ismay, had "refused to give us figures"—he wired, "Have no suggestions make quite satisfied you all can adjust it without me, but if needed will come to London for the purpose of further meeting."

Steele and Dawkins tried to adjust it without him, but Ismay kept coming up with new conditions and demands. Appealed to again at Aix, Morgan advised, "It does not seem to me safe to continue make concessions placing ourselves at mercy of Ismay in the management for which we are personally morally responsible"—he was even willing to leave White Star out of the combine.

The consolidation as it tentatively took shape in May kept White Star in, along with Griscom's INC, the ATC, Leyland, and another British freight carrier, the Dominion line. It did not include Holland-America, as Ballin had wanted, but acquired a controlling interest in its stock. Griscom would be president of the still-unnamed enterprise, with headquarters in Philadelphia, and the bankers took familiar steps to insure supervisory control: Morgan himself would sit on a five-man voting trust, along with Steele, the Philadelphia streetcar magnate P.A.B. Widener (a major INC stockholder and a participant in the U.S. Steel syndicate), Ismay, and W. J. Pirrie of Harland & Wolff. Dawkins would be vice president in London. Griscom, Widener, Steele, and Perkins would sit on the board of directors.

Capitalization for the consolidation was calculated at $170 million—$60 million each of preferred and common stock, and $50 million in cash, to be raised through syndicate bond sales. The Morgan partners had hoped to purchase most of the constituent properties with securities of the new trust, just as they had for U.S. Steel, but the shipping industry downturn, the dubious prospect of dividends, and the subordination of the equity to $50 million of bonded debt meant that the shares were expected to sell well below face value ($100) by the spring of 1902—the preferred at about $85, the common at $35—and the bankers proceeded to sweeten parts of the deal.

White Star's shareholders had agreed in 1901 to take 75 percent of their price ($24 million) in preferred stock of the new trust and $8 million in cash. In 1902 the line's owners insisted on an additional $7 million in cash, plus a bonus of half a share of new common stock with each share of preferred. As a result, exactly at the moment Morgan might have been expected to renegotiate terms more favorable to the consolidation—asking the sellers to take a lower price in a worsening market—he did the opposite: he gave White Star *more* than he had initially promised. Since the $24 million in preferred had a market value of about $20 million in 1902, he made up the difference with common stock worth about $4 million (face value $12 million), plus $7 million cash. In addition, the combine bought the partnership that managed White Star for an additional $2.5 million in cash and stock worth about $2.4 million.

The size of the syndicate's $50 million underwriting was determined by the need for three major outlays of cash: $17.5 million to the White Star owners and managers; $11 million to repay the money advanced to purchase Leyland in 1901, plus interest; and $17 million for new ships—the combine took over the shipbuilding loans made by the Morgan bank in 1901, as well as commitments other lines had made to buy new tonnage. The cash requirements amounted to $46.5 million, and at the end of April 1902—a week after the Morgan bank set the deal in motion—syndicate members were asked to put up 25 percent of the $50 million they had pledged in exchange for bonds.

Critics in the English financial press said the trust had based its prices on the most prosperous year in the history of shipping, which yielded healthy profits to the British companies but so inflated the value of the combination that most of its stock represented *aqua pura*. The bankers had heard these charges before.*

* At the end of 1903, the independent auditors Price, Waterhouse, & Co. estimated the actual depreciated value of the constituent companies to be about $65 million, not including Leyland. Thomas Navin and Marian Sears, whose 1954 analysis of the shipping merger remains the best existing account, noted that the $65 million figure also did not include roughly $10 million for "other physical assets and net working capital," and they concluded that a "conservative valuation" of the properties in the merger as of December 1902 was about $75 million—again, not including Leyland: "This figure should be compared not with $170,000,000 but with $83,700,000, the cost in cash plus the anticipated opening market

The financial problems of the new trust were quickly relegated to the background by its political problems. Dawkins and Jack cabled Morgan at Aix in early May that British Cabinet ministers were determined to prevent "English lines passing under American control": the politicians had "every confidence in you and spoke of you in highest terms," but were worried about the future, and wanted the English lines "put on same basis as German." Morgan's partners had said no change was possible now that the contracts were signed, but suggested "some way could be found" of meeting British objections once the merger went into effect. To "the Senior" they reported, "[We] said we are quite sure you will gladly see them on your return. This they welcomed."

Morgan kept the British government waiting while he completed his spa cure, but appeared in London for dinner with the Colonial Secretary, Joseph Chamberlain, toward the end of May. He had known Chamberlain and his Bostonian wife, the former Mary Endicott, for years.* They lived at No. 40 Princes Gardens, just down the Exhibition Road from Princes Gate, and Morgan had watched with interest as his neighbor, the wealthy owner of a screw factory, moved into national politics—first as the Liberal Unionist heir apparent to Gladstone, more recently as a militant imperialist appointed to the Conservative Colonial Office. Chamberlain was strongly in favor of an Anglo-German alliance, a cause that was not helped when the Kaiser denounced British ministers as a set of "unmitigated noodles."

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value of the securities issued in payment. Although higher by 10 per cent than the $75,000,000 valuation, the price paid for the component properties . . . was not unreasonably out of line with the depreciated cost."

A second way to appraise the value of the merger was the method the bankers used—earning power. The companies going into the combination, including Leyland, had earned an average of $6.5 million a year before depreciation for the previous five years. After subtracting for depreciation, the earnings came to about $4 million, a figure the bankers expected to increase through consolidation—they thought net income from new ships alone would amount to roughly $3 million a year. The merger was committed to pay fixed charges of about $3 million a year on its $50 million issue of bonds. Navin and Sears thought that even if the level of earnings did not increase, "interest would be 'covered' about twice by earnings before depreciation. Earnings anticipated on the increased tonnage would have covered interest about three times. The Morgan partners must have considered this coverage sufficient, though it was hardly enough for a high-grade bond."

* Mary was Chamberlain's third wife. His six children included a future Prime Minister, Neville, and a future Foreign Secretary, Austen; both his previous wives had died in childbirth. Mary's father, William Crowninshield Endicott, had been a justice of the Massachusetts Supreme Court and Secretary of War in the first Cleveland administration; her mother, Ellen, was a cousin of Junius's former partner, S. Endicott Peabody. When the Endicotts visited London in the early 1880s, they called on the Morgans at Dover House and Princes Gate.

The slim, stylish Secretary, who invariably wore a monocle in his eye and a fresh orchid in his lapel, met Morgan in London "hot" with rage—partly at British shipowners for putting business above patriotism, partly at the Germans for having negotiated an independent treaty with the trust, and partly at the Americans for jeopardizing Britain's national interests. Over dinner, Morgan promised to commit the new company not to transfer British ships to any foreign register for fifty years, and offered to meet most of the remaining political objections. To his surprise, Chamberlain rejected all his proposals, hinting that the British government might simply buy the White Star line's best ships.

In that case, Morgan said, the government would have to pay up to 40 percent more than the liners were worth, which would only put money in the combination's pockets for building better, faster ships. (That the combination was paying more than the companies were worth apparently did not enter the discussion.) The loss would not even temporarily set the trust back, since its German and Dutch partners could lend ships.

Then, apparently speaking not only for America's commercial interests but for its foreign policy as well, Morgan "went on to say impressively," reported Dawkins, "that while no formal alliance between [the British] and the U.S. could take place[,] nothing would do more to establish a good understanding and feeling between the two countries than community of business interests"—and that evidence of British hostility, such as buying White Star ships, would induce the American government "to exert itself." Whether or not Morgan had authorization to issue this threat is unclear.

Chamberlain did not back down. According to Dawkins, the American financier left the dinner "very sore and astonished and inclined to withdraw all his offers." Though a skillful diplomat with men in high places who fundamentally agreed with him, Morgan was tone-deaf to the sensitivities of people whose interests did not coincide with his own, and Britain's intransigence in 1902 genuinely took him by surprise. He "expected to have been received with open arms on his arrival," observed one of his English friends a few days later, "as the man who had done our country a good turn. Instead of this, he had been everywhere cold-shouldered, having been suspected of filching our mercantile ships."

The deal with the Germans granted them partnership status in the maritime trust. Instead of treating the British as partners, Morgan was forcing them to surrender sovereignty at sea, and had not taken into account how they would hate acknowledging the economic superiority of the United States.

Dawkins and Jack quashed a suggestion from New York in late May that the name of the new combine reflect "American control." The only way to prevent defensive British government action, they warned, was "to suppress as much as possible the national aspect of the matter and emphasize the commercial advantages only." In early June, Morgan named the trust the International Mercantile Marine.

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He returned to Paris immediately after his unsatisfactory dinner with Chamberlain, to meet Adelaide and Sybil Douglas, the Markoes, Charles Lanier, and Anne. The last unmarried Morgan child, Anne had replaced Louisa as both parents' preferred traveling companion. She was the least conventional of the siblings, and bore a strong resemblance to her father—tall, square-jawed, and beautifully dressed at a hefty 170 pounds. She also had his energy and strength of will. Like Louisa, she learned to manage the often-conflicting demands of her estranged parents. In New York she brought some of her social life home to entertain Fanny at 219 and Cragston. Abroad, her presence in Pierpont's entourage helped allay Fanny's anxieties about his other female companions (Anne's letters home never mention Adelaide). It also gave her more freedom and experience of the world than a single young woman could otherwise have.

The Morgan party left Paris on May 28, 1902, traveled quickly through Switzerland, stopped in Verona to see Juliet's tomb, and went on to Venice to meet *Corsair* and her crew. Crowds lined up to see the magnificent yacht anchored in the Grand Canal opposite the Piazza San Marco, hoping for a glimpse of "Il Morgan." The Americans explored Venice for two days, then sailed down the Dalmatian coast and through the Isthmus of Corinth to Athens. Living aboard *Corsair,* they toured Byzantine churches and the Erechtheum. At the National Museum they inspected the fabulous gold treasure discovered by Heinrich Schliemann at Mycenae and one of the famous bronzes recently recovered from the sea near the island of Antikythera. Then they proceeded to Delphi, Corfu, and across the Strait of Otranto to Brindisi. "Quiet day on *Corsair,*" noted Anne in her diary on June 8: "Father leaves 5:30 for London."

Her father left for London to dine with the King. Dawkins had continued trying to placate the British Government—"I've talked my tongue nearly off," he moaned to Milner—and decided to enlist a higher authority: "I hoicked my old man over from Venice to dine with Edward Rex." At dinner with the British monarch on June 11, Morgan said he thought he could get the United States to enter into an Atlantic convention with Britain to guarantee the IMM's merchant ships against third-party competition, and repeated the offer he had made to Chamberlain in May—that no British ships built by the combine would be transferred to foreign registry. The King was due to be crowned in two weeks. He left Morgan "quite reassured and comforted for the moment," judged Dawkins. "But to bulldoze E.R. for the moment is perhaps no great feat."

Morgan returned to Venice on June 13. His party sailed down the Italian coast to Naples, then went by train to Rome. Dawkins complained to Steele that "JPM . . . shows a marked inclination for the present at any rate, to pull out of business more and more and any arguments or facts to be put before him have to be compressed into small concentrated doses like patent medicine."

Junius Morgan had not begun to "pull out of business" until he was over seventy, then ceded complete control of the bank to his eager, competent heir. He had so carefully directed Pierpont's education and professional training that he did not seem, when he finally retired, to be giving anything up. He simply handed his authority on, and regarded his son's ascent with uncommon pride.

Pierpont was taking no comparable steps to fashion his son into an instrument of dynastic succession. He delegated authority to other men—Coster, Bacon, Perkins, Dawkins, Steele—but as he turned his attention away from work in the early years of the new century, he did not set up an alternate chain of command. His partners had to beg him, not always successfully, for direction and advice.

That a man so intent on shaping the American future should have done little to prepare for his own decline seems both paradoxical and fitting. He lived entirely, almost carelessly, in the present, and if he followed his anxieties about his health to their logical conclusion—that someday he was going to "wake up dead"—it fueled his sense of how much he still had to do. He had always wanted to do more than work. In his twenties and thirties he had taken periodic years off to explore Europe and restore his "nerves." Even in good health he insisted on annual sojourns abroad. In his sixties he had begun to direct his "Titanic" energies to collecting art, but he only partly wanted to let go of affairs at 23 Wall Street. After George Perkins rescued a railroad in the South from manipulation by Bet-a-Million Gates in April 1902, Jack noted shrewdly that "the Senior pretends to feel disgusted that JPM & Co. should be called upon always when there comes a question of saving the situation." Morgan wanted the huge responsibilities he had shouldered all his life, along with the acclaim they brought; he also wanted freedom to do as he pleased.

In New York that summer, with minimal guidance from "the Senior," Perkins put together another big consolidation. The sons of Cyrus Hall McCormick, inventor of the reaper, had asked him to help end competitive warfare between farm-equipment makers in the Middle West—chiefly, Deering Harvester and McCormick Harvesting Machine. (The William Deering family had no relation to John Deere & Co., which made steel plows.) Morgan did not think the bank needed this business, but agreed by cable from Europe to take it on if the other partners approved. Perkins merged the two rivals into the International Harvester Company, for a \$3 million fee, and reported: "The new company is to be organized by us; its name chosen by us; the state in which it shall be incorporated is left to us; the Board of Directors, the Officers, and the whole outfit left to us."

Morgan's response was lukewarm: "Plan seems satisfactory and safe. Approve signing preliminary contract if you all agree."

Perkins had in fact engineered a coup. This combination controlled nearly 85 percent of the American reaper and harvester market, and began earning profits once it fully centralized operations in 1906. When a threat of antitrust prosecution arose in 1907, Roosevelt headed it off, convinced (partly in response to adroit lobbying from Perkins) that Harvester represented the "good" kind of trust.

Roosevelt had appointed Jack first secretary of a Special American Embassy for the coronation of Edward VII, scheduled to take place at Westminster Abbey on June 26, 1902. Noting the younger Morgan's taste for all things royal, Dawkins sighed to Steele, "How you Republican gentlemen like a King!"

Jack was bitterly disappointed when a precoronation ball at Windsor Castle had to be canceled at the last minute because "the inconvenient old King of Saxony had to go and die. . . . [R]eally its hard to forgive," he told his mother. "There has not been a ball at Windsor for something like 70 years." The republican Anglophile was not impressed with the royal family's organizing skills: no one seemed to be in charge of the coronation preparations, invitations were going to the wrong people, the King refused to delegate responsibility and kept making last-minute changes—Jack thought "what they need is a sort of British JPM to arrange all the details for them."

The American JPM arrived from Paris with Anne on June 20 to celebrate the crowning of his friend Edward Rex. Jack stopped grousing when a shocking piece of news interrupted the dress rehearsal at Westminster Abbey on June 24: court physicians had just performed an emergency royal appendectomy. The King was recovering, but the coronation had to be indefinitely postponed.

The senior Morgan remained in London for a few days, then went off to Kiel to keep his long-standing appointment with Kaiser Wilhelm. Anne described the trip to her mother by mail. On Tuesday, July 1 their party (which probably included the Markoes and Adelaide) left Dover on *Corsair* in a cold fog, sailing north. That night they ran into a "nasty sea and rolled so hard we almost came up the other side. As a result the boat which had been put in apple pie order got soaked through & through," and the passengers stayed in their cabins till noon. In calmer weather, *Corsair* steamed up the Elbe River and through the Nord-Ostsee Canal, arriving at Kiel around midnight.

"The next morning Mr. Ballin of the Hamburg American appeared and Father received his orders to go in the [Kaiser's new yacht] *Hohenzollern* for an audience at ten which he proceeded to do." The American financier and the German Emperor had not previously met. Wilhelm was the smaller and slighter of the two, at five feet nine and 155 pounds. A birth injury had left him with a withered left arm—photographs and portraits invariably show him from the right, with his weak hand tucked into a pocket or behind his back—and the crushing right handshake with which he greeted guests seemed designed, like Morgan's defiant glare, to override his deformity.* Wilhelm wore a heavily decorated military uniform, tall black boots, and his mustache waxed up into stiff points.

The British royals were not alone in finding him pompous, intemperate, and obnoxious. His cousin the Russian Empress Alexandra loathed him, as did the aged Bismarck. His mother, whom he had repudiated and deprived of her palace and fortune, did not want him at her deathbed. Still, the German diplomat Count Eulenberg thought "his artlessness and disinterested friendliness give him a quite peculiarly fascinating charm, and he is one of those people who by their very nature arouse spontaneous sympathy." Others said he brought out the best in people to whom he directed his attention, and had "magnetic power" in conversation.

Morgan, reported Anne, was "most impressed by the Kaiser who, however, walked him up & down the deck for an hour and a half while he was talking." She added the "however" because she knew exactly how little her father liked physical exertion, though he could hardly refuse to keep pace with his host. Striding up and down the broad *Hohenzollern* deck, Wilhelm held forth all morning on the International Mercantile Marine. He acknowledged that he had not thought it "unfair to make a little trouble" between Britain and the United States over ships: "We must all woo your great Republic," he said, "and the English thought they had advanced so far in your regard over the Spanish War that it was fair to disturb [the] attachment."

Dawkins, reporting this conversation to Milner (he probably had it directly from Morgan), reflected: "I think that they understand these things in America. They keep a very close watch and a not unapprehensive watch on Germany in Washington where they seem to be well posted in foreign affairs in spite of (or because of) having no regular diplomatic service."

Morgan for the moment constituted the irregular diplomatic service. He left the imperial yacht at 11:30 A.M., and returned for lunch at one. Two other American representatives of the IMM, Clement Griscom and P.A.B. Widener, had come to this informal summit conference as well, and while Morgan con-

* The traumatic birth that had damaged his arm had probably also deprived his brain of oxygen for several crucial minutes, which medical experts suggest may have caused his "hyperactivity and emotional lability."

tinued his discussions with the Kaiser. Alfred Ballin took the Widener, Griscom, and *Corsair* parties to lunch at the Kiel Yacht Club. Traveling with the Griscoms, reported Anne to her mother, was "Mrs. Nat Goodwin Maxine Elliott!!!!!!" The exclamation points probably had to do with the actress's celebrity, for if Anne suspected, as other people did, that her father was having an affair with this famous beauty, she would not have gushed about it to Fanny.

Anne soon had an even more thrilling encounter. "At three o'clock the Kaiser, Von Bülow, his aide de camp and an admiral all came on board the Corsair and stayed an hour and a half, and no words can say how perfectly delightful he made himself. Of course we were all scared to death and didn't know what to do, but he hates ceremony of any kind when he is off that way and insisted upon doing everything as if he was one of us. As to his looks, he isn't a bit like his photographs or portraits there isn't one of them that begins to be strong enough. His eyes are perfectly marvelous[,] very blue & they look you through and through. Well I tell you it was the shortest hour and a half I ever spent."

If the Kaiser had not thought it unfair to "make a little trouble" between Britain and the United States over ships, Morgan clearly did not think it unfair to put a little pressure on the British with this display of friendship between the American architects of the IMM and the German high command.

The next morning the entire American contingent, traveling as the Emperor's guests, left Kiel for a tour conducted by Ballin. "You must have seen some account of it in the papers," wrote Anne to her mother, "but no description could half tell you how funny it was. All the party driving around Hamburg in about seven landaus—an enormous lunch of thirty at the smart restaurant & a really beautiful dinner and fête at the Ballins" in honor of the American Fourth of July, with speeches and fireworks. "Then the next morning a special steamer around the harbor—brass band on board & all the Hamburg line boats dressed with flags. Then the train to Berlin – another unending banquet there . . . and finally to bed."

In Berlin, Morgan called on Wilhelm von Bode, the director of the Kaiser Friedrich Museum, which Wilhelm II had dedicated to the memory of his father. Bode was an expert on Western European art from the medieval period through the seventeenth century, especially early Italian sculpture and Dutch Baroque painting. For Prussia's new imperial museum he was building encyclopedic collections of masterpieces from all over the world, like those at the Louvre and the Kunsthistoriches Museum in Vienna—also models for the patrons of the Metropolitan in New York. Bode took Morgan on a tour of the Berlin museum that July, with special attention to its early Raphael Madonnas, and agreed to provide his guest with occasional scholarly advice.

On Sunday, July 6, continued Anne, "we were up and doing about 9:30 for Potsdam—did all three castles there & out all afternoon which had been mapped out by the Kaiser and came back to Berlin total wrecks." There the tour ended, and Morgan's party went back through Paris to London.

Anne worried that this "wild jag" had tired her father, "though I know he has enjoyed it all very much and seems very well."

Meeting them in London, Jack thought the trip had *not* done his father much good—"He is always imprudent in his eating habits and his liver has been somewhat upset which naturally makes him rather blue. Moreover he thinks he has lost some weight which always alarms him."

Neither fatigue from the trip nor alarm about his weight curtailed Morgan's London social life. He gave lunch and dinner parties when he was not dining out, and took friends to see his Raphael altarpiece at the National Gallery and his Fragonards at the Guildhall. Dawkins, trying to get him to focus on the IMM, complained to Perkins in mid-July that "the Senior . . . refuses to attend to business. We never see him & it is difficult to get hold of him. He spends his time lunching with Kings or Kaisers or buying Raphaels."

The coronation of Edward VII had been rescheduled for August 9. Morgan rented a house along the procession route, planning to watch the spectacle from there with a party of friends, including the Markoes. Then he received an invitation to the service itself. At the end of July, the Satterlees arrived in London for the occasion with two-year-old Mabel. "Nan [Anne] and Father engaged up to the eyes," Louisa reported to Fanny, who remained in New York. Jack and Jessie would attend the ceremony as part of the official American delegation, and at the last minute English friends secured a ticket for Anne.

On the eve of the coronation, Morgan gave a small dinner at Princes Gate, and tried on the court suit he had "with much sorrow of mind induced himself to get," reported Anne—black velvet breeches and jacket with silver buttons, silk stockings, pumps, and a silver-hilted sword. Bereft of the three-piece suit and wide wing collar he wore like a uniform, he "fussed like mad" over the breeches, recalled the Markoes' daughter, Annette, and minded the sword, noted Anne, "worst . . . of all."

Early the next morning he once more decked himself out in velvet and silver while Anne's maids arranged her hair. Father and daughter left Princes Gate before eight, and proceeded by carriage to Westminster Abbey. Crowds had been gathering along the route all night. The Satterlees, Markoes, and Morgan's other guests watched from the house he had rented on Piccadilly—twenty to thirty people outside fainted in the August heat, reported Louisa. Inside the abbey Morgan took his seat in a gallery above the peeresses, with a clear view of the pageant; Anne was further back behind a choir screen, near Jessie and Jack.

Edward arrived at eleven-thirty. He had reserved a box for his female friends (court wits called it the King's Loose Box), including Sarah Bernhardt, Mrs. Arthur Paget, Lady Kilmorey, Feo Sturt, and his mistress, Alice Keppel. He later said that what impressed him most all day was "the simultaneous movement of the peeresses in putting on their coronets," since "their white arms arching over their heads" looked like "a scene from a beautiful ballet." Morgan was perfectly situated to appreciate the choreography.

The Abbey released the crowned monarch at three. Morgan paid calls all afternoon, and the next day gave a lunch at Dover House, an afternoon reception, and a dinner. Louisa, out of practice after two years of marriage, told Fanny that "Father's presence brings so much hurry and pressure it is really extraordinary!" Pierpont and Anne sailed for home on August 13, taking Dover House melons, peaches, and cream to supplement the White Star fare.

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For a change—and for exactly the reasons it aroused foreign alarm—Morgan's shipping combine proved popular in the United States. *Scientific American* reported in July that "irrespective of the attitude of the American people toward trusts in general," news of the IMM had been greeted with "a distinct feeling of pride and satisfaction." Adding several hundred thousand tons to the U.S. merchant marine would give the country "a position of pre-eminence such as it has not enjoyed since the decadence of shipbuilding" after the Civil War.

Popular favor never turned into political support for a federal subsidy, however, and the Northern Securities case haunted the IMM. The Roosevelt administration was still "anxious to help us," cabled Steele from New York, but Attorney General Knox would not "make any suggestion" as to what form of organization would protect the new combine against antitrust prosecution. Though the bankers were sanguine about the ultimate outcome of Northern Securities—wrongly, as it turned out—they feared that organizing the IMM along similar lines would invite "attack" from the government and the press. Steele wired Morgan in August: "We are very anxious have benefit your views in every aspect business."

Morgan had put together U.S. Steel in twelve weeks. The negotiations over the IMM had dragged on for nearly two years. Impatient finally to set this deal in motion, he saw no point in equivocation: while he favored any measure "which will leave us less liable to attack, still everybody knows what we are trying to do, & nothing that we can do will ever hide it from them."

Objections to what Morgan was generally "trying to do" came from several quarters that summer. Gaspard Farrer at Barings, who had fatalistically accepted the shipping trust in the spring, told Hill in July that "our friend JPM" had "set a bad example in his big paper capitalizations of recent years & a worse one in exacting commissions for his firm on deals in which he is really the dominant factor on both sides of the table." Still, Farrer added, "he is a leader among men & worth the whole lot of that miserable mean money grubbing clique of slanderers who are incessantly on the watch to ruin him."

William Nelson Cromwell, a partner in Sullivan and Cromwell, the New York law firm hired by the McCormicks to assess their harvester deal, said that Morgan recklessly inflated securities for his own profit, and warned his clients to take care lest "you be uchred [*sic*] out of your boots."

An American not worried about his boots gave himself a sixty-seventh-birthday party at the Metropolitan Club that December. He made up place cards with an engraved self-portrait, and wrote on one: "J. Pierpont Morgan. For financial advice apply without diffidence to Mark Twain."

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The British government accepted the IMM over the summer of 1902, reluctantly concluding that it had no choice. Its minister in Washington, Sir Julian Paunceforte, warned in June—Dawkins told Milner—that without the Morgan trust an "avowedly hostile combine" would have been formed in the United States "to run our ships off the Atlantic and squeeze them . . . by cooperation with the railways, out of U.S. ports." At the same time, the Liberal Party leader Sir Edward Grey advised (again paraphrased by Dawkins) that "we had better go into partnership with [Morgan] and through him with the American people." In August, the leading Conservative opponents of the trust—Joseph Chamberlain, Lord Selborne, the head of the Admiralty, and Gerald Balfour, president of the Board of Trade—urged the government to "avoid unnecessary friction with the Morgan Combination, and in particular to abstain from action likely to stir up national animosities." The Conservative Prime Minister, Lord Salisbury, resigned in early August, and was succeeded by his nephew, Arthur James Balfour. At the beginning of September, Dawkins went to Scotland for a weekend with the "brothers Balfour"—the new Prime Minister and the president of the Board of Trade—to draw up an agreement between the house of Morgan and His Majesty's government.

The Morgan bank promised to protect British interests in the shipping trust for fifty years—on roughly the terms Morgan had promised Chamberlain and "Edward Rex."* Gerald Balfour told the bankers as he prepared to present this "treaty" to the public at the end of September that he had "every desire make announcement in terms satisfactory to JPM." He succeeded. The firm replied,

* The agreement stipulated that British ships in the combine would continue to sail under British flags and carry British crews; that half of all new IMM tonnage would be built in Britain by Pirrie's Harland & Wolff; that no British ships, including new ones built by the combine, would be transferred to foreign registry without the consent of the president of the Board of Trade; and that the Admiralty could draft IMM ships on thirty hours' notice. The Americans agreed not to grant preferential rates to the U.S. rail freight carried on IMM ships. In exchange for all this, the government agreed to give the British lines in the combine the same mail and freight privileges it granted to other British carriers.

"JPM & CED [Dawkins] much gratified by [Balfour's] speech. . . . JPM has every confidence that HM Government will derive increasing satisfaction from establishing of community of interest on Atlantic between two countries." Parliament approved the agreement. The IMM was finally incorporated as a New Jersey holding company in early October 1902—as Morgan helped Roosevelt settle the anthracite coal strike.

The Anglo-American trust owned nearly one fifth of the scheduled tonnage in the North Atlantic trade. It controlled 136 ships and 1,074,884 gross register tons, and was allied with another 329 ships and 1,736,091 gross tons through the Germans. Operating forty-five routes between Europe and North America, and running freight carriers from England to South Africa, Australia, New Zealand, and the West Indies, it owned London office buildings, Liverpool repair shops, and docking facilities in major European and American ports. In 1902 it began to build five new piers on the Hudson River.

Though the British government acceded to this spectacular assertion of American economic prowess, it held out in one crucial respect: it paid Cunard, White Star's chief rival for transatlantic passenger service, *not* to join the combine. Cunard received a £2.4 million loan at low rates, and a subsidy of £150,000 a year to build the largest new passenger steamships in the world, the *Lusitania* and the *Mauritania*, with modern turbine engines and hulls built to the specifications of the Royal Navy. To match this challenge, White Star commissioned three expensive "big ships" of its own in 1907: the *Olympic*, the *Britannic*, and the *Titanic*.

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In trying to create a community of interest on the Atlantic, Morgan and his partners failed to take into account not only the national self-interest of foreign states but also the economics of the seasonal, cyclical shipping trade—which one contemporary analyst called about "as shifting and unstable as the sea"—and their timing could not have been worse. The IMM bought its expensive components just as maritime transport headed into a decline that ended only with World War I. Leyland's managers, probably gauging the excess capacity and foreseeing a downturn, had sold out at the top of the market for $11 million *cash*. The expansion-minded managers of the other lines, gaining access to the bankers' deep pockets, leaped at the chance to order new tonnage.

Having based the combine's financial structure "largely on conjecture" since they could not get accurate accountings from White Star, the Morgan partners immediately found themselves saddled with huge "unforeseen commitments." Dawkins complained to Steele early in 1903 that "what threatens to swamp us is this monstrous indebtedness for shipbuilding, and I don't feel satisfied that we are not putting more big ships into the Atlantic than it can bear." Pirrie, whose yard got the commissions, had "dilated a great deal on the earning capacity of these new boats," but Dawkins was inclined to agree with those who had dubbed IMM "the Pirrie Relief-Bill."

The drop in shipping revenues that coincided with the organization of the IMM persuaded its backers not to apply for listing on the Stock Exchange. Brokers traded some of the stock off the Exchange, at prices far lower than those factored into the deal: in December 1902 the preferred opened at 55, the common at 15. And the increased earnings Morgan had expected from consolidation never materialized. White Star alone showed a profit in the IMM's first year of operation; steep losses on all the other lines forced the trust to forgo dividends on both classes of its stock.

Severe stringency in the U.S. money markets made the situation worse. In 1902 Treasury Secretary Leslie Shaw pumped $57 million into circulation, but his central-bank-style intervention failed to avert a contraction. The end of the year saw heavy liquidation in the stock market as banks called in loans. Morgan remained bullish in public, assuring *The New York Times* in March 1903 that the lack of confidence was "not justified by the facts" but had to do with a surfeit of "undigested securities." In private, he arranged with George Baker and James Stillman to set up a $50 million reserve fund in case of a crisis.

In April the U.S. Circuit Court sitting in St. Paul declared Northern Securities an illegal combination in restraint of trade; the company's lawyers immediately appealed to the Supreme Court.* Morgan's assurances did not halt the dumping of stocks, and the market crashed that fall in what came to be known as the "Rich Man's panic." Banks and businesses failed; railroads cut back on orders for iron and steel; U.S. Steel common fell to $10 a share (its high for the year had been $39⅞) and stopped paying dividends.

Roosevelt, coming up for reelection in 1904 and probably eager to burnish his antibusiness reputation, blamed the market unease on "the speculative watering of stocks on a giant scale in which Pierpont Morgan and so many of his kind have indulged during the last few years." The banker/publisher Henry Clews agreed, citing "revelations of fraud, chicanery, and excessive capitalization," but pointed out that the bankers' aggressive mergers had launched the country on "an unprecedented industrial boom." *The Commercial & Financial Chronicle* attributed the crash to the recent Northern Securities decision, which threatened "the prosperity of by far the greatest industry in the land." As usual, no one really knew what caused the panic, and everyone assigned rea-

* In September the judge in the Minnesota lawsuit held that the company violated no state laws. That decision, too, was appealed to the Supreme Court.

sons of his own. The contraction hit bottom in August 1904, after which the economy embarked on a new expansion.*

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The IMM syndicate had put up 25 percent of its $50 million cash commitment at the end of April 1902, and the calls continued all year, amounting to 100 percent by July 1903. There was no market for the bonds. Morgan kept extending the syndicate's life, but when he finally closed the account in July 1906, its members held almost 80 percent of the $50 million in bonds. His firm tried to dull their pain by calling for IMM payments right after disbursals of Steel syndicate earnings, since many subscribers belonged to both groups. To people who thought Morgan operations involved easy profit and no real risk, the IMM—like the failed Steel bond-conversion plan—was vivid evidence to the contrary.

The Morgan bank had set the IMM syndicate fee at 25,000 shares of preferred and 250,000 shares of common stock, and its own management fee at one fifth of that—5,000 preferred, 50,000 common. In the markets of May 1902, with the stock expected to trade at 85 and 35, the fees were theoretically worth about $11 million; when the stock opened later that year at 55 and 15, the earnings had fallen to $5 million, and no one was buying shares. By the end of 1903, the preferred was quoted at 18, the common at 5. When Morgan closed the syndicate account in 1906, his firm made up a $17,000 deficit.

J. P. Morgan & Co. had earned nearly $23.3 million in 1902, largely from launching U.S. Steel; that figure remained the record during Pierpont's lifetime. In the contraction of 1903, the firm posted a loss of over $3.5 million, with the IMM accounting for nearly two thirds ($2.3 million) of the deficit. There is no record of the bank's IMM losses over the long term. A rough guess would be that, net of fees, it lost under $3 million—not an inconsiderable sum, but not, for Morgan, nearly as damaging as the injury to his reputation.

George Perkins's New York Life Insurance Company had taken a $4 million share in the IMM syndicate. At the end of 1903, the investment was worth only about $3 million, and Perkins was not eager to have the decline appear on the company's books; he also did not want to sell the bonds at a loss. He therefore "sold" $800,000 of New York Life's IMM bonds to J. P. Morgan & Co. at his

* In early October 1903, two months after he denounced Morgan's speculative stock-watering, Roosevelt sent a note to "My dear Mr. Morgan," asking him to stop in at the White House when he next came to Washington, as "I should very much like to see you to talk over certain financial matters." Morgan replied from New York that "I should like extremely to have an interview with you," but in "the serious condition of affairs in this City"—the crash and its immediate consequences—"it is absolutely impossible for me to leave." Roosevelt said there was no hurry—"I wished to speak to you about certain matters of financial legislation," but it could wait.

purchase price on December 31; a few days later, safely into 1904, he bought them back for the same price. As a result, New York Life's 1903 annual report showed only $3.2 million in IMM bonds and an $800,000 increase in cash. This sleight of hand was not lost on Charles Evans Hughes, the lawyer for a New York State committee that investigated the insurance business in 1905.

The IMM never gained control of shipping. It owned 20 percent of the scheduled North Atlantic tonnage, and its German allies owned another 47 percent—about the same share of the market U.S. Steel had. In shipping, however, 67 percent did not restrain price wars or dominate the market. The large investment required to build a fleet of ships created a barrier to entry but not an insuperable one, largely because there were no rights of way or tracks to confer control, and other lines were already servicing the Atlantic trade. The British government twice handicapped the trust—by prohibiting the use of preferential rates on U.S. cargo, and by subsidizing Cunard, which forced the IMM to spend vast sums it was not earning to build competitive ships. And finally, the IMM was set up as a loose holding company that never managed to cut costs by integrating its constituent parts or rationalizing operations.

Dawkins had been urging such economies for months, and at the end of 1902 he angrily pointed out how little was being done to make the new enterprise work. "Apparently none of us can arrive at being credited with the understanding that the mere fact of the IMMCo. being organized does not provide an inexhaustible source of revenue," he protested to his New York partners, and struck the note Morgan himself had sounded often before: "If we cannot grasp the urgency of economy it is perhaps easier to understand [that we have a] certain moral responsibility for the success of the business owing to the fact that we are in many ways connected with it." The managers of the companies were "not disposed to go well in harness," and someone—clearly Griscom was not doing the job—had to take charge.

Stepping up his sarcasm, Dawkins went on: "It is comforting to find that there is no need to trouble about the theory of the business, all that is sufficient being to realize that 'the IMMCo. is a great and good institution.' Such simple medicine is, however, not good enough for all children, including the unintelligent Government here which wants to know, as does [the firm's solicitor] Mr. Crisp, exactly where things stand." And he concluded: "I have no doubt we shall be able to fix matters up, but I fear it would be difficult to ask the Government merely to fold its hands and rest content, as I have much pleasure in doing, with an apostolic assurance that the 'IMMCo. is a great and good institution.' "

Perhaps something more than apostolic assurance could have been applied to the problem if Morgan had been attentively minding the store. By 1902 he was more interested in Raphaels than in balance sheets, and he believed so firmly in the efficacy of combination and the power of abundant capital that he failed to come to terms with recalcitrant facts.

In June of 1903, Dawkins wrote to Gerald Balfour about the wording of the IMM agreement. Their "New York friends" had taken alarm at its "phraseology" in light of that spring's Northern Securities decision: "To put it plainly," said Dawkins, "the blessed word 'combination' is what frightens them, as to use the word . . . in America causes as much disturbance now as the singing of the Marseillaise did under the Third Empire." Morgan shared this apprehension, but was "quite certain that the Government would never wish to cause him any difficulty by insisting on a mere matter of phraseology if the substance can be as well expressed in another manner."

Morgan's certainty that Washington would not cause him trouble over wording may have come from high sources, but the government in this case was not the problem. By the end of 1903 the international financial world recognized the shipping trust as a disaster. Jack reported to his father from London that the air was "thick with rumors about your retirement," and early in 1904 Henry Adams wrote, "Pierpont Morgan's collapse is greatly to be regretted—says Oliver Payne—because he is the last Christian banker in exchanges." Dawkins told Steele that "if the [IMM] *cannot* come right . . . we may as well put up our shutters." He thought it *would* come right in the end, but signed himself, "Yours truly & of a desperate courage."

Early in 1904 Morgan tried what had worked for other troubled corporations—hiring better management. He asked Albert Ballin, who he surely knew was Jewish, to take over as president of the trust; the Hamburg-Amerika director declined the offer "chiefly on account of my relations with the Kaiser," while noting that Morgan was finding it "impossible to get the right men to take their places." Morgan finally replaced the ineffectual Griscom with the difficult White Star chairman J. Bruce Ismay, saying that he "did not mind losing money, but he did object to doing so owing to poor organisation." Shouldering "moral responsibility" for the floundering combine, he promised Ismay that if the company did not earn enough to pay its fixed charges, he would make up the deficiency for the next three years.

With Griscom out, Morgan moved the company headquarters from Philadelphia to New York. He did make up the deficits, but neither his subsidy nor Ismay's presidency saved the IMM.

Ironically, the existence of the American-dominated trust *stimulated* foreign competition, and for the next ten years the ships of rival nations—not only Cunard, but the scheduled freight lines and tramp steamers of other countries as well—vied with the IMM for traffic in the North Atlantic lanes. *The Wall Street Journal* concluded: "The ocean was too big for the old man."

The old man refused to believe that the IMM would not "come right." Three months before he died, he objected to a description of the shipping trust as "ill-fated." "It's *not* ill-fated," he told his librarian. "They say that because they can't see beyond their noses or the daily ticker. America's future is international and the Mercantile Marine is part of that future. . . . Speaking of the ticker, some day you'll see this stock at *par.* Maybe I will too, but *you* watch."

America's future *was* international, but the Mercantile Marine never became part of it. The company defaulted on its bonds in 1914, and went into receivership a year later. Saved temporarily by World War I, it eventually sold off its foreign holdings, reorganized as the United States Lines, ceased to exist as an operating company in 1937, and went bankrupt again in 1986.

Page
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