MORGAN

American Financier

JEAN STROUSE

RANDOM HOUSE
NEW YORK

The drawing room at 219 Madison Avenue, 1882.
(Archives of The Pierpont Morgan Library, New York)

Chapter 12

"THE GILDED AGE"

The tumultuous final third of the nineteenth century has generated more divergent interpretations than any other period in American history. It has been written about as *The Gilded Age, The Age of Innocence, The Age of Excess, The Age of Reform, The Age of Energy, The Age of Enterprise, The Mauve Decade, The Brown Decades, The Populist Moment, The Confident Years, The American Renaissance, No Place of Grace*—and its most conspicuous figures have been characterized as *The Robber Barons, The Lords of Creation,* and *The Vital Few.* Much of the dissension about it, at the time and since, has had to do with money.

U.S. national wealth rose from $30 billion in 1870 to nearly $127 billion by 1900, and the size of individual private fortunes soared. William Henry Vanderbilt inherited $70 million when his father died in 1877, and more than doubled that sum in seven years—largely by selling his New York Central stock—leaving $200 million at his own death in 1885. John D. Rockefeller by 1892 had a net worth estimated at more than $800 million (roughly $12 billion in 1990s dollars).

A magazine article on "The Owners of the United States," published in 1889, claimed that the average annual income of the country's hundred wealthiest men was between $1.2 million and $1.5 million—dwarfing the incomes of European royalty—while 80 percent of U.S. families earned less than $500 a year. Few of the new millionaires came from New England, none from the South: the huge fortunes of the late nineteenth century were made in railroads, industry, and finance, in New York, Pennsylvania, Illinois, Ohio, and the West. According to the author of the article, attorney Thomas G. Shearman,* the Americans worth more than $100 million by 1889 included John D. Rockefeller, the Vanderbilts, Jay Gould, and the California railroad magnate Leland Stanford. Among those with over $30 million were various Astors, Russell Sage, P. D. Armour, Henry Flagler, William Rockefeller, Collis P. Huntington, Darius Ogden Mills, Claus Spreckels, and August Belmont—for some reason Shearman did not include Carnegie. At the low end of the list, with $20 million to $30 million, were Marshall Field, Oliver Hazard Payne, H. O. Havemeyer, Anthony Drexel, and Junius and Pierpont Morgan. Shearman estimated the two Morgans' and Tony Drexel's net worth at $25 million each, which was high: Junius and Pierpont together were probably worth about $30 million in 1889.

This tremendous concentration of private affluence had powerfully unsettling effects not only on the vast majority of Americans who were not rich but also on the nation's Old Guard elites. Boston's Brahmins, New York's Knickerbockers, and the residents of Philadelphia's Rittenhouse Square still had ample bank accounts and distinguished lineage, but power, and wealth in previously unimaginable amounts, now belonged to "new" men. Henry Adams regarded the inexorable advance of capitalists, bankers, "goldbugs," and Jews (he used the terms interchangeably) with a scorn fueled by his own sense of eclipse. A character in Edith Wharton's *Age of Innocence* complained that with the country in the hands of crass political bosses and unwashed immigrants, "decent people had to fall back on sport or culture."

Members of the old Yankee gentry who did not simply fall back on sport and culture devised new ways of reinforcing social boundaries. They joined private clubs, founded patriotic and genealogical societies, sent their sons to exclusive schools,† drew up the *Social Register,* moved to restrictive suburban communities, and exhibited a newly virulent anti-Semitism. A few successful German Jews had already been accepted into Protestant society, but rising xenophobia suddenly turned them out of suburbs, hotels, resorts, and clubs: Joseph Seligman, who worked with the Morgans on the government refundings and had helped found New York's Union League Club during the Civil War, was stunned to find himself refused admission to the Grand Union Hotel at Saratoga Springs in 1877.

* With his partner John W. Sterling, Shearman specialized in railroad reorganizations and managing large estates, and served as counsel to the National City Bank. He represented Jay Gould in the Erie wars, and also in the Albany & Susquehanna takeover attempt—against Pierpont Morgan, Joseph Ramsey, and Samuel Hand—and his penchant for tearful appeals to juries on behalf of his clients earned him the nickname Weeping Tommy. In 1881, Shearman joined the social reformer Henry George to argue for a "single tax" to offset the economic advantages of monopoly and redistribute wealth from rich to poor.

† Only a few New England boarding schools qualified for the training of America's Protestant elite when Jack Morgan left home in 1880—St. Paul's, founded before the Civil War, and Exeter and Andover, which dated to the eighteenth century. As increasing numbers of newly successful men wanted their sons to have the education and social imprimatur conferred by these preparatory academies, the schools came to play an important role in the definition of a national upper class, and several new ones were founded between 1880 and 1905—Groton, Choate, Taft, Hotchkiss, St. George's, Middlesex, Deerfield, Kent. They came to be known collectively as St. Grottlesex.

Pierpont occupied a distinctive place on this shifting social ground, since he qualified for membership in both the old and new elites. Educated on two continents, fluent in two foreign languages, he had spent his life among wealthy, powerful people, lived in the best neighborhoods, joined the most prestigious clubs, earned a listing in the first *Social Register,* sent his son to St. Paul's and Harvard, and felt equally at home in Manhattan, Boston, Newport, London, Paris, Cairo, and Rome. He had nothing to prove in the glittering drawing rooms of the nouveaux riches, and looked more to Europe than to old New York for models of behavior and style. Yet his professional drive and multiplying fortune were more characteristic of the arrivistes than of the Old Guard. Few men his age who assumed patrician status as a birthright spent their days trying to curb railroad wars or market government bonds.

A casual remark by professional socialite Ward McAllister to the effect that "only about 400 persons living in New York had any claim to be called 'society' " produced a catalogue of the top "400" names (actually, counting spouses and adult children, about 550) running from Astor to Vanderbilt. McAllister announced in his introduction to the published list that he was including "only those . . . who are now *prominently* to the front, who have the means to maintain their position, either by gold, brains, or beauty, gold being always the most potent 'open sesame,' beauty the next in importance, while brains and ancestors count for very little." The Morgans qualified, as did the Levi P. Mortons, William Butler Duncans, W. W. Shermans, Charles Laniers, August Belmonts, and several Vanderbilts.

Henry Adams, generously endowed with ancestors and brains, sneered at the stature accorded to mere gold: "Scarcely one of the very rich men held any position in society by virtue of his wealth, or could have been elected to an office, or even into a good Club," he wrote in his *Education.* Yet Adams made an explicit exception of Morgan, "whose social position had little to do with greater or less wealth."

Perhaps because of his prominent standing in both worlds—he had status in the old and power in the new—Morgan was less intent than many plutocrats on barricading the enclaves of privilege. He had refused in 1868 to leave the disheveled metropolis for tidy suburban New Jersey, and complained to his father a few years later about the dearth of brains on Wall Street. Drawn to talent, energy, and competence, he had rejected partners whose qualifications were only dynastic, and made unconventional choices in hiring Egisto Fabbri and backing Thomas Edison. About the "tight little citadel" of old New York, he might have said, with one of the most socially self-confident characters in *The Age of Innocence*, "we need new blood and new money."

His meritocratic instincts did not lead him to Jews. Early in the next century he would decline participation in a deal that seemed "a little too Jewish," and refer to his own house and that of Barings' American representatives as the only "white" firms in New York. Yet his derogations of Jews were infrequent and offhand, common to the world he knew; they bore none of the personal venom expressed by other Anglo-Saxon patricians, including Henry Adams and his own son, Jack.* In 1904 Morgan offered the presidency of one of his major enterprises to the man who seemed most qualified for the job—a German Jew. (See Chapter 23.)

He made another unorthodox choice when it came time to find a new rector for St. George's Church. He had remained devoted to the conservative Dr. Tyng for twenty years, but by 1878, when Tyng finally retired, the church was a shambles. Attendance and endowment had declined after the Civil War as immigrants, poverty, and "trade" encroached on the once fashionable neighborhood around Union Square, and the wealthy fled north. Only about twenty of the "old" families remained active at St. George's, including the Tracys, still on East 17th Street, and the Morgans, even though they had moved uptown. Pierpont joined the St. George's vestry, which was headed by Fanny's father. Forty churches below 20th Street relocated north in the eighties and nineties, but Charles Tracy and his son-in-law refused to seek higher ground. The problems in this parish were emblematic of what was happening in cities throughout the Northeast, and though neither Tyng nor his immediate successor had been able to solve them, the St. George's governors were determined to find someone who could.

In the autumn of 1882 they interviewed the Reverend William Stephen Rainsford for the job. The Irish-born son of an Anglican clergyman, Rainsford at thirty-two was a "deep-chested, broad-shouldered Christian athlete," reported the New York *Sun*—over six feet tall, with rugged good looks that seemed more suited to the stage than the pulpit. He was also a charismatic preacher and a pronounced social radical.

He had moved from Dublin to London in the 1860s, when his father, Marcus, was appointed rector of a chapel in Belgrave Square. In the Church's mid-century theological schism, the senior Rainsford sided with the Evangelical Revival against the Oxford Movement's High Church Anglo-Catholics. The junior Rainsford earned a degree at Cambridge before taking holy orders, then emigrated to Canada in 1878. He started out preaching the Evangelical gospel and urging "New Birth" through faith in Christ, but his work with the urban poor in London and Toronto turned him violently against the doctrines of his father and Dr. Tyng. Their Low Church party had taken "the wrong side" in the great social struggle of the century, Rainsford later charged, when "it turned a deaf ear to the exceeding bitter cry of Labour" and supported "the tyranny of wealth." While millions of people lived in squalid slums, their working hours "intolerably long," their wages, diets, and living conditions appallingly inadequate, organized Christianity stood by arguing over dogma. Evangelicals in particular were so intent on "saving men's souls from a distant Hell they left them to suffer in a very real present Hell."

Rainsford soon gravitated to the reformist Social Gospel movement that grew out of English Christian socialism. Its leaders, sounding more like John Pierpont than Stephen Tyng, argued that Christianity was not a private pact between man and God but an active humanitarian ideal. They rejected popular Social Darwinist ideas about economic survival of the fittest, and organized community efforts in city slums to fight for legal justice, public health, and workers' rights.

The St. George's vestry invited Rainsford to come down from Canada in the late fall of 1882, and interviewed him in Morgan's private study. The banker and the rector had not met before, but Morgan was familiar with Rainsford's views, and the clergyman knew all about St. George's decline. He had walked through the once elegant Stuyvesant Square, its dry fountains filled with dead cats and trash, and pronounced it "a dirty, neglected mockery of what a city park might be," though "not so completely fallen from grace" as its neighbor, Tompkins Square—there "you took considerable chances if you walked across it at night." Not in the least put off by these desolate prospects, he wanted to try out his ideas for social reform on a large city church.

In Morgan's study that night, Rainsford outlined the conditions under which he would accept the job, certain (he said later) that his conservative hosts would not accept them. He would put all his energy into revitalizing St. George's and making it stand for social reform; he would charge nothing for church membership, abolish all committees except the vestry, and appoint new committees himself; he wanted $10,000 a year for three years, in addition to his salary, to spend as he chose on the church.

As soon as he finished speaking a voice said, "Done." It was Morgan, who "wrung my hand, and said: 'Come to us. We will stand by you.' "

Rainsford not only had a vision of what he wanted to do, he had specific plans and saw opportunity where other people saw only crisis. Reflecting later on Morgan's swift decision, the clergyman said, "No man could more quickly

* Morgan's youngest daughter, Anne, expressed the casual anti-Semitism of her generation when she told Fanny that she didn't feel like sharing a new sidesaddle with houseguests. "By which remark you may think I have some Jew in my pedigree even if I can get into the Colonial Dames on *both* sides of the house."

or accurately size up a situation. . . . He was always looking for men fit to lead. He believed more in men than in measures. Once he found the man he was looking for, or thought he had found him, he . . . was willing to trust him far."

Although many people considered Morgan a connoisseur of character, he once told his rector, "I am not a good judge of men. My *first* choice of a man is sometimes right; my *second* choice never is." He chose people on instinct, for reasons he could not explain, and he made some big mistakes.

As promised, Dr. Rainsford turned St. George's into a "hive of Christian activity." Jack Morgan wrote home from boarding school in 1883, "Isn't it splendid about the way Mr. Rainsford is making things move along after being so stagnant for so long? It must be a continual pleasure to go to the church now instead of a sad thing as it was last year."

The rector started on the problems of the neighborhood. With immigrants and Americans from rural areas pouring into the nation's cities, New York's population had multiplied eightfold between 1825 and 1875, and grew from less than 2 million in 1880 to nearly 3.5 million in 1900. By 1898, when the five boroughs incorporated as New York City, half its residents were foreign-born. Rainsford reached out to the immigrant occupants of Lower East Side tenements with social services, and sent his assistants and deacons to recruit in the shops around Union Square: he opened a Sunday school and kindergarten on Avenue A, set up clubs, a trade school, and athletic facilities for young people, and discussion groups and drama societies for adults. His heroes in urban missionary work were the Boston Episcopal activist Phillips Brooks and the Danish journalist/photographer Jacob Riis, who published his shocking documentary study of the slums, *How the Other Half Lives*, in 1890.

For all his attention to the "other" half, Rainsford also managed to bring socially prominent families back into the St. George's fold—Laniers, Minturns, Ketchums, Oelrichs, Schieffelins, Patons, Jays. He did not convert them to radical social activism, but he enlisted their help. The men funded his projects; the women taught domestic skills to girls from the Lower East Side, visited poor families with food and gifts at holidays, and donated money of their own. Rainsford wanted the parish house to serve as a community center, and after Fanny's father died in 1885, Pierpont paid for a Charles Tracy Memorial House, with a chapel, Sunday school rooms, offices, meeting rooms, public bathrooms, and a gym.

Once a week Rainsford came uptown to have breakfast at 219 Madison. Morgan stood behind him with moral support and an open checkbook—even when they disagreed, which was often—and stood beside him at the church doors every Sunday morning, greeting parishioners as co-host and guardian of the proceedings. One year during Lent Rainsford invited laymen and clergymen from other denominations to lecture at St. George's. Morgan disliked this departure from tradition, but when it elicited public criticism he sent a letter to

the press pointing out that the revitalization and "great work" going on at St. George's had "no parallel in the United States": there could be no disloyalty to the Episcopal Church and no conceivable harm, he went on, in the rector's calling on "the best writers and thinkers he could secure, both clerical and lay," to discuss subjects "which are engrossing the thought of the Christian world."

This unlikely friendship lasted nearly thirty years, during which time Morgan's liberality extended further than Rainsford knew. When the clergyman and his family left Toronto for New York at the beginning of 1883, the financier arranged with the railroads to pay for the move "so that Mr. Rainsford would not be aware but that it would be an act of courtesy on the part of the roads." Rainsford suffered from depression, and in the mid-eighties Morgan sent him on camping expeditions in the Rocky Mountains with Jack, which gave the rector an extended vacation, and Jack outdoor experience with an athletic adult male. When Rainsford broke down completely in 1889, Morgan sent him away for six months of salaried travel and rest. At the end of this furlough, the banker set up a trust fund for the rector's family, telling him: "Don't work too hard, you ought not to have to worry about money. Don't thank me, and don't speak of it to any one but your wife." Several years later he gave the Rainsfords money to build a house in Ridgefield, Connecticut.

After Morgan died, Rainsford wrote about him in two published memoirs and a private "Recollection." He noted the contradictions in his patron's character—a stubborn resistance to change combined with a "wide and deep tolerance" in religious matters: "I do not believe any of all of my teachings, in the pulpit or out of it, moved him by so much as one inch from the [Evangelical] 'plan of salvation,' the traditions of his youth which he held with vise-like tenacity," recalled Rainsford. "Of every radical proposition I advanced—ecclesiastical, social, religious—he disapproved; yet back of me, ever and always, was his firm loyalty. Without it I couldn't have accomplished what I did."

The rector found the banker "intemperate and sometimes unjust in his oppositions," but also "absolutely honest and patriotic." Behind the autocratic demeanor he saw the qualities that won people's trust: "When he chose to exercise it, there was an extraordinary and winning charm about J. Pierpont Morgan," Rainsford wrote. ". . . I have never seen any eyes quite like his. They had penetration and kindliness combined to an extraordinary degree. When he said a thing, and looked full at you as he said it, to doubt him was impossible."

As minister/confessor, Rainsford saw more of the private Morgan than most people did, and described his friend's "extraordinarily emotional" side—the "flashes of insight, call it genius or call it prophetic fire." Morgan was "more reserved than any man I ever knew," with few inner resources in times of trouble: "no scholar, no reader, [he] had not learned to care for nature, or find any rest or companionship in her high company." When the famous reserve broke down, the "profound emotionalism of his nature had its way with him. The great deeps were broken up, and to some near one he called aloud for help." In these hours of "despairing despondency," the banker "deeply doubted himself," and "three times in thirty years all shadow of reserve between us was . . . swept aside. I do not know that as he thus clung to me, I was able to do him any good, but at least I told him what I thought was the truth; and if love and longing could help a man, he ought to have had some succor from me."*

Many of Rainsford's comments about Morgan sound a self-aggrandizing note. Retrospectively emphasizing the superiority of his own convictions, the rector suggests that he alone was able to meet the needs of this great, troubled soul; entirely dependent on his benefactor's largesse, he admits to no self-interest. And though he claims exemption from the common response to power—"Many love to bow themselves before the strong. And so an environment of almost universal flattery and adulation, sometimes gross and fawning, moved with [Morgan] wherever he went"—he was not immune to this effect. Moral one-upmanship is aggressive first cousin to bowing before the strong.

Morgan's support of Rainsford had only partly to do with his affinity for men of action. His own work, which he regarded as a noble calling, largely satisfied his patrician sense of obligation to provide for a society that afforded him great material privilege. After hours, he was neither inclined nor qualified to contend with the urgent social problems of the Gilded Age, but he could give his imprimatur to a moral crusader who wanted nothing more than to take those problems on—especially when the crusader was British, Anglican, good-looking, charismatic, and, like his patron, melancholic. Perhaps in his relations with Rainsford, Morgan was also salvaging broken fragments of his past, indirectly requiting the affection of another radical preacher.

New York in the decade surrounding the country's centennial emerged as the center of U.S. commerce and culture, representing in concentrated form the conflicts and achievements of the "American Renaissance." While Rainsford tended to urban poverty and the influx of immigrants at one end of the social scale, wealthy New Yorkers set out in an expansive, nationalist mood to turn their metropolis into one of the cultural capitals of the world.

Artistic and scientific enterprise has always flourished in great commercial cities—in ancient Athens, Alexandria, and Rome, Renaissance Florence, seventeenth-century Amsterdam, eighteenth-century Paris, nineteenth-century London—and the Yankee merchant princes regarded New York as next in line:

* When Rainsford published his first memoir in 1922, Jack told Fanny that it made him "very uncomfortable," and he thought his father "would have hated" some of its revelations: Rainsford "doesn't see that some people think their struggles and sorrows are not for the public, and that some people shun publicity for their inner feelings."

it would be a uniquely *American* place, harnessing the energies and talents of democracy to the heritage and cultural standards of the past.

New Yorkers who could afford the latest technology in the early eighties learned to use telephones, experimented with Mr. Edison's light, and rode for the first time in passenger elevators. Steam-driven elevated railroads altered the topography of the city for all social classes, and the Brooklyn Bridge, completed in 1883—the longest span ever built—seemed a triumph of American science, ingenuity, and design.

Artists and writers were taking possession of the Old World's legacy and inventing a vernacular of their own. Between November 1884 and April 1885 the illustrated *Century Magazine* ran articles on "Sculptors of the Early Italian Renaissance," "Dutch Portraiture," "The Worship of Shakespeare," and the city of Florence—along with pieces on "Recent Architecture in America" and "American Painters in Pastel." There was an essay on "The Poet Heine" by Emma Lazarus, and a review of illustrations by the American artist Elihu Vedder for a new edition of Omar Khayam's twelfth-century *Rubaiyat*, translated by Edward FitzGerald ("an American artist has joined the Persian poet and the English translator," wrote the *Century*'s critic, "and the result . . . presents the original strain in a richer, profounder harmony"). The magazine also published fiction by Mark Twain ("Huckleberry Finn"), Henry James ("The Bostonians"), William Dean Howells ("The Rise of Silas Lapham"), and Joel Chandler Harris ("Free Joe and the Rest of the World"), along with nonfiction about the Civil War (Ulysses S. Grant on "The Battle of Shiloh"), and essays on the Smithsonian, Daniel Webster, Oliver Wendell Holmes, "Phases of State Legislation" by Theodore Roosevelt, Jr., and postslavery issues of race—the "greatest social problem before the American people today."

Journals devoted to art, architecture, and interior decor began to appear around 1880, and the country's growing regard for education and the arts was reflected in new professional organizations (the American Historical Association, the Architectural League of New York), as well as in the founding of universities, schools, galleries, libraries, orchestras, opera houses, and museums.

The Metropolitan Museum of Art finally moved into its permanent home in 1880. That March, President Hayes and New York's cultural elite attended the formal dedication of Vaux and Mould's Ruskinian Gothic redbrick pavilion at Fifth Avenue and 80th Street. The principal speaker was Joseph Hodges Choate, a trial lawyer and museum trustee. In the context of increasing political conflict between rich and poor, Choate emphasized the moral and social value of the new institution, reiterating its founders' belief that a knowledge of art would "humanize, educate, and refine a practical and laborious people." The original aim had been to provide a vast "department of knowledge" for "the vital and practical interest of the working millions"—modeled on the South

Kensington Museum in London—to teach American artisans and students "what the past has accomplished for them to imitate and excel."

This marriage of commerce, aesthetics, and social virtue was going to cost a great deal of money, and Choate urged his audience of potential patrons to direct some of their resources to art: "Think of it, ye millionaires of many markets, what glory may yet be yours, if you only listen to our advice, to convert pork into porcelain, grain and produce into priceless pottery, the rude ores of commerce into sculptured marble, and railroad shares and mining stocks . . . into the glorified canvas of the world's masters, that shall adorn these walls for centuries. The rage of Wall Street is to hunt the philosopher's stone, to convert all baser things into gold, which is but dross; but ours is the higher ambition to convert your useless gold into things of living beauty that shall be a joy to a whole people for a thousand years."

The "higher ambition" of turning money into art had enormous appeal for wealthy New Yorkers, but they did not begin giving major works to the museum until later in the decade. In the early eighties the city's aesthetic attentions were focused largely on the house. A writer for *Harper's Monthly* announced in October of 1882 that "Internal Decoration" had become the consuming passion of "the present generation," and that nothing could be "more beautiful, more orderly, more harmonious than a modern New York house which has blossomed out in this fine summer of perfected art." The rage for "artistic houses" had grown so intense, she noted, that artists such as John LaFarge, Augustus Saint-Gaudens, and Lewis Comfort Tiffany were turning their attention to interior decor.

The houses of the Gilded Age served as domestic museums—private exhibitions of architecture, artifact, and art that would testify to their owners' ample means and stylish tastes. A few of these men had in fact become discriminating connoisseurs—among them Henry Marquand, John Taylor Johnston, John Claghorn, and John Wolfe—but most of the new American millionaires in the early eighties had more money and zeal than educated knowledge about the arts; awed by European culture, they imported it in bulk to the United States.

Morgan's 40th Street neighbor William Henry Vanderbilt bought up the entire west side of Fifth Avenue between 51st and 52nd Streets for $700,000 in 1879—the year he sold his interest in the New York Central—and spent another $2 million building enormous twin brownstones for himself, his wife, and two married daughters. Designed and decorated by the Herter brothers, these boxlike mansions reflected Vanderbilt's self-ascribed preference for "an almost indiscriminate assemblage" of Roman balconies, "Ghiberti" doors, English oak panels, a neoclassical library, a Japanese parlor, a Venetian frieze, Chinese screens, and mother-of-pearl on every available surface. The picture gallery—the largest in New York—was filled with French art from the Académie, and open to the public by invitation once a week.

Mr. Vanderbilt commissioned a study of his new house by the art critic Earl Shinn, who produced a multivolume paean that captures both the parochialism and exhilaration of this American moment. The country was "just beginning to be astonishing," Shinn wrote under the pseudonym Edward Strahan in 1883–84: "Re-cemented by the fortunate result of a civil war, endowed as with a diploma of rank by the promulgation of its centenary, it has begun to re-invent everything, and especially the house." The Vanderbilt mansion might "stand as a representative of the new impulse now felt in the national life. Like a more perfect Pompeii, the work will be the vision and image of a typical American residence, seized at the moment when the nation began to have a taste of its own." That this "typical American residence" had been built at a cost of $2 million, by six hundred American workers and sixty imported Europeans, was an irony lost on Mr. Shinn.

When two of Vanderbilt's sons built palaces along Fifth Avenue in the early eighties as well, the stretch of the avenue between 50th and 58th Streets came to be known as Vanderbilt Row. Cornelius II constructed a late Gothic/early Renaissance château of redbrick and white stone between 57th and 58th Streets, its courtyard facing Grand Army Plaza and Central Park. His brother William Kissam hired Richard Morris Hunt to design a limestone castle modeled on the Château de Blois and the Jacques Coeur mansion at Bourges, between 52nd and 53rd Streets. To celebrate its completion in March 1883, William K.'s wife, Alva, held a costume ball that gave free rein to the fantasies of New York's social elite: Alva dressed as a Venetian princess accompanied by live doves, her husband as the Duc de Guise; her brother-in-law, Cornelius, came as Louis XVI, and *his* wife as Edison's electric light. There were sixteen more Louis XVIs, eight Marie Antoinettes, seven Marys, Queen of Scots, one King Lear, one Queen Elizabeth, assorted Scottish lairds and Valkyries—and General and Mrs. Ulysses S. Grant in ordinary evening dress.

Edith Wharton, speaking for Old New York, sighed to her friend Ogden Codman, Jr., "I wish the Vanderbilts didn't retard culture so very thoroughly. They are entrenched in a sort of *thermopylae* of bad taste, from which apparently no force on earth can dislodge them." Another critic quipped that America's late nineteenth-century architecture was "either bizarre or Beaux-Arts."

The Morgans' friends Fred and Adele Stevens had been among the first to build a European castle in New York. On the southwest corner of Fifth Avenue and 57th Street, their redbrick Romanesque mansion, completed in 1876, had four stories, five towers, acres of Flemish and Spanish tapestries, and an entire palace ballroom shipped over from Ghent. It stood out among the rows of brownstone that Mrs. Wharton said made the city look as if it had been coated in cold chocolate sauce. Oscar Wilde, driving along Fifth Avenue one January day in the eighties and depressed by everything he saw, cheered up at the sight of the Stevens mansion with sun glinting off its gables: "That house," he said, "seems like a voice crying, in this wilderness of dark art, 'Brighter days, brighter days, brighter days.' "

To the south and east, transportation baron Henry Villard commissioned from McKim, Mead, and White a set of six linked brownstones around an open courtyard at 451 Madison between 50th and 51st Streets, behind St. Patrick's Cathedral. This Italian Renaissance palazzo had more grace and conceptual integrity than the Fifth Avenue châteaux; it also had a hydraulic elevator, electrical wiring, thirteen flush toilets, a central heating system that used a ton of coal a day—and it cost nearly $1 million.

In late October of 1882, at some geographic and financial distance from the excesses of Vanderbilt Row, the Morgans moved into their renovated brownstone on the corner of Madison and 36th. Like most of the new "domestic museums," this house was richly ornamented with Oriental rugs, ceramics, paintings, elaborate woodwork, stained glass, and bric-a-brac. Yet it made quieter, more American claims for itself than many of its contemporaries (it was not "neo-" anything), and articulated a measure of patrician restraint.

Working closely with the Morgans, Christian Herter had installed Circassian walnut doors at the new entrance on 36th Street and stained-glass sliding panels opening from a mosaic-tiled vestibule onto the front hall. Walking up a few steps to the first landing, visitors immediately faced the minstrel and maid in Pierpont's beloved von Kaulbach cartoon, *The Bird Song,* above a recessed mantel. Daylight filtered through a stained-glass dome (from the studio of John La Farge) into the central well of the house, and also through stained glass set into spandrels over triple arches on the landing. Twin white-oak staircases with densely spindled railings led from the front hall up to the family living quarters. There was an elevator off the hall, a two-story burglarproof safe in the butler's pantry, a gymnasium for the children in the basement, and a private telegraph wire connecting the house to 23 Wall Street.

On the main floor, the new drawing room took up the entire west side of the house. It centered on a seventeen-foot bay framed by Pompeiian-red columns and a gold-flecked white frieze inset with stained glass. A coved ceiling painted to look like mosaic emphasized the length of the room, and a studied arrangement of rugs, cushions, tables, chairs, Japanese embroideries, silk brocade curtains, paintings, and books managed to avoid Victorian clutter and give the space a feeling of formal balance.

The gentleman's library, a standard feature of the New York town house, was just to the right of the entrance hall, which meant that Pierpont could come in from the street and disappear into his private study without running into anyone else. He hired Dr. Rainsford in this room shortly after moving in. Its wainscoting and recessed inglenook were made of Santo Domingo mahogany, and there was an eight-foot plate-glass window facing south. Herter had covered the chairs and sofas in peacock-green plush, tiled the raised fireplace in

ocher and blue, and installed allegorical figures representing History and Poetry in octagonal panels on the ceiling. Morgan proudly told visitors that Herter had painted these panels "*himself,* with his *own hands.*" Stained-glass doors designed by John LaFarge led from this masculine retreat into a sunny conservatory that ran sixty feet along the eastern side of the house, filled with orchids, ferns, climbing vines, and flowering plants. Banks of potted palms lined the windows, and a lion's head framed in black marble spouted water in a fan-shaped stream.

The dining room, more stolid and Victorian than the rest, was painted dark red, with English oak wainscoting, Siena marble columns, Oriental screens and jars, a small circular table with oak and leather chairs, and a stained-glass skylight twelve feet square. Over a large sideboard hung Frederic Church's painting *Near Damascus.*

In November of 1882, Pierpont had these rooms photographed for a large-folio, four-part publication called *Artistic Houses, Being a Series of Interior Views of a Number of the Most Beautiful and Celebrated Homes in the U.S., With a Description of the Art Treasures Contained Therein* (1883–84). Bound in tooled leather and privately printed in a limited edition for five hundred wealthy subscribers, *Artistic Houses* surveyed ninety-seven buildings, including the residences of William H. Vanderbilt, George Baker, Marshall Field, Henry Marquand, John T. Johnston, Fred Stevens, Louis C. Tiffany, Samuel Tilden, and Henry Villard.*

Like Earl Shinn's tribute to the Vanderbilt mansion, it paid proud homage to America's aesthetic accomplishments and tastes. "The domestic architecture of no nation in the world can show trophies more original, affluent, or admirable," declared the anonymous author of the text, art critic George W. Sheldon. By not using their own names, Shinn and Sheldon probably hoped to protect their critical reputations while serving as paid purveyors of praise, but in the surge of excitement about the arts in the early 1880s, they may have believed much of what they said. Sheldon catalogued the "rare," "exquisite," "costly" objects that filled the "artistic" houses, and described their owners as "professional [men] of scholarly pursuits, cultivated tastes, and wealth sufficient to gratify both." Only a few of these men had the time or predisposition for scholarly pursuits, but Sheldon's hypberbole suggests how highly they valued cultivated taste, and how insulated they were from critical appraisals of their judgment. "To the Greeks there was no gulf between the useful and the beautiful," Sheldon wrote. "So one feels in Mr. J. Pierpont Morgan's mansion."

* Most of the photographs were printed backward by D. Appleton and Company in 1883. In 1987, Arnold Lewis, James Turner, and Steven McQuillin reproduced the photographs with the negatives right side up in *The Opulent Interiors of the Gilded Age;* their new text supplies invaluable historical context and aesthetic assessments.

Unlike many of the owners of "artistic houses," Morgan did not install a formal picture gallery at 219, but he, too, had been collecting contemporary European salon paintings. A catalogue on *The Art Treasures of America* by the busy Mr. Shinn, again as "Edward Strahan," devoted four pages to "the small but precious collection got together by Mr. J. Pierpont Morgan of New York."* Virtually all the Morgan paintings were landscapes or narrative genre scenes depicting worlds far removed from modern industrial America—an open-air Arab *Court of Justice* by T. Moragas, a flirtation on the Grand Canal by Luis Alvarez, a Spanish promenade by the popular Barbizon school painter Narcisse Diaz de la Peña, a servant of Horace forgetting his errand by Hector Leroux. There was a canvas attributed to Corot called *Le Gallais*—Shinn declared it a "magnificent specimen" of that artist's "charm of mystery and pearly tenderness," but it eventually disappeared from Morgan's walls. Someone said that Corot painted six hundred works, six thousand of which were in America.

Shinn liked the adjective "pearly." He considered Morgan's *Laundress of the Cupids*, by J. L. Hamon, to be "one of the most audacious and original of the fancies of that poet of the palette"—a "pearly scene of dawn" in which "a maiden cleanses her conscience of its loves." The "greatest rarity" in Morgan's possession, however—according to Shinn—was *The Cardinal's Fête*, painted by "the Cavaliere Scipione Vannutelli, of Rome" in 1875: "the dashes of glitter, the mixture of pomp and piety, the indulgent and complaisant clergy, the palace decked with tapestry and with sacred banners, afford an opportunity to the painter for the resources of a glittering palette."

Tastes in art change, and connoisseurship was in its infancy in the 1880s. Still, Shinn's raptures over work that now seems at best banal, his uncritical endorsement of Victorian sentimentality, his silence on the formal properties and aesthetic values of these works, and his disregard of superior artists (in the collection of Joseph Drexel, he does not mention paintings by Canaletto or Caravaggio), render the catalogue more useful as a window on the aspirations of the Gilded Age than as a source of information about art.

Morgan's taste was not entirely Eurocentric. Probably owing to his Sturges connection, he had several works by Americans—Frederic Church, Asher B. Durand (*Thanatopsis*), John F. Kensett (*Sunrise in the Adirondacks*), S. R. Gifford (*October in the Catskills*), and a scene from the *Odyssey* by Elihu Vedder that he had commissioned called *Nausicaa and Her Companions*, which Shinn found "quaint and interesting."*

While Americans were collecting academic genre scenes, the nineteenth century's great innovative artists—Manet, Monet, Cézanne, Degas, Renoir—were rejecting conventional subjects and forms to portray the life immediately around them, experimenting with light, color, texture, and composition. The first Impressionist exhibition in Paris in 1874 announced one of the most radical artistic developments of the century (the other was photography), which contemporary critics and collectors, with some notable exceptions, dismissed as insane. When Morgan and other American collectors of his generation eventually turned away from salon paintings in the late 1890s, they would look not to the modernist future of Van Gogh, Picasso, and Matisse but to the hallowed authority of the past.

In 1883, shortly after Morgan moved into 219, he had a catalogue of his books compiled and published by the New York dealer Joseph F. Sabin.† His early library more or less typified a New York gentleman's collection of the 1880s, with editions of famous authors in fine bindings, religious texts (Bibles, hymnals, psalters, tracts), and standard histories. Perhaps reflecting personal interests, however, Morgan owned sixty-six volumes on *Napoleon and His Generals* and Robert Burton's *Anatomy of Melancholy* (1621). The library's lighter fare included a ribald *Life of Sir John Falstaff* illustrated by George Cruikshank, a book on *Mrs. Jordan*, the English actress who was mistress to William IV, and *A Burlesque Translation of Homer*, published in 1792.

Morgan was, however, also building a reference library on art. He owned Crowe & Cavalcaselle's *Early Flemish Painters*, Vasari's *Lives of the Painters*, Michael Bryan's *Dictionary of Painters and Engravers*, books on Venice and Pompeii, several volumes on ceramics, a catalogue of the Louvre's collections before 1815, and Ruskin's *Modern Painters*, *Stones of Venice*, and *Seven Lamps of Architecture*. Like Ruskin and the Harvard art historian Charles Eliot Norton (though without their aesthetic and moral analyses), Morgan was drawn to the arts of the Middle Ages, and by 1883 he owned several of the books that were kindling nineteenth-century interest in medieval subjects—including Sir

* The three-volume *Art Treasures of America, Being the Choicest Works of Art in the Public and Private Collections of North America* (1879) included the collections of the Drexels, Vanderbilts, William Rockefeller, Levi Morton, August Belmont, Harris Fahnestock, A. T. Stewart, James Gordon Bennett, Christian Herter, W. T. Walters, H. P. Kidder, Leland Stanford, Charles Crocker, Milton Latham, and Darius Ogden Mills—and also the Corcoran Gallery in Washington, the Museum of Fine Arts in Boston, the New-York Historical Society, the Lenox Library, and the Metropolitan Museum of Art.

* The Durand and the Vedder (the latter as *Greek Girls Bathing*) are now in the Metropolitan Museum of Art.

† Sabin's father, Joseph (1821–1881), had been one of the leading book men in the United States—a publisher, cataloguer, auctioneer, importer, and seller of books, and compiler of the renowned *Dictionary of Books Relating to America*.

John Froissart's *Chronicles*, published in 1868 with chromolithographic reproductions from manuscripts in the French Bibliothèque Nationale, Paul Lacroix's *Les Arts au Moyen Age*, Henry Shaw's *Dresses and Decorations of the Middle Ages*, and two volumes on *Les Evangiles des Dimanches et Fêtes de L'Année*. He also had facsimiles of manuscript illuminations by Jehan Fouquet, the great fifteenth-century French master who was equally celebrated as a panel painter.

And he had begun to acquire original literary and historical authors' manuscripts. Junius in 1881 had given him the complete holograph manuscript of Sir Walter Scott's 1815 novel *Guy Mannering*, set in eighteenth-century Scotland—the loss of this Scottish national treasure to the United States cannot have pleased the British. Pierpont himself bought an autograph letter of Robert Burns written in 1793. Junius owned the George Washington letter that he had read at Delmonico's in 1877; Pierpont by 1883 had four Washington letters, as well as a set of autographs by the signers of the Declaration of Independence, and a bound set of documents relating to the death of Alexander Hamilton. The most important item in his library of the early eighties was a copy of John Eliot's Indian Bible (Cambridge, 1663)—the first complete Bible printed in North America, in an Algonquin dialect.

Morgan's new house was the first private residence in New York entirely illuminated by Edison's lights. Bare bulbs, singly and in clusters, are visible in the photographs of 219 in *Artistic Houses*—they didn't need shades since the light they gave off was so dim. Engineers had installed a steam engine under the stables behind the house, and wired the building so that Morgan could light up the first floor, front hall, and cellar by turning a knob near the head of his bed. He remained resolutely committed to electric lighting, despite his father's initial opposition, and even though Edison had not been able to keep the promise he made in 1878 to have a working system ready in a few weeks; there was still no system at the end of 1882.

The wizard of Menlo Park had wanted "funds to push the light rapidly," but wanted to spend them in his own way. His attorney, Grosvenor Lowrey, had from the outset been caught between the Edison Electric Light Company directors and an autocratic prodigy who had an "easily ruffled ego," and "bristled whenever doubts of his eventual success were voiced." At the end of December 1878, just weeks after the Light Company was organized, executive-board members complained that Edison had spent nearly $20,000 on new buildings—far more than they "had been led to suppose was necessary." In the future, they wanted detailed vouchers for expenses.

One morning a month later, Lowrey stopped by the Drexel, Morgan office and learned of a setback—Edison had discovered that the platinum wire filament used in his first lightbulb wouldn't work. Morgan partners Fabbri, Drexel, and Wright, who owned EELC stock, jokingly asked Lowrey if he knew of anyone who wanted to buy their shares, but (Lowrey told Edison) "Mr. Fabbri looked serious." As Lowrey made the case for scientific trial and error, urging patience, "Mr. Morgan stood by listening without saying anything." The head of the bank had agreed to handle lighting patents in Europe, replacing Edison's foreign agent, but details had not been worked out. One of the partners noted that Edison was about to draw on his European representative for $1,800 in patent fees, and that Morgan might not want to take over advancing such sums if he was losing confidence in the project.

"Mr. Morgan spoke for the first time," reported Lowrey, and said on the contrary, he had been waiting for just this kind of opportunity to settle with the agent on fair terms—he was quite prepared to go ahead as planned. An exultant Lowrey concluded that "these gentlemen" were not "to be very easily frightened away from a thing they once made up their mind to," and urged his client to be completely frank with "our friends" at 23 Wall Street about whatever difficulties might arise: they would all learn from his experience.*

Transforming a brilliant idea into a marketable system took far longer and cost far more than anyone initially expected, and as Edison worked to solve a range of technical problems, build large central power stations, and set up factories to manufacture the necessary equipment, some of his backers lost patience. The EELC had been set up to hold patents; its directors never intended to get involved in manufacturing. In the fall of 1879, the board refused to raise more capital on the earlier terms, considering (Lowrey told Edison) "that you agreed to give them an electric light and that they agreed to give you Fifty thousand Dollars."

The company increased its capital stock several times—to $480,000 in November 1880. Some of the new shares were issued to Edison in return for ex-

* The standard version of the early Edison business depicts the inventor as a visionary, folksy genius putting up a noble fight against ruthless capitalists (chiefly Morgan) who kept him begging for funds and used him for their own ends. Recent work in the Edison archives—most notably by Robert Friedel and Paul Israel (*Edison's Electric Light, Biography of an Invention*)—and papers in the Morgan archives tell a different story.

Some of the confusion about Morgan's role in the business stems from the fact that there were three different groups involved in the project, which most histories of the subject have conflated into one. These were (1) the incorporator/directors of the Edison Electric Light Company (Fabbri, the partners in Lowrey's law firm, several Western Union men); (2) the syndicate of investors (including Fabbri, Drexel, Wright, and by early 1879, Henry Villard); (3) the company's bankers (Drexel, Morgan & Co.). There was some overlap—Fabbri belonged to all three groups; Villard was a director and an investor—but they were not identical in their actions or interests. The fact that Morgan did not initially buy stock in the Light Company has been seen as a lack of commitment, but the $50,000 put up by the first investors was pocket change to Morgan; he made a much larger pledge in committing himself to the business, and by the early 1880s he was a large owner of Edison stock.

tensions of the initial patent agreements; most were sold for cash. To raise money for manufacturing companies, Edison sold much of his stock, borrowed against the rest, and tapped the savings of friends. The Morgan bank tendered informal advice. Fabbri warned his "Friend Edison" late in 1879 not to conduct public exhibitions of "your great invention" before testing them completely in the lab: though errors might be instructive for men of science, public failures were "extremely damaging" in business, and Fabbri wanted to make sure that "for your own sake as well as that of those interested with you every precaution is taken to insure the success you so well deserve."

At the end of 1880, Drexel, Morgan helped Lowrey incorporate an Edison Electric Illuminating Company, with $1 million in capital stock, to build a central power station on Pearl Street in downtown Manhattan. Pierpont took Jacob Rogers and Jack out to see Edison's Menlo Park "invention factory" in January 1881, and two months later told his friend William W. Hoppin: "I think there is a good thing in this for all parties who undertake to introduce it properly into cities—and feeling this way I was very anxious you should derive the benefit of it for Providence." Just how good a thing it was did not become widely known for a few more years. In the meantime, Drexel, Morgan held the company's deposits, arranged its loans, managed Edison's personal investments, and—just as Lowrey had predicted—effectively promoted incandescent light at home and abroad.*

Thirty years after George Peabody advanced funds to display McCormick's reaper, Colt's revolvers, and Hoe's printing press at London's Crystal Palace Exhibition, his successors helped exhibit Edison's light at world's fairs. At the Paris Electrical Exposition in 1881, the Edison display attracted the attention of a French architect who put Edison lights in the foyer of the Paris Opéra, an American naval ensign who went on to develop electric street-rail systems in the United States, and the German engineer/industrialists Emil Rathenau and Werner von Siemens. In 1882 the Edison exhibit at another Crystal Palace fair led to the building of a central power station in London's Holborn Viaduct. Pierpont had finally changed Junius's mind: J. S. Morgan & Co. organized an Edison Electric Light Company in London in 1882, and in October of 1883 merged it with its chief rival to form the Edison & Swan United Electric Light Company, Ltd.

"The greatest advantage Edison had over all rivals," conclude the historians Robert Friedel and Paul Israel, was the trust of "the wary and watchful men of

* At Edison's request in the spring of 1881, the bank agreed to buy half of his stock in the Edison Electric Light Company of Europe at par, and put it into a syndicate "to be managed by us for our mutual benefit, with a proportionate division of profits." A week after the bankers made this offer, the stock's value dropped, and Drexel, Morgan told Edison it would cancel the transaction "to relieve you of any embarrassment." Edison sent his thanks "for your consideration."

Wall Street," which gave him a "capability possessed by no inventor in history before him." Edison chafed at times under the obligations to meet timetables and demands that came with using other people's money, but after one round of struggle his secretary reported him "begin[n]ing again to think that DM&Co. are thorough good people to be associated with as although they may be a little hard in some things they do not make a lot of empty promises. If they undertake to do a thing they fulfill their contract not only to the letter but also in the spirit in which it was made."

Pierpont personally put Edison's invention on prominent first-class display in New York. On September 4, 1882, the inventor walked from his just-completed central power station on Pearl Street down to Drexel, Morgan & Co., which had been wired with 106 electric lamps. Edison checked the installations. Minutes before 3:00 P.M., an electrician at Pearl Street turned on the current in a generator called Jumbo, after P. T. Barnum's famous elephant. Precisely at 3:00, Edison flipped a switch at 23 Wall Street. A *New York Times* reporter noted that it was still daylight when the bulbs came on, but by 7:00 P.M., as the city grew dark, the electric light "showed how bright and steady it is . . . soft, mellow, and grateful to the eye." The *Herald* added: "From the outer darkness these points of light looked like drops of flame suspended from jets." Edison told the *Sun*: "I have accomplished all I promised."

Not quite. The cost of the Pearl Street station was nearly triple the original estimate, which made capitalists in other cities reluctant to invest in central power stations.

The electrical system at Morgan's new house got off to a less auspicious start than the one downtown. When the engineers finished the private installation at 219, Morgan asked Edison's chief lieutenant, Edward H. Johnson, to inspect it. What did he think? Touring the building slowly, checking wires, sconces, and bulbs, Johnson said, "If it was my own I would throw the whole damned thing into the street."

"That," Morgan replied, "is precisely what Mrs. Morgan says."

Not about to give up, Morgan asked Johnson to rewire the whole house before his family moved in. When the system was finally turned on, the steam-powered generator under the stables made so much noise and smoke that the next-door neighbor complained. Morgan apologized. He had taken "great pains and precautions" to avoid these problems, he wrote, and would "spare neither exertion nor expense to correct" them: "Nothing but the fact that it would leave my house in entire darkness prevents me from stopping the Engine at once."

He called for repairmen, but the Edison company had a surfeit of projects on its hands in December of 1882, and its famous banker had to wait. After three weeks, Morgan wrote to the president of Edison Electric, Sherbourne B. Eaton: "I must frankly say that I consider the whole thing an outrage to me, as well as the neighbors—& I am unwilling to stand it any longer. Please let the matter have immediate attention." In January, engineers set India Rubber supports under the engine, lined the housing with felt, and dug a trench across Morgan's yard to funnel the smoke and steam through his own chimney, farther from the neighbors.

Once these problems were solved, Morgan held a reception at 219 that introduced four hundred of his friends to Edison's electric light. Then one night while the family was at the opera, the wiring in the library set the banker's desk on fire. Johnson came to inspect the damage early the next morning. "The house was pervaded by a strong smell of wet, burned wood and burned carpet," he later recalled. The library floor had been torn up, and the desk, heavy rug, and assorted charred objects were piled in the center of the room.

Suddenly Johnson heard footsteps: "Mr. Morgan appeared in the doorway with a newspaper in his hand, and looked at me over the tops of his glasses.

" 'Well?' he said.

"I had formulated an explanation, and was prepared to make an elaborate excuse. Just as I opened my mouth to speak, Mrs. Morgan appeared behind Mr. Morgan, and as I caught her eye she put her finger on her lips and then vanished down the hall. I said nothing, but looked at the heap of débris."

Morgan finally asked Johnson what he was going to do.

Make the system safe, the engineer replied. He himself was to blame for the wiring—there was nothing wrong with the lights.

How long would it take?

Johnson: "I will do it right away."

"All right," said the banker. "See that you do."

Morgan stayed with this experiment at considerable personal inconvenience and cost. He knew from financing railroads, the Atlantic Cable, and the St. Louis Bridge how much difficulty could lie between a good idea and a working result. Not all of Edison's early supporters had similar stamina. The William H. Vanderbilts installed electricity in *their* new houses in 1882, but when crossed wires set fire to the picture gallery, Mrs. Vanderbilt gave up. Edison took the whole installation out.

Morgan's children responded in character to this venture. "Certainly this is the age of electricity," Jack told Louisa from St. Paul's in 1883. "In our reading room they take a paper called 'Scientific American' and in looking through that I saw only about three new inventions that were not connected in some way with electricity. It makes one very much ashamed of not knowing more about it than one does."

Louisa attended a costume party in the early eighties as "the spirit, it could hardly be called the ghost, of electricity," reported the *Herald*. "She was gowned in electric green satin, covered with a net work of embroidery done in electric wire." There were electric ornaments in her hair, and at the touch of a button

concealed in the folds of her dress, all the tiny bulbs lit up. What kind of battery animated her electrifying appearance the *Herald* did not say.

The American rage for "reinventing everything, especially the house" extended to country as well as city properties in the 1880s, and with his family ensconced at 219, Morgan decided to expand and modernize Cragston. He had acquired additional land at Highland Falls, which brought the total to 675 acres, and in 1886 engaged the Boston architects Peabody & Stearns to remodel his Hudson Valley farmhouse. Like his Manhattan brownstone, this rural retreat was relatively unpretentious by the standards of the Gilded Age: George W. Vanderbilt constructed a French château called Biltmore on 130,000 acres in North Carolina at a cost of $3 million—with "league-long marble halls" and "alternate Gothic and Palladian cathedrals," reported Henry James.

Peabody & Stearns were known for respecting the contexts of their buildings and for balancing "picturesque" style with organic coherence. The firm had designed New York's Union League Club, Harvard's Hemenway Gym, and houses throughout New England, including a boxy rustic cottage in Northeast Harbor, Maine, for Harvard's president Charles W. Eliot. To the wood-frame house at Cragston, Robert Swain Peabody added asymmetrical new wings with wide bays, a Palladian window above the entrance, a conservatory, a full third story with gables and eaves, a widow's walk, and a piazza facing south and east for panoramic views of the Hudson. Inside, he rearranged walls to provide fewer, larger rooms, more bathrooms, a library, and a wine cellar—all under Morgan's close surveillance. Someone penciled on one of the architect's drawings: "These steps are not right. Mr. M. asked to have them changed," and on another, "Mr. M. does not want a bath here but thinks a slop sink is all that is required." The cost of the alterations, plus a new dairy and several cottages, came to $76,000—$16,000 more than the price of the entire farm in 1871, but probably less than an outbuilding for the "Granderbilt" palazzi.

Pierpont was not as wealthy as the industrial tycoons, and shared some of his father's concern not to give the impression that the Morgan bankers cared more for their own pleasure than for the interests of their clients. Still, he had always treated himself and his friends to whatever he considered "the best" in the way of luxury and comfort, and his indulgence increased with his means. He sent bushels of oysters, terrapins, and Cragston apples to his London partners every Christmas, and in New York took large parties to the new Metropolitan Opera House and to private Patriarchs' Balls (the fifty members of the exclusive Partriarchs' Association gave two to three balls a season). He had a saddle of Newport lamb delivered to 219 twice a week by a Rhode Island butcher, cases of whiskey sent up from Kentucky, and bottles of brandied fruit and tins of cream biscuits awaiting him at the White Star dock every time he sailed. His suits were custom-tailored in London. For his annual Fourth of July picnics at Cragston, crews of men fired torpedoes and rockets from the Hudson River shore. One afternoon in the eighties, he spent 275,000 francs ($55,000) on jewelry at Tiffany's in Paris. And one spring he sent his wife a French chef. Fanny had just fired her American cook, complaining that the woman "asks $50 per month and is worth about $25." Shipping a Frenchman across the Atlantic and setting him up in New York would cost far more, but Pierpont thought it worth the expense. Fanny did not. "A 'male foreigner' will know little about American cooking," she protested, "and less about American ways."

Morgan paid little attention to cost for things he really wanted—house, yacht, painting, necklace, dress, horse, dog—but did not like to pay more than he had to for other people's work. He knew that strangers would try to overcharge him, and when the contractors turned in a bid for the new Cragston dairy, he told Peabody & Stearns he had no intention of "going ahead on such a basis. I understand it is nearly double what Mr. Vanderbilt's dairy cost, which from all accounts is too high." A more chilling example: when a maid he brought to Europe for Louisa one year spent the entire Atlantic crossing seasick in her bunk, Louisa wanted to send the girl to Germany to recover, "but Papa says no," she told Fanny. "He says that to give her so much money for being with us eight weeks, and then after finding her perfectly useless for almost two of those weeks, to send her away for two or three more of them would be perfectly absurd."

With the rise in Morgan's means and public prominence came a dramatic increase in requests for financial help. In 1884 he put up the last $4,000 for the Groton School in Massachusetts, founded by the Reverend Endicott Peabody (called the Rector), the son of Junius's former partner, S. Endicott Peabody. He gave free investment advice to friends, including William Wetmore Story, the American sculptor in Rome, whom he advised late in 1884 not to keep all his "eggs in one basket": if Story sold some of the eggs and sent the proceeds to New York, Morgan would "invest in safe securities productive of income."

He gave hundreds of gifts each year to hospitals, museums, the Episcopal Church (over $200,000 to St. George's in 1887 alone), and individual members of the clergy; and he made personal loans, usually without expectation of repayment, to artists such as Story's son Waldo and the painter Luther Terry, to other people whose work he admired, and to some who simply needed help. One of the latter was Lizzie Darling, the "E.D." whom he had courted in Hartford and Boston years before. She had never married, and was living in Dedham, Massachusetts. In 1886 Pierpont paid some of her taxes and the interest on a loan. A year later he advised her to sell bonds to pay off the loan, and regretted not having seen her recently: "If you get in difficulty for current expenses," he offered, "let me know and I'll send you a cheque."

She did—and he did—but he was not willing to subsidize her indefinitely. Six years later he wrote kindly but firmly, "My dear Lizzie, It is true that I have received your various notes and ought really to have answered them but I did not like to say no, and in the face of your assurance that the last remittance I made would be all that you would need, and in the face of the many demands upon me from all quarters, I felt that I had gone as far as I ought; however I do not wish to leave you in the lurch and therefore enclose my cheque as you request for $300, but you will not misunderstand me when I say that this is as far as I should be willing to go. With kindest regards I am always sincerely yours. . . ."

Morgan's regal manner had also increased with his eminence and income. When the managers of the White Star Line changed their sailing schedule one winter, dictating a slight modification in his clockwork travel plans, he asked them to reconsider: "I do not want to interfere" (which was clearly not the case), he wrote, "but cannot you turn it round" so the ship would leave as usual on the last Wednesday in May? White Star did not reschedule its transatlantic traffic to suit the convenience of one peremptory passenger, who wrote again: "sorry you cannot see your way clear to make the arrangement . . . the unexpected change puts us all very much out."

Morgan and Egisto Fabbri, 1885.
(Archives of The Pierpont Morgan Library, New York)

Chapter 13

A RAILROAD BISMARCK?

At 23 Wall Street in the 1880s, Pierpont spent most of his time on railroad finance. Shortly after he secured the New York Central account with the sale of Vanderbilt stock in 1879–80, he agreed to handle a bond issue for the Northern Pacific. This still-unfinished line, intended to run from Lake Superior to Puget Sound, had brought down Jay Cooke & Co. when it went bankrupt in 1873. It had slowly reorganized (an appeal to the bondholders in 1875 urged, "Your road *uncompleted* is wholly unremunerative, but *completed* it becomes one of the great highways of the nation"), and in 1880 its president asked Drexel, Morgan to raise money for the last section of track, from Montana to the coast. Morgan put together a syndicate with Winslow, Lanier and August Belmont to sell $40 million of Northern Pacific general mortgage bonds—"the largest transaction in railroad bonds ever made in the United States," reported the *Commercial and Financial Chronicle.*

Junius was skeptical, but after the New York partners answered all his questions—and quoted a letter from Interior Secretary Carl Schurz promising the road's president that "Nothing can be further from the wish of this Department than to do anything which would impede or interfere with the success of the enterprise that you have in hand"—he agreed to manage European sales. The issue sold well on both sides of the Atlantic. "Warmest congratulations our joint great success," cabled the London firm to New York. Drexel, Morgan replied, "We reciprocate congratulations. Great success is general subject conversation."

Success in the financial markets guaranteed completion of the Northern Pacific, which made it a threat to other roads in the area even before the final track went down. The man most worried by the impending competition was the owner of a northwestern rail and steamship empire, Henry Villard. A German immigrant, Villard had covered the Civil War for several New York newspapers, and married the daughter of abolitionist William Lloyd Garrison. He saw the commercial potential of Pacific Northwest trade as soon as the transcontinental railroad opened access to the region in 1869, and proceeded to build a transportation network called the Oregon Railway & Navigation Company. Shortly after he joined the board of the Edison Electric Light Company in 1879, he installed an electric lighting system on one of his OR&N steamships. By 1880 he was wealthy enough to commission his million-dollar mansion from McKim, Mead & White at 451 Madison Avenue, and to buy one of the newspapers for which he had worked as a reporter, New York's *Evening Post.*

When the Northern Pacific was bankrupt in the seventies he could afford to ignore it, but once the Morgan-generated $40 million was on its way to his rival's coffers, Villard had to act. In November 1880 he bought a controlling interest in NP stock, and announced that he would bring the railroad and his OR&N together into a holding company called the Oregon & Transcontinental; it would own enough voting stock in both subsidiaries to govern and coordinate their operations. Morgan did not oppose this plan. He had no objection to Villard, and approved of running potentially competing systems under one roof. The Northern Pacific elected Villard president in September 1881, and completed its construction over the next two years with further help from Drexel, Morgan. Pierpont took a seat on the NP board in September 1883. He was immediately drawn into action.

Not only had construction costs vastly overrun company estimates, but Villard had been liberally spending money on other projects as well. Stock market bears (speculators betting against the O&T) and the beginnings of a new recession crippled the overextended system in October of 1883. By the end of the year both Villard and the O&T were insolvent.

Morgan, sounding a familiar theme, wired his London partners that he would have to step in to protect the credit of the Northern Pacific, "with which we [are] all publicly identified." When renewed attacks by the speculators in December "made radical steps essential" to put the property beyond the "machinations of those scamps," he took charge with a mix of reluctance and pride: "I certainly have no desire to be burdened with all this trouble," he grumbled to Walter Burns, "but there I am, representing interests which cannot be shirked." He was annoyed at Villard for "not having been frank and open on all points" with the NP directors, but also felt sorry for him: "he no doubt believes he has done his best."

Morgan and Fabbri persuaded Villard to resign from the presidencies of the NP, the OR&N, and the O&T. Then they bailed out the holding company by furnishing new capital in the form of loans, subscriptions for common stock, and additional bond sales. They put the proceeds of the NP second-mortgage bonds into a fund that could be paid out only under Morgan's signature, and appointed a strong committee to "hold everything with a tight rein."

By mid-December 1883—three months after he joined the NP board—Pierpont reported himself satisfied that the road's "dark days" were over and its earning capacity "secured beyond doubt." The stock market's response to the rescue had been "marvellous," but he cared less about share price than about routing the gamblers: "it is a great delight to see those fellows who have been destroying other people's property severely punished." He advised friends that the stock's real value was considerably higher than current market quotations. At the end of 1883 his firm's $40 million Northern Pacific loan showed a positive balance. The following summer, he leased the OR&N to the Northern Pacific, and reported that the company would net over $2 million in 1884.

"Whatever may be the profit of the account," he concluded to Burns, "nothing will give me greater satisfaction than the knowledge of having been able to rescue from immanent [*sic*] danger the Northern Pacific and O&T Companies, as we have been able to do the last three months – but it has been a hard fight . . . you can never know, without being here, all we went through."

Villard knew. Early in 1884 he had a nervous breakdown. His Italianate brownstones on Madison at 50th Street were still unfinished. That spring, he went to Germany with his family to recover. Two years later he returned to New York as the American representative of the Deutsche Bank, and sold his houses to Mr. and Mrs. Whitelaw Reid (Elisabeth Mills Reid was the daughter of financier Darius Ogden Mills; her husband published the New York *Tribune*). The Villards moved north, to the corner of Madison and 72nd Street, in 1886.

In the scandal-ridden presidential election of 1884, Morgan crossed party lines to vote for Grover Cleveland, a Democrat. Although he worked with men he trusted in Washington, the banker had little regard for politicians, and cared more about economic stability than party affiliation.

He had company in his contempt for politicans. The British journalist James Bryce, a correspondent for the liberal weekly *Nation*, observed that Americans toward the end of the nineteenth century did not say "politicians" but "the politicians," because "the word indicates a class with certain defined characteristics." "Politician" had become a term of reproach, Bryce went on, "not merely among the 'superfine philosophers' of New England colleges, but among the better sort of citizens over the whole Union. 'How did such a job come to be perpetrated?' I remember once asking a casual acquaintance who had been pointing out some scandalous waste of public money. 'Why, what can you expect from the politicians?' was the surprised answer."

There were exceptions—ambitious, practical men with strong nerves and flexible spines such as Benjamin Bristow, Lincoln's former private secretary John Hay, Henry Cabot Lodge, Albert Beveridge, and Theodore Roosevelt, Jr. The senior Roosevelt, an influential businessman of Knickerbocker descent, had turned away from politics in disgust after exposure to the corrupt Republican machine when he was customs collector for New York. His son led the reform Republicans in the New York State Assembly in the early 1880s, and later recalled the horror with which his upper-class friends had greeted the news of his interest in elective office: they "laughed at me, and told me that politics were 'low'; that the organizations were not controlled by 'gentlemen'; that I would find them run by saloon-keepers, horse-car conductors, and the like."

Morgan had raised money for the successful Republican campaign of James Garfield and Chester Arthur in 1880. He had publicly endorsed Roosevelt, Jr., for the New York Assembly in 1881, and for reelection the following year. He did not, however, support the party's 1884 presidential nominee, James G. Blaine. Called the Plumed Knight for his ornate tastes and ostentatious attire, Blaine had been Speaker of the House and Secretary of State. He freely traded favors, offices, and legislative votes for party campaign funds, and his history of dubious dealings with the railroads had deprived him of the Republican nomination in 1876. According to Richard Hofstadter, this champion spoilsman's chief contribution to American politics was "to lower its tone."

The Democrats had gained control of the House in the midterm 1882 elections, and hoped to win the presidency for the first time since 1856 by nominating New York's Governor Cleveland in 1884. An obscure Buffalo lawyer who had been elected mayor of that city in 1881 and governor the following year, the corpulent Cleveland (he weighed 250 pounds) had a reputation for integrity, political courage, and fiscal caution. Known as Grover the Good, he opposed boss politics and big government while supporting civil service reform, free trade, the rights of private property, and the gold standard. The political heir of Samuel Tilden, he was on most issues indistinguishable from a Republican, and his nominators hoped that GOP opponents of Blaine, called Mugwumps,* would ignore party affiliation and vote Democratic—which is exactly what they did. Among the bolters were Mark Twain, liberal reformers E. L. Godkin, George W. Curtis, and Carl Schurz, and a number of prominent businessmen, including Morgan. Joseph Pulitzer's *World* listed four reasons for endorsing Cleveland: "(1) He is an honest man. (2) He is an honest man. (3) He is

* The word meant "great chief" in the Algonquin Indian dialect, and appeared in John Eliot's Indian Bible. In politics, it characterized those who held themselves above dogmatic party loyalty, "professing disinterested or superior views."

an honest man. (4) He is an honest man." Republican insider Levi Morton did not join the Mugwumps: having been appointed U.S. minister to France by Garfield in 1881 and retained there by Chester Arthur after Garfield's assassination, Morton came home in the fall of 1884 to raise money for Blaine. Other loyalists who supported the party ticket were John Sherman, Andrew Carnegie, Jay Gould, and twenty-six-year-old Theodore Roosevelt, Jr.

Political issues played a far smaller role in the 1884 campaign than character did. When the Democrats revived charges about Blaine's shady history with the railroads and the lies he told to cover it up, Republicans disclosed that the bachelor Cleveland had fathered a child—and Grover the Good suddenly turned into a "gross and licentious man," a "moral leper," a "coarse debauchee who would bring his harlots with him to Washington." James Bryce called the election a contest over "the copulative habits of one and the prevaricative habits of the other." Mark Twain said Blaine's deceptions had so taken the wind out of his own sails that "I don't seem able to lie with any heart lately." Republicans took to chanting, "Ma! Ma! Where's my pa? Gone to the White House. Ha! Ha! Ha!" The Democrats tried to shrug off their candidate's "youthful indiscretion," and a Cleveland adviser came up with the slogan "Public Office is a Public Trust," which was about all the governor tried to say during the pre-election furor.

Morgan cabled his London partners that October: "Result elections very doubtful. Vote will be close." Also, "stock market in hands of gamblers, public hold aloof—it is good time keep entirely quiet." The vote *was* close—Cleveland won by three tenths of a percentage point on the popular ballot, and by thirty-seven votes in the electoral college. The first Democrat to occupy the White House in twenty-four years promised in his inaugural address to respect sound business principles, and filled his cabinet with conservatives.

The U.S. economy reached the peak of its latest expansion in March of 1882, then began to contract. International trade played a large role in the downturn. Domestic prices and incomes had risen rapidly between 1876 and 1881 as U.S. exports exceeded imports, while British prices suffered abrupt declines. America's chief trading partner had been losing gold for some time. Accordingly, the Bank of England raised interest rates in 1881–82, which drew international capital out of the United States.

Furthermore—just as the Morgans had feared—railroad competition was destroying confidence in the markets. The foreign capital invested in U.S. railroads had quadrupled between 1876 and 1883, from $375 million to $1.5 billion, but the boom's new rate wars, parallel building, and mismanagement sent that flow into reverse: between 1882 and 1885 foreigners sold off U.S. railroad holdings at the rate of $25 million a year.

Declining securities values agitated Wall Street in the fall of 1883 as Morgan and Fabbri were putting the Northern Pacific on solid ground. In May of the following year the failure of several New York brokerage firms and banks touched off a more ominous crisis.* Cyrus Field cabled Junius Morgan: "Many of our businessmen seem to have lost their heads. What we want is some cool-headed strong man to lead." Junius's son did what he could to forestall widespread liquidation, buying stocks as panicked investors sold, and advising friends to do the same. With the consequences of the 1857 and 1873 panics in mind, the New York Clearing House Association stepped in to act as "lender of last resort"—a phrase coined by the British financial journalist Walter Bagehot in 1873. The Clearing House issued $25 million in loan certificates to ease the strain on the money markets and keep sound firms afloat. The panic caused severe damage in New York but did not spread to the rest of the country or bring on a prolonged depression. The worst of the trouble was over by the summer of 1885, and the economy remained relatively stable for the next six years.

The contraction that began in 1882 did have stark effects on Wall Street. Drexel, Morgan's earnings plummeted from $1.6 million in 1882 to $662,000 the following year, and the firm lost $41,000 in 1884.

Junius, always gloomy during economic reversals, was feeling worn-out and thinking about the future. In December 1884, as J. S. Morgan & Co. posted a

* The event that started it was the collapse of the brokerage house Grant & Ward. Ulysses S. Grant had traveled around the world after leaving the White House in 1877, and returned to New York without money or plans. Although Morgan had sided with Treasury Secretary Bristow against Grant in the seventies, he now helped raise money for the former President. In November 1880, Morgan, Tony Drexel, and the Philadelphia publisher George Childs asked twenty men to contribute $5,000 each to a private fund for Grant, in view of the fact that the general's income was "not sufficient to secure him in that position of comfortable independence that he should be enabled to occupy." Such a step would not be necessary "in any other great nation," the trio explained, as "all but ours provide munificently for their citizens or subjects who have done the state illustrious service." Potential donors would "be good enough to consider this note as strictly confidential." With the money raised by their wealthy friends, the Grants bought a house at 3 East 66th Street in New York. Two years later Morgan agreed to lend Grant more money—"although as I told you we are not making any time loans"—but warned: "it will be necessary that we have collaterals, that being our rule, the wisdom of which I think you will appreciate."

The unworldly Grant had gone into business in the early eighties with a rogue trader named Ferdinand Ward, who used his new partner's reputation to secure funds and attract clients. When Ward's scheme of secret speculations and phony profits collapsed in May of 1884, it brought down a prominent New York bank, set off a panic, and ruined Grant. Ward eventually went to jail. Grant, humiliated, depressed, and dying of throat cancer, began writing articles about the Civil War to earn money. With Mark Twain's help he expanded the articles into a full-length memoir, which he finished just before he died in 1885. His posthumously published *Personal Memoirs* turned out to be a great work of military history; it sold over three hundred thousand copies, and earned his heirs nearly half a million dollars.

$20,000 loss for the year, he revised the articles of his London partnership, authorizing Pierpont to continue the firm, or not, with £1 million in capital, in the event of his own retirement or death. Walter Burns wanted permission to run the firm himself if Pierpont chose not to, which Junius did not think "nice." In the meantime, the elder Morgan brought in a new British partner, Robert Gordon, to take some responsibility off his shoulders. It would be a great relief to "turn my back on Old Broad St.," he told Pierpont—"not that I do not enjoy business when I can take it easily & there is less wear & tear than now, for I do. But what I feel the want of now most of all is *rest.*"

Pierpont was also giving some thought to the future. He brought two new bankers into his New York firm in 1884. One was George S. Bowdoin, who had since 1871 been a partner in Levi Morton's house, Morton, Bliss & Co. Bowdoin had managed the purchase of *Corsair* for Morgan in 1882, and was an original member of the Corsair Club. With a genealogy that included Alexander Hamilton, Philip Schuyler, and Gouverneur Morris, he was exactly the type of patrician people came to expect at the Morgan bank. In a photograph taken in the eighties with Morgan and Lanier he looks substantial, affable, calm—like someone you would trust with your grandmother's bank account.

Morgan's other new associate was Charles H. Coster, who had been working at Egisto Fabbri's shipping and trading house. Fabbri highly recommended the thirty-two-year-old Coster, who soon proved invaluable to Drexel, Morgan. Pierpont in his first years on Wall Street had paid such close attention to detail and been so unable to delegate responsibility that he periodically collapsed in "nervous" exhaustion. Twenty years later, the business had grown far beyond even his capacity for single-handed control. Coster had what John Moody later called "a mind in a generation for detail," and over the next few years he took charge of the technicalities in Morgan's corporate work. Pale, meticulous, slight of build, high-strung, and prematurely gray, Coster traveled to railroad offices all over the country, racing from one meeting to the next, drafting reorganization plans late into the night, mastering fine points of finance and law. During a railroad foreclosure in the Middle West, an opposing lawyer pointed out that twelve hundred of the road's bonds lacked a crucial endorsement and were therefore invalid. Coster asked for a lunch break. As he and his assistant left the building, the latter asked, "Where shall we lunch?" Coster snorted, "Lunch, nothing! Is there a printing press in town?" There was—one. For the next hour and a half Coster had the missing endorsements printed on the bonds, and personally signed them all.

Morgan supplied this lieutenant with whatever he required, and spent his own time bringing in new deals and negotiating for an end to railroad warfare. Wall Street watchers credited Coster with all the bank's successful reorganizations between the mid-eighties and the end of the century. At one point he sat on fifty-nine corporate boards. Moody considered him "Morgan's right arm."

One of Coster's first assignments was to take over from Fabbri the handling of the Edison business. Six years after his first successful experiment with incandescence, Edison had come to detest the dominion of the patent-holding Electric Light Company. His original backers still had seen no return on their investment, but the independent companies he set up to manufacture lamps, engines, and tubes were earning money; when the EELC directors asked for a share of the manufacturing business in the spring of 1884, Edison was outraged that men who had refused to fund these ventures wanted some of his profits. He no longer trusted his attorney, Grosvenor Lowrey, or Light Company president Sherbourne Eaton, regarding them as tools of the EELC board. That fall, with the company's five-year contract about to expire, Edison waged a shareholder fight for control, and won: Lowrey and Eaton were voted out, along with several other directors.

The Light Company would be run by its executive vice president, Edward H. Johnson, the engineer who had rewired Morgan's house. Morgan partner J. Hood Wright stayed on the board, and Coster was elected to replace Fabbri. Coster worked so well with his predecessor's "Friend Edison" (whom he addressed as "Professor") that he also succeeded Fabbri as treasurer of the EELC. Drexel, Morgan continued as bankers to the company and to Edison, who secretly gave Morgan and Wright 155 shares of Machine Works stock each.

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The worst of the railroad conflicts that were driving foreign capital out of U.S. markets in 1883–84 involved the two largest railroads in the United States—the Pennsylvania and the New York Central. In the fall of '84, Junius met with officers of both roads on his annual visit to New York and tried to persuade them to give up their "absurd struggle for pre-eminence." He failed.

The previous June, when a small road called the New York, West Shore & Buffalo went into receivership, the Pennsylvania had bought up its devalued securities. The West Shore had been built expressly to compete with Vanderbilt's New York Central: it ran from Weehawken, New Jersey, up the west bank of the Hudson to Albany—directly parallel to the New York Central tracks on the other side of the river—then on to Buffalo, where it connected with another line to Chicago. It also ran along the edge of Pierpont's property at Highland Falls. As workmen laid down tracks in May of 1882, Louisa had reported from Cragston to her father in London: "I don't think that the railroad is going to bother us this summer as we were afraid it would. . . . And I don't think (Mama doesn't either) that the men at work there are going to be so very bad. They will probably steal she says from the garden, but I shouldn't think they would try to enter the house."

The West Shore—financed by a syndicate that included Jay Gould, George Pullman, Henry Villard, and the firm of Winslow, Lanier—represented exactly the kind of parallel building the Morgans wanted to stop. With the New York Central already servicing the New York–Albany route, the West Shore was superfluous: on this kind of short haul, one line could efficiently carry all the available traffic. Having gone bankrupt, the West Shore should probably have been allowed to fail.

Pierpont was surprised to find Winslow, Lanier involved. He sent a private note around the corner to his friend one night by messenger: "My dear Charlie," it began. ". . . I feel that you are surrounded by men . . . without the least particle of honor who will not hesitate to put you in a false position if by so doing they can shield themselves or secure for themselves any benefit whatever." He knew that his friend was "bothered and worried," and promised to "do anything in my power to help you." The time "may and probably will come when it will be necessary for you to take a stand against them and if so I know you will not hesitate, and I will stand by you through it all and so will everyone else that knows you. Call on me at any and all times. . . ." Lanier quit the railroad's board early in 1884.

As soon as the West Shore was acquired by the Pennsylvania it became part of the larger conflict. William H. Vanderbilt said it had been built only to threaten the New York Central: "There is not a dollar's worth of new business from one end to the other. All the business the road does is stolen from the Central. I tell you I look on the West Shore road just as I would on a man whose hand I found in my money drawer." He suspected the Pennsylvania of having backed the West Shore venture all along, but couldn't prove it.

Whether by design or chance, the Pennsylvania Railroad officials who acquired the West Shore were in fact retaliating for an incursion into *their* monopoly of traffic in the Pennsylvania coal regions. In 1883 a syndicate that included Vanderbilt, the Rockefeller brothers, and Andrew Carnegie had begun building a line called the South Pennsylvania to run from Harrisburg west to Pittsburgh. Carnegie had had the enthusiastic backing of his former bosses at the Pennsylvania when he set up his iron and steel business in the early seventies, but once he started shipping huge quantities of coal and steel rails, he locked horns with the railroad giant over its freight rates—as had Standard Oil. The steel and oil men in the South Penn syndicate wanted a road of their own to break the Pennsylvania's monopoly, and Vanderbilt joined in order to get his hand into his rival's money drawer. As soon as construction began on the new road in the summer of 1884, the Pennsylvania's freight rates dropped.

With the South Penn controlled by New York Central allies and the West Shore in the hands of the Pennsylvania, each side had a knife at the other's throat. Junius failed to talk them into laying down their weapons in the fall of

1884, but his firm was ideally situated to intercede. Pierpont sat on the New York Central board and served as the road's principal banker. The Drexels had been financing the Pennsylvania for years.

At the end of May 1885 Pierpont and Vanderbilt took the same steamer from London to New York. Junius told Vanderbilt just before they sailed that he expected a solution to the West Shore business "not very far in the future," and was "glad therefore that you and Pierpont . . . will have an opportunity for exchanging views" on the Atlantic. Pierpont liked crossing the ocean with Vanderbilt, he told Louisa, because ship captains tried to show the old Commodore's son "how fast they can go." Still, between Liverpool and New York he had time to point out that Vanderbilt's reputation was on the line along with his own—investors who had bought New York Central shares at 131 on the strength of Vanderbilt-Morgan representations had seen the price plummet to 82, thanks to this "absurd" struggle. Massive sell-offs were damaging the railroad and the U.S. economy. By the time the ship reached New York, Morgan had prevailed on Vanderbilt to negotiate. In June he and Coster went to see the officers of the Pennsylvania.

Morgan arranged for the Pennsylvania's president and vice president, George B. Roberts and Frank Thomson, to meet with the New York Central's newly elected president, Chauncey Depew (formerly Vanderbilt's lawyer), on board *Corsair.* At ten o'clock one hot July morning, Morgan and Depew picked up Roberts and Thomson at the Jersey City pier and headed north. They stayed out all day, cruising up the Hudson to Garrison, back down to Sandy Hook, then north again, while Depew—speaking for himself, Vanderbilt, and Morgan—appealed for an end to the "ruinous" competition of parallel building and rate wars.

The big trunk lines had far more to gain from acting in concert than from continuing warfare, Depew pointed out, urging his rivals to join in a "community of interest" that would divide their territories into discrete "spheres of influence." As a first step, he suggested that the two roads exchange their troublesome properties, the West Shore and the unfinished South Penn.

Morgan, smoking his signature Cuban cigars, made the bankers' case for cooperation: if the flow of foreign capital to U.S. railroads were to continue, investors had to be protected from the waste and wild market fluctuations brought on by this kind of fight. No agreements—no more money.

The *Corsair*'s crew served lunch. The discussion went on. The day waned. Thomson came around, but Roberts seemed willing to go bankrupt in order to punish his rivals. He held out in silence until the yacht pulled alongside the Jersey City pier at 7:00 P.M. Finally, as he stepped onto the dock, he shook Morgan's hand and said, "I will agree to your plan and do my part."

The Drexel, Morgan bankers immediately executed the *Corsair* agreement. They set up a committee to buy the West Shore for $24 million and lease it in

perpetuity to the New York Central. Since the Pennsylvania could not purchase the South Penn directly under the state's antimonopoly law, Morgan bought a 60 percent interest in the $5.6 million road, then traded it to the Pennsylvania for the bonds of another line.

Wall Street hailed the West Shore agreement as a first step toward lasting peace in the railroad wars and Morgan as its architect. "To railroads, least of all, would our people like to see applied the principle of the survival of the fittest," declared the *Commercial and Financial Chronicle.* "Mr. Morgan conceived the first [peaceable] settlement which was the embryo of them all."

Among those not cheering were Andrew Carnegie and the thousands of other shippers who objected to the prices the railroads could charge once competition was out of the way.*

William H. Vanderbilt died in 1885, leaving most of his $200 million fortune to his sons, Cornelius II and William K., and $10 million each to his six remaining children. Cornelius took over the family interest in the New York Central. He was the only Vanderbilt the Morgans actually liked, and Pierpont worked easily with him and Chauncey Depew on New York Central affairs.

In addition to public acclaim and the satisfaction of ending the Pennsylvania–New York Central standoff (at least for the moment), the *Corsair* agreement brought Morgan a new lawyer. Since Fanny's father had just died, her brother, Charles Edward Tracy, did the legal work on the West Shore deal. The Vanderbilts' attorney was Francis Lynde Stetson, who handled the negotiations so effectively that Morgan began to solicit his professional advice. Drexel, Morgan retained Charles E. Tracy for a year, but early in 1887—possibly at Morgan's urging—the Stetson law firm hired him and changed its name to Bangs, Stetson, Tracy, & MacVeagh. Charles Tracy soon moved to the sidelines as counsel to the bank. Morgan worked almost exclusively with Stetson.

A prominent Democrat, Frank Stetson had helped prosecute Boss Tweed in the seventies as assistant to New York City's corporation counsel, William C. Whitney. He had supported Samuel Tilden's failed bid for the presidency in 1876 and Grover Cleveland's successful run in 1884. Offered a cabinet posi-

* To Carnegie's dismay, the *Corsair* agreement restored monopoly power to the Pennsylvania. He fought on for years against the "monstrous" behavior of his former employer, sometimes in alliance with the farmers, manufacturers, and merchants who were urging the states to regulate railroads, sometimes with Rockefeller, who used his market dominance to secure cheap shipping rates. Finally in 1896 Carnegie gained control of another road—the Pittsburgh, Shenango & Lake Erie—to carry his freight at lower cost and steal traffic from the Pennsylvania. This move brought Roberts and Thomson to the bargaining table at last: they cut their rates, which saved Carnegie $1.5 million a year, and he agreed not to build any more railroads.

tion in the Cleveland administration, he declined (his friend Whitney was appointed Secretary of the Navy), but served as an unofficial adviser to the President. Stetson played a leading role in the development of modern corporate law over the next thirty-five years, and became known as Morgan's Attorney General.

Junius in the early 1860s had set out to build an international network of banks based, like Rothschilds' and Barings', on family ties. Things had not worked out that way. Pierpont found fault with most of his early associates, and in the seventies and eighties had begun to build a different kind of dynasty based on merit. Of all the men assigned to work with him, he retained only Tony Drexel and Walter Burns. At the end of 1885, when Fabbri retired to Italy, Coster took his place. In selecting Frank Stetson rather than Charles Tracy, Pierpont again rated professional ability over family connections. His closest friends in the eighties were Lanier and Bowdoin—good, not brilliant bankers—but the men whose judgment he relied on were Coster and Stetson.

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The exigencies of railroad wars did not prevent Morgan from taking his annual trip to Europe each spring. In May of 1885—shortly before he sailed home with William H. Vanderbilt—Louisa reported to Fanny from Venice that "Papa enjoyed it all, except the churches. He would sit outside & smoke, holding converse (in very broken Italian) with gondoliers and beggars," while the rest of the party "explored the interior of some 'very fine' church with praiseworthy fidelity, assisted by our fiery red copy of Baedeker."

In 1886 Pierpont and Junius celebrated their April birthdays in Rome. Egisto Fabbri came down from Florence to see them. Alice Mason was probably there as well. Louisa told Fanny that Junius wanted to stay in Rome partly on his son's account, "as here there is no office for him to go to, & he does rest." Suffering with a toothache, her Papa was not doing much sightseeing, "and not even much shopping," although he found "one or two beautiful pieces of embroidery" and several Greek terra-cotta figures.

After an American dentist took care of the troublesome tooth, the Morgans spent their days touring the city, dined out every night, and called on the William Wetmore Storys. Louisa admired the expatriate sculptor's colossal statue of *America Victrix*, which was about to be cast in bronze and sent to San Francisco, but found the work of his son, Waldo, far more "delicate and . . . poetical, if not so strong and grand. People say that the Father has talent, the son, genius." *Her* father bought three of Waldo's sculptures for £600: two heads—of a gladiator and Honorius, the last emperor of Rome—and a seated figure called *Phryne* holding a silver Cupid. Louisa told Fanny: "I think it quite exquisite and am sure you will admire it—especially as she has plenty of clothes on!"

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At 23 Wall Street, almost before the ink on the West Shore contracts was dry, Morgan took on another kind of fight. He had just induced bitter rivals to give up a "ruinous" struggle in mutual self-interest. Once a road was *in* financial ruins, however, he had more authority to impose his rationalizing will.

The Philadelphia & Reading Railroad, an anthracite coal line in eastern Pennsylvania, had gone into receivership in 1880. Two years later its president, Franklin B. Gowen, asked J. S. Morgan & Co. to reorganize the company. Tony Drexel wanted nothing to do with it, since Gowen's financial reports had been "systematically unreliable," and the Reading's bonds were "not the kind I would care to buy or recommend."* If Junius decided to rescue this road, Drexel advised, he should control the entire transaction himself.

In the end, Pierpont rescued the Reading. The road's managers applied to Drexel, Morgan for reorganization right after the *Corsair* agreement in 1885, and the junior Morgan had his London affiliates buy $1 million of Reading general mortgage bonds to assure control. Then he issued $20 million in new bonds, which he sold through a syndicate, and took charge of the company's finances in what would become a pattern for future Morganizations.

Led by Coster, a team of men examined every aspect of the railroad's operation from the servicing of debt, maintenance and running costs, and expenses and earnings on coal properties, to rents on leased feeder lines. Next, the bankers assessed stockholders for cash to fund the short-term debt and supply the company with new working capital. Over time they cut the road's fixed costs in half—from $14 million to less than $6.5 million—by reducing its bonded debt and increasing its capital stock. They also created a reserve fund for expansion, and based the new capitalization on estimated minimum earning capacity so that even in stringent times the road should be able to meet its obligations.

To safeguard these measures, Drexel, Morgan refused to give responsibility for the reorganized company back to the men who had run it into default. They appointed a three-man management committee and a five-year voting trust. The titular head of the management committee was J. Lowber Welsh, a Philadelphia banker long associated with the Reading; the operative head was Pierpont Morgan, who also chaired the voting trust. Made up of Morgan partners and Morgan-sanctioned railroad men (including Welsh), the voting trust issued certificates to shareholders in exchange for the company's common

* Gowen had been counsel to the Philadelphia & Reading in 1864, and its president since 1869. He had also organized the Philadelphia & Reading Coal & Iron Company, the country's largest producer of anthracite coal. It was he who led the coal operators' refusal to recognize a miners' union in 1875 and hired a Pinkerton agent to infiltrate the Molly Maguires.

stock, which was registered in the names of the five trustees. For the next half decade the trustees would control the company, actively monitoring the railroad's management, finances, and administrative reforms.

At the news of a Morgan "rescue," American and European investors bought the Reading's new bonds and bid the stock price up. Pierpont cabled Junius in January 1886 that if everything proceeded as he hoped, this reorganization would be "scarcely second to W. Shore." His management committee negotiated agreements between the Reading and the region's dominant carrier, the Pennsylvania, to maintain rates and divide up traffic. It also brought the Pennsylvania into an anthracite coal pool which proposed to limit production and maintain coal-price minimums—quite an achievement, Pierpont reported to Junius, since the trunk line had never agreed to take part in this kind of cartel before.

Morgan ran the Reading management committee for two years and headed the voting trust for five. His biggest problem proved to be exactly the one Tony Drexel had warned Junius about: the "unreliable" Franklin B. Gowen. In March 1886 Pierpont brought into the bond syndicate Austin Corbin, an old friend of Junius's whom Gowen seemed to trust.* "We ourselves appreciate importance Corbin's alliance also his influence with Gowen," he cabled Walter Burns, "at same time doubt his or anybody's ability to control FBG."

Six months later, nobody had been able to control FBG, and the bankers decided he had to go. Morgan spent all day negotiating with Gowen's agents on September 17, 1886, and by early evening he had the resignation he wanted.

His wife was away in England with Anne, and his elder daughters were giving a ball at Cragston that night for West Point cadets. Pierpont had told the girls he could not possibly get to Highland Falls in time for the party, but he managed to catch a train right after signing Gowen's termination papers. He reached the house minutes before the guests were due, and his son helped sneak him upstairs in order to surprise Louisa and Juliet. "I created quite a sensation when after having slipped up to my room unperceived and donned my dress coat . . . I walked into the room quite unexpectedly," he reported to Fanny. The ball went off with "great éclat—girls in powdered hair—officers in full uniform—they kept it up until midnight and all seemed to have a good time." Louisa added, "The best part of the evening was Papa's coming."

Jack told his mother, "Papa is simply triumphant about this Reading business," and a week later, "I have never seen him in such good spirits and so bright and well at this time of the year."

* Corbin had gone into banking after graduating from Harvard College and Law School, and eventually took over and revived the ailing Long Island Railroad. He tried to develop a transatlantic steamship port at the eastern end of Long Island, hoping to cut transit time between New York and Europe, and make the LIRR a crucial land-sea link—without success.

With Gowen out of the way, Morgan installed Corbin as president of the Reading, and two years later congratulated him on accomplishing the "end we both had so much at heart." They had resuscitated the bankrupt company, let the world know it had new, capable management—under the reassuring supervision of the Morgan bank—sold its securities in foreign and domestic markets, and turned a healthy profit. Drexel, Morgan & Co. earned $1 million on the sale of new bonds (5 percent of the $20 million total), 6 percent on additional advances, and a $100,000 commission for the management committee. The London firm saw additional gains on the $1 million of general mortgage bonds it had bought to ensure control.

Pierpont considered restoring the confidence of foreign investors the most important part of the business. He concluded to Corbin: "you have brought to the support of your Company a European alliance which I am sure you will find, at all times in the future, prepared to sustain you in the wise development of the property entrusted to your care." Once again he had moved the right man into a difficult job. Gowen committed suicide in a Washington hotel room at the end of 1889, "for no apparent reason," according to the *Dictionary of American Biography.*

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Tight supervisory control was proving far more effective at promoting the "wise development" of railroad properties than any other means the Morgans had tried. In the crisis stage of the Reading reorganization, Pierpont did not hesitate to take charge of the company's management committee and have it report to him as voting trustee; he also secured careful regulation for the future by appointing people he trusted to positions of authority. Once the emergency passed, however, he tried to avoid obvious conflicts of interest. Late in 1887 he vetoed a suggestion that Reading trustee J. Lowber Welsh be elected to the road's board of directors. Serving in that double capacity would be a clear breach of duty, he told Welsh: "I cannot agree that (consistently with a proper interpretation of the Trust) the Voting Trustees can or should vote themselves in as Directors. How can they fairly judge of the wisdom or policy of the management if they are in advance committed to its action by the presence of its members or some of them in the Board of Directors?" In any case, with Corbin in charge of the road, he did not need Welsh on the board.

Wall Street praised the Reading reorganization as the salvation of the nation's railroads and economic future, but the most significant praise came from London. At the end of December 1887 Junius wrote to "heartily congratulate" his son on the success of the Reading rescue—"a success of which you may well be proud, and of which *I* am proud for you."

He could not leave it at that. This inexhaustible well of advice urged his fifty-year-old son to "rest upon your oars" and refuse all reorganizations not "of a character as important as those you have hitherto had." Then, mixing metaphors, "I would *hold off* & let the 'small fry' go to some other Doctor." Speaking of doctors, Junius went on: "But beyond & above all this is the question of *your health.*" In the past it had been Pierpont who worried about taxing his system with too much work and bringing on nervous collapse. Now it was Junius: "No body, however strong & well he may be can stand such a strain upon his physical & mental powers as you have had the last two years without paying, sooner or later, the penalty unless he gives those powers a *real rest* & gives it to them *in season – do* I beseech of you give heed to this advice."

Pierpont ignored it. He *was* worn-out by his exacting work, and complained of headaches, fevers, and heavy colds. (Leaving for Europe one spring, he slept ten hours a night crossing the Atlantic and took morning and afternoon naps.) Still, he did not break down. No longer an apprentice, he was exactly where he had always wanted to be—at the center of a drama he found as compelling as anything in his life. Moving out from under his father's heavy thumb and serving as financial "doctor" to the largest business enterprise in the world brought about a marked improvement in his health.

Again, not everyone admired his work. Editorials in the New York *Sun* denounced the coal road consolidation as arrant price-fixing, and mocked Morgan's assurance that it would promote "peace and fraternity." The *Times* praised the Reading rescue but worried about monopoly power over traffic rates and coal prices, and wondered whether the arteries of public transport ought to be controlled by private bankers—questions that would shadow Pierpont Morgan for the rest of his life.

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Morgan's relations with New York's major newspapers in the 1880s were for the most part cordial. He moved in the same social circles as Whitelaw Reid, the publisher of the *Tribune*, and Charles A. Dana, the owner-editor of the *Sun*. He assumed these men would respect his expertise, and when the *Sun* assailed the Reading reorganization in February 1886, he sent a note to "My dear Mr. Dana," explaining: "I am not in the habit of questioning anything that may appear in the newspapers, for I generally find them as a whole fair on any question of financial importance." The recent articles, however, had been "so unfair that I cannot but feel they found their way into the paper without your knowledge." Offering to discuss the matter in person, he asked the editor to excuse his frankness, but thought it "better not to have a transaction of such importance presented unfairly to the public in its inception."

Criticism from newspapers apparently did not lead him to the conclusion drawn by A. J. Liebling decades later—that the only guarantee of a free press is owning a press—for he did not leap at a chance to buy New York's *Evening Post* and *The Nation* when they were offered to him in 1886. Founded by Alexander

Hamilton and edited for years by William Cullen Bryant, the *Post* had been owned by Henry Villard since 1881. Villard bought *The Nation* that year as well, in order to hire its renowned editor, Edwin Lawrence Godkin, and began publishing it as a weekly supplement to the *Post*.

The Anglo-Irish Godkin was a reformist Republican who campaigned in print against silver currency, boss politics, and municipal corruption. His crusades led one reader to reflect on New York's infamous morals with a shrug: "What can you expect of a city in which every morning the *Sun* makes vice attractive, and every night the *Post* makes virtue odious?" For all the *Post*'s virtuous stands, there were no clearer lines of ethical demarcation between journalism and politics in the 1880s than between business and politics. Godkin helped lead the Mugwump support of Grover Cleveland, and after the election he lobbied the administration about appointments and policies, suggesting not very subtly that the *Post* would give full coverage to whatever trouble might result if the President did not take his advice.

Godkin tried to gain financial control of the *Post* after Villard's nervous breakdown, and asked several of his wealthy friends, including Morgan, for help. He made his case to Morgan in the spring of 1886. The banker replied that July: "I am not quite prepared to say that there is no use in again discussing the subject we talked about before I sailed for Europe. It depends in a great measure upon the magnitude of the transaction."

In September, Godkin told a friend that "Pierpont Morgan seems at present disposed to behave handsomely, *but this is strictly confidential*. The greatest difficulty with him is the fear of having it known. He thinks it might bother him in financial circles."

Owning a leading New York newspaper would no doubt have "bothered" Morgan in political and journalistic circles as well—as it was, critics accused Godkin of editing a "railroad organ" for Villard—but nothing came of these discussions. When Villard returned from Germany in September of 1886, he was furious to learn of his editor's discussions with Morgan. Still arguing over the incident several years later, Godkin protested to Villard that "no money would have induced me to 'serve under' Pierpont Morgan or anyone else. The proposed plan of purchase involved no such risk."

Although their joint newspaper venture did not materialize, Morgan continued to support Godkin with personal loans. After the editor's death in 1902, he helped endow a fund at Harvard for an annual E. L. Godkin Lecture on "The Essentials of Free Government and the Duties of the Citizen."

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Putting all his professional energies into stabilizing railroad finance and maintaining the flow of investment capital from Europe, Morgan did not pay much attention to public hostility toward the railroads or to the growing discontent of the American worker. He had his eye on the country's long-term economic future. To the extent that he took the class conflicts and social problems of the present into account, he delegated them to Dr. Rainsford.

He left no record of his response to the labor militance of the 1870s—the troubles at the anthracite coal mines that led to the execution of Molly Maguires, or the great railroad strikes of 1877. In the wake of these episodes, the Knights of Labor, a national federation of unions led by Terence V. Powderly, resolved to renounce violence and negotiate for higher wages, shorter hours, and better working conditions through collective bargaining, but when peaceful tactics failed during the 1884–85 depression, the Knights resorted to strikes: successful actions against the Union Pacific and Missouri Pacific railroads brought them national respect and new members. Then on May 1, 1886, radical anarchists in Chicago called for a general strike. Chicago police attacked the strikers at the McCormick farm-equipment plant on May 3, and four people were killed. The next day someone threw a bomb into the crowd at a protest demonstration in Haymarket Square, and the police opened fire; by the time the battle was over, fifty people had been wounded and ten killed, including six policemen.

The Haymarket affair sharply divided the country. A jury convicted eight (mostly foreign-born) anarchists of conspiracy to commit murder, and sentenced seven of them to death. People sympathetic to the strike thought the verdicts draconian, but many Americans feared violence and socialism more than the police. Membership in the Knights fell from 700,000 in 1886 to less than 100,000 by 1890. The American Federation of Labor, a loose association of trade unions organized in 1886, took its place. Led by Samuel Gompers, the AFL repudiated radical tactics, aiming to improve wages and working conditions through "pure and simple unionism." Starting with 140,000 members, it grew to a million by 1900.

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While Morgan worked on peace treaties and bankruptcy reorganizations in the 1880s, the railroad industry was imposing other kinds of order on itself—practical measures that increased efficiency and brought costs down. The problem of calculating the time across three thousand miles added to the complications of transcontinental shipping: Illinois had twenty-seven incremental measures of time, and Wisconsin thirty-eight, until the American Railway Association in 1883 divided the country into four temporal zones, shifting from "God's time" to "Vanderbilt's time." Three years later the roads settled on a national standard track gauge of 4 feet 8½ inches, which meant that they no longer had to transfer freight to new cars at each new stretch of track. Furthermore, steel rails were replacing iron, and better signals, brakes, and couplers were improving safety.

Steadily decreasing transport costs combined with intense competition for traffic and an overall decline in prices to bring passenger rates down 50 percent between 1850 and 1900. Freight charges fell even further: railroad freight revenue went from 1.88¢ per ton mile in 1870 to .73¢ by 1900. These declining revenues *heightened* the competition Morgan was trying to control, and the railroad managers' ad hoc attempts to deal with the problem—especially price-fixing pools, secret rebates, and high rates on short routes where they had monopoly control—met with escalating opposition from the farmers and other shippers who wanted *more* competition among carriers rather than less.

Huge-volume producers such as Rockefeller and Carnegie could dictate special accommodations or buy railroads of their own. Shippers who did not have that kind of market power tried to get Grange associations and state legislatures to protect them.

Across the country throughout the eighties, from very different perspectives, the consumers and the managers of railroad services were deciding that the chaotic national transportation system needed some kind of external control. In February 1887 large majorities in both houses of Congress passed an Interstate Commerce Act, which President Cleveland signed into law. It forbade railroads to discriminate among shippers, required them to publish schedules of fares, outlawed rebates, and prohibited price-fixing and traffic-allocating pools; it also established a five-member commission to determine "just and reasonable" rates.

Some railroad managers, including Chauncey Depew at the New York Central and Charles Francis Adams, Jr., now president of the Union Pacific, hoped the new law would succeed at preventing rate wars where the roads themselves had failed. Staunch conservatives regarded it with contempt. The ardently pro-business Senator Nelson W. Aldrich of Rhode Island called the act "a delusion and a sham . . . an empty menace to the great interests, made to answer the clamor of the ignorant and the unreasoning."

Junius Morgan denounced the law from London as "a disturbing cause . . . imposed by the National Will, a case of force majeure." Force majeure refers to unexpected or uncontrollable events such as hurricanes and earthquakes ("acts of God")—which apparently to Junius included acts of Congress. Pierpont did not think the government could solve the railroads' problems—he believed more in banker control than political intervention—but once the law passed, he set out to work with it. He had marginally more faith in Washington than in state legislatures that were openly hostile to the railroads and the trusts.

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The Republicans regained the White House in 1888, in an election dominated by questions of finance. The U.S. Treasury in the late eighties had a rare *surplus* of funds. Tariffs imposed to protect American industries during the Civil War were bringing in more money than the government spent—$63.5 million more in 1885—and the parties disagreed about what to do with it. Late-nineteenth-century neo-Federalist Republicans, sounding like late-twentieth-century Democrats, favored active government spending to promote economic expansion and pay for expensive public projects. The Democrats in 1888, like free-market Republicans a hundred years later, wanted to *reduce* the government's role in the nation's life, although they divided sharply over protectionism. Cleveland sided with moderate Republicans on many economic questions, but was unequivocally for free trade: he regarded import duties as an unfair tax that would hurt American exports, and he wanted the nation's wealth distributed through unregulated commerce, not drawn out of the markets and dispensed by the Treasury.

Under pressure from powerful industrial lobbies, Congress had defeated several tariff-reform bills in the seventies and eighties, and Democratic leaders warned Cleveland that pressing the issue would split the party and lose him the 1888 election. He pressed it anyway, attacking existing trade barriers and denouncing the notion that America's "infant industries" still needed protection. Andrew Carnegie in the seventies had proudly described his production costs to Junius as so low that "even if the tariff were off entirely, you couldn't send steel rails west of us."

Cleveland's Republican opponents in 1888 were Indiana Senator Benjamin Harrison, the grandson of "Old Tippecanoe," and Levi P. Morton, the Morgans' banking colleague. Morton had repeatedly failed to win a Senate seat, largely because of his association with what Pulitzer's *World* called the "money kings" and the "Republican Corruption Fund." He secured the vice presidential nomination in 1888 with the help of New York's Republican boss, Thomas Collier Platt, called the Easy Boss because of his dandified clothes and urbane style.

The Republicans in 1888 ran a stronger and much better-funded campaign than their opponents. Led by the adroit Pennsylvania boss, Matthew Quay, they raised over $3 million—far more than had ever been spent in a U.S. election—mainly from industrial beneficiaries of the tariff. Quay's minions used some of the money to buy votes and rig elections in Indiana and New York, and distributed leaflets attacking Democrats all over the country. Cleveland refused to campaign, claiming that it was beneath the dignity of his office. Harrison invited thousands of people to Indianapolis to hear his "front porch" speeches about the dangerous Democrats and the lower wages and unemployment that would result from reducing the tariff.

Voters did not express a clear preference in this single-issue election. Cleveland won the popular ballot by 60,000 votes, but lost in the electoral college, 168 to 233. Accepting Boss Quay's congratulations shortly after the results came in, Harrison said with no trace of irony: "Providence has given us the victory." A dumbfounded Quay later exclaimed to a reporter, "Think of the man! He ought to know that Providence hadn't a damn thing to do with it": Harrison had no idea how many Republicans had been "compelled to approach the gates of the penitentiary to make him President."

He quickly learned how many Republicans he had to reward. Having promised not to hand out patronage, he found almost every position in his cabinet pre-sold. He was forced to appoint the unsavory James G. Blaine Secretary of State, and to make one of Quay's chief contributors, Philadelphia merchant John Wanamaker, Postmaster General.

Vice President–elect Morton was more familiar with the game. To repay Mr. Platt for delivering the Empire State, Morton proposed to make him Secretary of the Navy: "The feeling is I think universal that New York saved the day at [the Republican Convention in] Chicago and in November," he urged Harrison, "and that she is entitled to proper recognition." Harrison declined to award Platt the Navy, and warned Morton in future not to "make the mistake of furnishing *a* name for *a* place."

Harrison's administrative team came to be known as the Businessman's Cabinet. The new Senate included so many wealthy representatives of industry and banking that it was called the Millionaire's Club. Republicans had won the presidency and congressional majorities in both houses for the first time since 1875. They proceeded to give away the tariff-generated Treasury surplus in the form of premiums to government bondholders, subsidies to steamship lines, extravagant pork-barrel bills, repayment of taxes paid by the North during the Civil War, and lavish pensions to anyone who claimed to have served the Union cause. In 1890 they raised import duties on a range of products by nearly 50 percent with the McKinley Tariff Act.

Morgan probably voted a straight Republican ticket in 1888—he contributed $1,000 to a Harrison/Morton inaugural fund—but he had no personal or ideological quarrel with the Democratic incumbent. When Cleveland left the White House early in 1889, he joined his friend and adviser Francis Lynde Stetson at Bangs, Stetson, Tracy, & MacVeagh—the "Morgan law firm"—in New York.

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The vaguely worded Interstate Commerce Act, passed in 1887, was a political compromise that proved difficult to interpret, even more difficult to enforce, and failed to address a number of critical questions. Were the roads in fact suffering from too much competition, as their managers and bankers saw it, or not enough, which was what farmers and shippers thought? Could a government agency fairly arbitrate between opposing economic interests, or would it favor one side over the other? What were "just and reasonable" rates—just to carriers or to shippers? If there was a conflict between maximizing railroad efficiency and promoting competition, where did the public interest lie, and who would decide? How should the country weigh political concerns for fairness against economic incentives to rationalize its leading industry? How could this law be enforced?

The act had little impact on competition west of the Mississippi, and at the end of 1888, after a new round of rate wars, the railroad bankers Drexel, Morgan, Brown Brothers, and Kidder, Peabody summoned a dozen officers of major lines to meet at Morgan's Madison Avenue house. Those attending included Union Pacific president Charles Francis Adams, Jay Gould (who had been ousted from the Union Pacific board in 1885, and now controlled the Missouri Pacific), Chauncey Depew of the New York Central, and George Roberts of the Pennsylvania.

After seating these men around a table in his dining room, Morgan announced that the purpose of the meeting was to stop railroad managers from taking the law into their own hands whenever they felt wronged. "This is not elsewhere customary in civilised communities," he said, like a stern teacher scolding a pack of unruly boys, "and no good reason exists why such a practice should continue among railroads." The Pennsylvania's George Roberts argued that there would be no trouble at all if the bankers would stop putting up money to build competing roads—to which Morgan replied that if the railroad men would stop the rate wars, the financiers would do everything they could to prevent construction of parallel lines.

Charles Francis Adams, who had been contending with these problems for years—first as a political journalist, then on a Massachusetts regulatory commission, now as president of a major trunk line—wrote a private account of the meeting shortly after it took place. Most of the discussion the first day centered on a new rate-setting pool: the same old story, lamented Adams in his journal, with no executive power, no remedial measures, no more ability to bind the participants than a "rope of sand." The next day, Adams proposed that only an "outside compulsory force" could bring warring railroads into line, and the force he had in mind was the Interstate Commerce Commission. Any plan the railroads came up with on their own would surely "excite an insuperable popular objection," whereas exactly the same plan advanced by the ICC might meet with general favor. Adams had expected the bankers to agree. To his surprise, the railroad men assented as well. Roberts said the ICA, properly enforced, could "remove a great many of the difficulties that are now surrounding the management of the railways." Depew hoped the commission might "secure some machinery by which peace can be maintained."

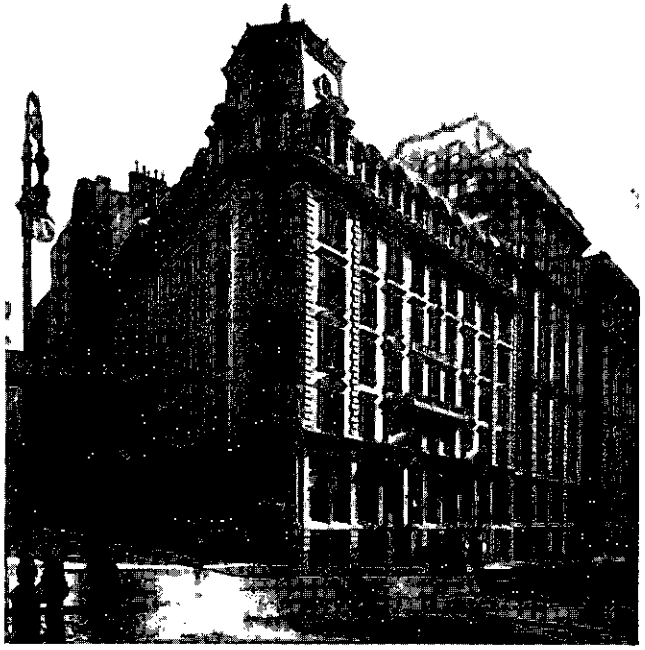
In early January, Adams met with three of the five commissioners, and drew up a plan for an organization of railroad presidents: the twenty-two roads in the new "Interstate Commerce Railway Association" promised to maintain stable rates, allocate traffic, and refer all violations to the ICC. In effect, this new trade association would try to use the "machinery" of the law against cartels to

enforce the terms of a new cartel. One of the commissioners with whom Adams had conferred, Aldace Walker, resigned from the ICC to head the ICRA.

Several voices outside the industry praised the agreement. The New York *Sun*, which had lambasted Morgan's Reading consolidation, called the new plan a "revolution in railroad methods," and looked forward to the substitution of "straightforward business principles for chicanery and corruption." John Moody thought every stockholder in America and Europe ought to give his proxies to the group that had met at 219, since only by concentration in a "few strong hands" could investment capital be protected against the "gigantic waste and fraud and duplication" endemic to the American railroad system.

Nonetheless, within weeks another rate war in the West made it clear that the new association did not amount—according to an officer of the first defecting road—"to a hill of beans." It had no real power to enforce rules, arbitrate disputes, or even hold on to its members. Jay Gould unofficially certified its demise early in February 1890, when he asked a colleague, "Is it worth while for us to be represented at the meeting of the President's Association in Chicago, or shall we simply send flowers for the corpse?"

Charles Francis Adams believed, like Moody, that the railroad world would be better off with fewer players—with competitors consolidated into big, stable systems under strong supervisory control. Ending the current anarchy would require "a railroad Bismarck," Adams wrote, but so far no one, himself included, had been able to impose order on this battlefield. Morgan had brought the latest adversaries to the bargaining table, as he had the Pennsylvania and the New York Central in the West Shore fight, but he could not force them to cooperate. In the privacy of his journal, Adams asked: "Will Pierrepont Morgan develope [*sic*] the needed force?" He answered, "Possibly. He has many of the elements of power needed. It remains to be seen if he is an organizer."



The Drexel Building at 23 Wall Street.
(Archives of The Pierpont Morgan Library, New York)

Chapter 16

CONSOLIDATIONS

In early July of 1890, while Morgan toured the Lake District with Edith Randolph, Congress passed an antitrust law.

Political opposition to the railroads and giant industrial corporations had intensified throughout the eighties, and legislatures in twenty-one states and territories, mainly in the South and West, had outlawed agreements to fix prices and limit output. For both legal and practical reasons, however, the states were significantly limited in their ability to regulate business conducted across state lines, and the 1887 Interstate Commerce Act was concerned exclusively with railroads; it did not apply to industrial concerns such as Standard Oil, Carnegie Steel, or the lead-smelting, sugar-refining, and whiskey-distilling monopolies. Both political parties wrote antitrust provisions into their platforms in the 1888 election campaign, and that August, Senate Finance Committee chairman John Sherman—shortly after losing the Republican presidential nomination—introduced a bill to outlaw trusts. He proposed to prohibit all agreements between individuals or companies that prevented "full and free competition" or raised consumer prices.

The word "trust" technically referred to one of the legal mechanisms used during this period for bringing competing companies under common control—the transfer of their stock to a single board of trustees—but the term had come to stand for big-business consolidations in general, and for everything about concentrated economic power that Americans hated and feared.* The radical changes that had taken place in the U.S. political economy in just one generation gave new force to the long-standing conflict over the nature and direction of American democracy.

On one side were those who saw the market dominance and ruthless efficiency of the new corporate giants as a sinister threat to individual liberty. Railroads and industrial leviathans were charging monopoly prices, driving competitors out of business, removing control of local enterprise from resident communities, ignoring labor's demands for fair wages and humane working conditions, and earning enormous amounts of money. Flagrant abuses of corporate power, such as the rebates Standard Oil exacted from railroads for carrying its rivals' oil and the steady flows of commercial cash that purchased political favors, substantiated the popular conviction that big business violated the natural order of exchange in a free society.

On the other side were those who saw the natural order of things in a different light. The United States was no longer a Jeffersonian nation of farmers and small producers working in "perfect" competitive markets. Post–Civil War revolutions in transportation, communications, and industrial productivity had created the largest domestic marketplace, with the richest natural resources, in the world. Mass production and distribution facilities were radically increasing operating efficiency as well as bringing down manufacturing costs and consumer prices. With no governmental guidance or regulation, private enterprise was opening up jobs and fostering social mobility on an unprecedented scale, and private bankers were raising previously unimaginable amounts of money. The industrialists and financiers who were shaping this new economic order regarded it as natural and inevitable, and wanted freedom to continue. Some of them opposed federal regulation simply to protect their power and profits. Others resisted it out of the conviction that "the politicians" had little understanding of modern capital markets.

The conflict did not sort out along traditional party lines. It was the Republican Senator Sherman, Wall Street's former ally, who denounced the power of the trusts as "a kingly prerogative inconsistent with our form of government," and went on: "If anything is wrong, this is wrong. If we will not endure a king

* The nineteenth-century uses of the financial term "trust," according to the economic historians Thomas R. Navin and Marian V. Sears, include the following: "If a man trusted another, he placed his money in a *trust fund* in the other man's care. When the other man established a company to handle a number of trust funds, he called it a *trust company*. . . . When the owners of a group of industrial enterprises surrendered their securities to a committee of so-called trustees, they called the resulting combination a 'trust.' . . . Laws set up to deal with large industrial combinations, of which the 'trusts' were the earliest examples, were called *antitrust laws*. There is still another use of the word *trust* to mean any large industrial combination, but this use is careless and inappropriate."

as a political power we should not endure a king over the production, transportation, and sale of any of the necessaries of life. If we would not submit to an emperor, we should not submit to an autocrat of trade, with power to prevent competition, and to fix the price of any commodity."

In the other camp, Democratic Senator Orville Platt of Connecticut declared that the Sherman bill proceeded on "the false assumption that all competition is beneficent to the country," and Representative John W. Stewart (Dem. Ga.) thought it "just as necessary to restrict competition as it is to restrict combination." The chairman of the House Judiciary Committee, George F. Edmunds (Rep. Vt.), said the term "monopoly" did not apply to the ingenious Texas cattle rancher who, through "superior skill and intelligence . . . got the whole business," even if it allowed him to charge monopoly prices—which seemed to say that the crucial issues were not restriction of competition or consumer price but optimal efficiency and fair play.

After two years of debate, Congress passed a heavily amended Sherman Antitrust Act on July 2, 1890—unanimously in the House, 52 to 1 in the Senate. Titled "A bill to protect trade and commerce against unlawful restraints and monopolies," it did not mention competition or consumer prices, but outlawed "every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce," and made it a crime to "monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of trade or commerce among the several States, or with foreign nations."

This vague wording left almost everything to the construction of the judiciary, and initiated a century of argument about the economics, politics, implementation, and aims of government regulation. Even supporters of the bill disagreed as to whether the real nature of the problem was too much competition or not enough. Some thought all trade restraints should be ruled illegal, including the hypothetical Texas cattle monopoly; others wanted to outlaw only "unfair" ones—but who would decide what was fair, and fair to whom? Was *bigness* per se bad? What should the government regulate—price-fixing? mergers? cartels? vertical integration? destruction of small firms? What kinds of agreements were actually restraints of trade, and what kinds of acts related to monopoly should be ruled illegal?

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Morgan left no record of his response to the Antitrust Act or to Senator Sherman's "defection." In a mix of what would later be regarded as conservative and liberal views, he believed in the efficacy of industrial consolidation and also in the need for *administered* markets, but had no faith in the government's ability to do the administering. The country, in his view, ought to leave control of its commercial and financial resources to qualified experts. He told a friend in 1912 that the consolidation of industry was "the only thing to do": the government was "crazy to fight it. That's because they are politicians instead of statesmen."

An unlikely figure agreed. The young journalist Walter Lippmann, looking back in 1912, thought wise statesmanship should have prepared the country for the trust movement of the eighties: "Here was an economic tendency of revolutionary significance," Lippmann wrote, "the organization of business in a way that was bound to change the outlook of the whole nation." The world-wide movement toward industrial concentration had been "made possible at first by mechanical inventions, fostered by the disastrous experiences of competition, and accepted by business men through contagion and imitation." It had "vast potentialities for good and evil—all it wanted was harnessing and directing. But the new thing did not fit into the little outlines and verbosities which served as a philosophy for our political hacks. So they gaped at it and let it run wild, called it names, threw stones at it. And by that time the force was too big for them."*

Morgan had regarded himself as statesman without portfolio—as taking a larger view than the men Lippmann called "political hacks"—in helping to refund the Civil War debt and put the United States back on the gold standard in the seventies, and in safeguarding the country's railroads and international credit in the eighties. Like the men who gathered to honor his father at Delmonico's in 1877, he assumed that his financial expertise conferred political prerogatives, and that his large concerns took precedence over the interests of people who opposed him—especially with regard to the struggle over the currency, which had resurfaced in the late eighties as proponents of "easy" money lobbied the government to resume coining silver.

The combination of monetary stringency imposed by the gold standard after 1879 and explosive growth in national productivity had driven prices steadily down and the dollar's value up. This long-term deflation was good for wealthy people who owned dollars and dollar-based assets, and hard on borrowers such as farmers and small-scale entrepreneurs. Debtors watched their incomes decline as they had to repay loans with money worth *more* than what they had borrowed. An inflationary increase in the money supply would reverse that

* That Lippmann later revised his views is characteristic of this controversial field. Harvard Law professor Philip Areeda, summing up a distinguished career in antitrust law, said not long before he died in 1995: "Like all fields of law, antitrust ebbs and flows, sometimes with greater populist concern for protecting small firms from big ones. At other times, the emphasis is on economic efficiency. The major change in the field has been in the growing awareness that business affairs are more complex than they might seem initially, and that motivations for what initially appears to be a restraint of trade might in fact be a more subtle way to promote competition."

painful trend, making dollars easier to borrow and over time worth *less.* It seemed to agrarians in the South and West that Wall Street plutocrats had taken silver out of circulation in the "Crime of '73" in order to squeeze powerless have-nots for their own private gain.

Throughout the eighties, Farmers' Alliance groups—successors to the Granger movement—demanded the remonetization of silver, and at the end of the decade they joined with the Knights of Labor to form a National Farmers' Alliance and Industrial Union. This group set up marketing cooperatives, and formulated a broad-based political program that called for free coinage of silver, a graduated income tax, greater regulation of railroad, telegraph, and telephone lines, the abolition of national banks, and federal warehouses for storing crops until market conditions improved. In the summer of 1890 Alliance men in Kansas founded a People's Party, which, with agrarian Democrats, scored impressive victories in the midterm elections that fall. In October, Congress passed a second law bearing John Sherman's name—a Silver Purchase Act requiring the Treasury to buy 4.5 million ounces of silver a month.

To Morgan the idea of reintroducing silver currency was about as welcome as a biblical plague. Foreigners held over $3 billion worth of American securities in 1890—roughly ten times the federal government's annual budget. They stood to lose heavily if the United States devalued the dollar by increasing the money supply, and they would not sit idly by to watch. Throughout the summer of 1890 nervous British investors, anticipating the impact of silver, sold off American securities and shipped gold home.

Railroad rate wars in the West were also eroding securities values. Early in November, Union Pacific Railroad president Charles Francis Adams reported "a regular financial gale blowing in the street, and, if not a panic, something very like one." His hugely indebted UP led the declines. Wall Street suspected Jay Gould, who had been ousted from the UP board in 1885, of driving down the price of its stock. On November 11, the "gale" turned into a hurricane with the failure of three brokerage houses and a bank.

Four days later, cables from London announced that Baring Brothers had been ruined by the collapse of a speculative bubble in Argentina. Charles F. Adams had been borrowing short-term money from Barings to keep the Union Pacific afloat, and the London bank's failure heralded his own. Railroad stock prices collapsed. Jay Gould bought up huge blocks of shares, and told Morgan on November 17 that he wanted control of the UP. On the nineteenth, a defeated Adams gave it to him.*

In mid-December, Morgan once again summoned western railroad officials to meet at his house. The trade group organized there two years earlier, with

* The Bank of England led the rescue of the Barings, who shared the Argentina bond market with the Morgans after 1890.

the blessing of the ICC, had failed to stop rate and traffic wars, and rates had continued to decline: at the end of 1890 railroad officials reported net earnings down 30 percent. This second meeting at 219 produced a "simple but comprehensive" plan for a new Advisory Board made up of the president and a director of each road, to maintain rates and arbitrate disputes.

Morgan proudly told the press: "I am thoroughly satisfied with the results accomplished. The public has not yet appreciated the magnitude of the work. Think of it—all the competitive traffic of the roads west of Chicago and St. Louis placed in the control of about thirty men! It is the most important agreement made by the railroads in a long time, and it is as strong as could be desired."

RAILROAD KINGS FORM A GIGANTIC TRUST, announced the *Herald* the next day. The public's failure to appreciate "the magnitude of the work" did not detract from Morgan's sense of purpose. Writing to railroad officers who had not attended these meetings, he explained that he had been prompted to act by the recent "demoralization" in rates and the "shrinkage" in stock values—and also by political opposition in the West: "The granger legislatures doubtless have power for injury," he told T. B. Blackstone of the Chicago & Alton road, "and it may be that they will use it, but it should not necessarily follow that well-considered, business-like harmony among the railroads should add materially to the spirit of hostility which may be exhibited."

Morgan genuinely did not think reasonable people would object to what seemed to him so constructive—the imposition of "well-considered, business-like harmony" on the national arteries of transport. His conviction that he not only was right but was acting in the national interest extended even to using the new agreement for political ends: he told Mr. Blackstone that the Advisory Board, "representing to a degree never before secured in one body ownership of the properties, should I think be able to accomplish much good for the railways by co-operating from time to time in all matters of joint interest, including possibly that of threatened legislation."

His optimism was misplaced. When the Western Advisory Board, like all its predecessors, proved unable to enforce its sanctions, Morgan finally gave up on the tactics of "gentlemen's agreements" and cartel control.

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The political struggles of the early nineties generated a range of efforts to regulate industry and finance. In the spring of 1891, when a bill to impose state supervision on private banking came before the New York legislature, Morgan sent a note to his old friend Vice President Levi P. Morton in Washington. "My dear Mr. Morton," he began: "I suppose the objectionable features of the Stein Bill, which has been introduced at Albany, and on which there is to be a hearing in Committee about the middle of next week, are known to you." The bill would, Morgan explained, require private bankers to make deposits with a state banking department, take out certificates in exchange, and be subject to state supervision, and he was writing "to suggest that—through Mr. Platt or otherwise—you doubtless could prevent the passage of such a measure. It is needless for me to say that it would be very harmful to all private banking interests here."

The New York State Assembly's committee on banking reported twice in favor of the bill that spring, but three weeks after Morgan wrote to Morton the measure was "laid aside" and not proposed again. Whether or not the Vice President, through Boss Platt, helped quash the bill, there would, for the moment, be no state regulation of private banks in New York.

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Jack came down from Boston to join Drexel, Morgan in January 1891, shortly after his wedding. He and Jessie rented quarters in Murray Hill while they built a house near his parents, at 8 East 36th Street.

Drexel, Morgan in 1891 had four active partners (Pierpont, J. Hood Wright, George Bowdoin, and Charles Coster), a clerical staff of eighty, and no typewriters; only Pierpont had a secretary; the office had a private telegraph line to Drexel & Co., and got its first telephone in 1886. A long-standing rule that all papers, checks, letters, and bills had to be signed by a partner meant that the four senior men were constantly interrupted. Jack eased their load by signing papers as he learned the business.

He reported to the traveling Fanny in the summer of 1891 that his father had been " 'saving the community again' as the Finance News puts it." The country was recovering from the depression that followed the 1890 panic, but the Union Pacific Railroad, once again in Jay Gould's hands, was on the verge of bankruptcy, and the prospect of its failure threatened to reverse the upturn. Though Gould had lent the road $1.3 million, it wasn't enough, and he was dying. He went west in July to try cold mountain air for his consumptive lungs.

At the beginning of August the UP's worried creditors called in their loans, and the stock price plummeted on rumors of failure. Gould sent his son, George, to see Morgan. Together, the senior Morgan and the junior Gould worked out a plan for the road to offer creditors three-year 6 percent notes secured by collateral deposited with Drexel, Morgan. "Again Mr. J. P. Morgan steps in to avert a disaster," announced the *Commercial and Financial Chronicle*. "Everyone breathes easy again," Jack told Fanny on August 21, "and the railroads in the West will be able to get good business instead of fighting a bankrupt which would steal all the business there was."

Morgan had stepped in not for his own immediate profit but as custodian of the railroad industry and the recovering economy as a whole, and it was in this context that he saw his interests as larger and higher than those of his antagonists. Jack underscored the point: "The best of it is, it is all done for nothing, except what we make in common with the other creditors, as an inducement to them to put the plan into operation." He was thrilled to have witnessed the rescue at first hand: "I am so glad it didn't come up during my vacation."

Pierpont upgraded his son's status in the firm at the end of the year. Juliet wrote to Fanny on New Year's Day, 1892: "The new partner of Drexel, Morgan & Co. came home to dinner. Isn't it too beautiful and delightful to think of?" Jack was "so pleased and proud he doesn't know whether he is on his head or his heels." Her father seemed pleased as well: "he was going to cable you about it but finally decided not to steal Jack's thunder."

Jessie gave birth to a son, Junius Spencer Morgan, in March 1892, and the junior J. P. Morgans moved into their new house on 36th Street that summer.

At 23 Wall Street, the senior J. P. Morgan worked in a large back office with glass walls and an open door, in plain sight of his partners and clerical staff. Close associates found him exacting but congenial; outsiders often found him terrifying.

Lincoln Steffens, a young reporter for Villard's *Evening Post*, did a stint on Wall Street in the early nineties, and years later recalled asking the president of another bank to put a question to Morgan.

"Not on your life," said the banker.

"Why not?" asked Steffens.

"You try it yourself and see."

Steffens went down to 23 Wall Street, walked into the famous glass-walled office, and stopped before the large, neat desk where Morgan was examining a sheet of figures. "I stood for two or three long minutes," he wrote in his autobiography, "while the whole bank seemed to stop work to watch me, and he did not look up; he was absorbed, he was sunk, in those figures. He was so alone with himself and his mind that when he did glance up he did not see me; his eyes were looking inward. . . ." Soon, without registering the presence of his visitor, Morgan dropped his eyes back to the page, and Steffens edged out.

As he left the bank one of the partners asked him what had happened. "Nothing," replied Steffens. "He didn't even see me."

"You're lucky," volunteered the partner with a laugh. "You have to call him to wake him up. If you had said, 'Mr. Morgan,' he would have come to. And then—"

"What would have happened?"

"Oh, then you would have seen—an explosion."

On another occasion, Steffens did interrupt the Morgan trance. The bank had sent the *Post* a statement about a recent bond issue that the city editor found incomprehensible. He assigned Steffens to find out what it meant.

The reporter headed back to the bank in high trepidation. His account of this event years later resembles many of the stories told about Morgan, in which a brave young Daniel marches into the lion's den, faces him down, and triumphs. That so many people felt called upon to report standing up to him this way was a measure of Morgan's stature. Meeting him, certain men were inclined to measure their prowess, as it were, against his, when his was universally acknowledged to be gigantic. Intellectuals in particular tended to belittle him, especially in retrospect—to be at best baffled by and at worst contemptuous of a sensibility so alien to their own.

Steffens, according to Steffens, once again walked into the glass-walled office and across to the immaculate desk, and this time the banker looked up. "He threw himself back in his chair so hard," recalled Steffens, "that I thought he would tip over."

" 'Mr. Morgan,' I said as brave as I was afraid, 'what does this statement mean?' and I threw the paper down before him.

" 'Mean!' he exclaimed. His eyes glared, his great red nose seemed to me to flash and darken, flash and darken. Then he roared. 'Mean! It means what it says. I wrote it myself, and it says what I mean.'

" 'It doesn't say anything—straight,' I blazed.

"He sat back there, flashing and rumbling; then he clutched the arms of his chair, and I thought he was going to leap at me. I was so scared that I defied him.

" 'Oh, come now, Mr. Morgan,' I said, 'you may know a lot about figures and finance, but I'm a reporter, and I know as much as you do about English. And that statement isn't English.'

"That was the way to treat him, I was told afterward. And it was in that case. He glared at me a moment more, the fire went out of his face, and he leaned forward over the bit of paper and said very meekly, 'What's the matter with it?'

"I said I thought it would be clearer in two sentences instead of one and I read it aloud so, with a few other verbal changes.

" 'Yes,' he agreed, 'that is better. You fix it.'

"I fixed it under his eyes, he nodded, and I, whisking it away, hurried back to the office. They told me in the bank afterward that 'J.P.' sat watching me go out of the office, then rapped for [one of his partners] and asked what my name was, where I came from, and said, 'Knows what he wants, and—and—gets it.' "

Steffens's artful story amounts to a lesson in how to treat an intimidating tycoon as well as a tribute to the author's own skill and courage, since he reduces the "great man" to meek respect. (Never mind that the bank's partners never called their senior "J.P."—always "Mr. Morgan.") The portrait also captures several things it does not highlight. For all his imperious force, Morgan was surprisingly flexible, especially in relation to people who had competence he lacked. Much of the time, as in this sketch, he was inept with language—the instrument of Steffens's expertise. Of more consequence than Morgan's acceptance of journalistic help is how little his power had to do with words: his authority—in his office, over railroads, in the world's capital markets—came not from what he said but from what he did.

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When Junius Morgan noted in 1887 that the United States had the best market in the world for its own "high-priced securities," patterns of American investment were shifting. For most of Junius's career, people with money to invest in the United States had bought real estate, New England textile stocks, and railroad bonds. By the end of the eighties, however, the railroads' huge demand for capital had declined, and investors were looking to other kinds of enterprises for profitable returns. There was as yet no financial market for "industrial" securities—the term did not come into use until 1889, to describe the stocks and bonds of companies involved in manufacturing, distribution, extraction, and processing.

There were relatively few industrial concerns worth more than $10 million by 1889, while the ten largest railroads had a net worth of over $100 million each (led by the giant Pennsylvania, at over $200 million). Still, almost as much capital had been invested in industry as in railroads: the 1890 census estimated the fixed and current assets in manufacturing alone—leaving out distribution, extraction, and processing—at $6.5 billion; for railroads, the figure was $10 billion. Most of the industrial firms were privately held, and investors considered them risky. With relatively little demand, "industrial" shares sold at about three times earnings, while reputable railroad stocks sold for seven to ten times earnings. Railroad securities had been trading on organized public exchanges for decades; they brought higher prices because of the greater liquidity and lower risk involved.

Although spectacularly successful industry leaders such as Standard Oil and Carnegie Steel generated so much income that they never had to turn to capital markets the way railroad builders did, less dominant firms had trouble raising money for expansion in the absence of an industrial securities exchange. Some borrowed short-term from commercial banks, hoping to repay the loans out of profits—which worked when the economy was booming, but not when it turned down. In the capital-intensive electrical industry, among others, trusts had evolved partly in response to this shortage of funds, as managers tried to secure steady supplies of income through consolidation.

In 1884 the Dow Jones Company, a financial news agency founded two years earlier, began to publish the average closing price of several actively traded stocks considered representative of the broader market. This first average, which appeared in a two-page *Customer's Afternoon Letter,* precursor to *The Wall Street Journal,* was made up of nine railroads, plus Western Union and Pacific Mail Steamship (it had been Pierpont's purchase of Pacific Mail shares in 1858 that elicited a paternal tirade against speculation). Conservative investors were not ready to venture out of railroads into industrial securities; first, they wanted assurances about quality and safety, as well as the liquidity afforded by public exchanges. At the end of the decade, Morgan would provide warranties and other mechanisms to open up this new investment field, but in the early nineties he remained preoccupied with railroads, and moved into the industrial marketplace with extreme, Junius-like caution.

He was first drawn in this direction through his connection with the Edison business. By the late eighties, Edison had two hundred central power stations and fifteen hundred isolated plants in operation across the United States. Morgan no longer needed a private generator behind his house in New York: electrical power for 219 came from the circuits of the Illuminating Company. Edison's was not the only entry in the electrical-industry sweepstakes, however. Like all the promising enterprises of the Gilded Age, this one stimulated fierce competition.

Some of Edison's rivals devised systems of their own, others adapted or copied his ideas. The wizard of Menlo Park spent years in court fighting over who invented what when, and once complained that taking out a patent was simply "an invitation to a lawsuit." He also maintained that his electrical inventions had brought him no profits—only forty years of litigation. In fact they made him a millionaire several times over, but he never managed to hold on to his gains.

His low-voltage, direct-current system worked well in densely populated cities, where the high costs of copper conductors could be spread out among hundreds of customers, but it proved prohibitively expensive for long-distance use. When a transformer patented in England in 1883 made it possible for high-voltage, alternating current carried over long-distance lines to be safely "stepped down" for ordinary household use, Edison's competitors responded. George Westinghouse bought the American rights to the AC transformer, and used alternating current for incandescence, industrial motors, and street trolleys. The Thomson-Houston Electric Company in Lynn, Massachusetts, expanded to produce and sell both kinds of current and a wide range of products—arc lights, motors, trolley systems, generators, and transformers. Run by a brilliant manager named Charles A. Coffin, Thomson-Houston secured financing for this expansion through the Boston bankers Lee, Higginson, & Co.

Edison dismissed alternating current as inefficient (it lost power in transformation), expensive, and dangerous: he electrocuted stray dogs and cats to demonstrate AC's lethal power, and coined a verb for the electrical execution of criminals—"to Westinghouse." Convinced that his lower-cost DC system would prevail on its own merits, he turned his attention to new projects.

Henry Villard, an early Edison backer, had returned from Germany in the fall of 1886 eager to build an international electrical-industry cartel. He had made a careful study of Germany's leading electrical firms, the vertically integrated Siemens & Halske and Allgemeine Elektrizitäts Gesellschaft, and advised Edison in the winter of 1888 to consolidate his companies on the German model. The inventor wavered, torn between his desire for autonomy and his need for outside capital. His colleague E. H. Johnson promised that the merger would be good for their interests and bad for the competition: "We shall speedily have the biggest Edison organization in the world with abundant capital when goodbye Westinghouse et al."

In May of 1889, with the help of Charles Coster and the backing of the Deutsche Bank, Villard combined the original Edison Electric Light Company and several manufacturing concerns into Edison General Electric, incorporated in New Jersey and capitalized at $12 million. New Jersey had just passed a law that allowed corporations to own controlling interests in the corporations of other states. Drexel, Morgan managed the initial $3.63 million stock offering.* The Deutsche Bank took the largest share—62.2 percent, or $2,259,000. Morgan's firm kept $600,000, gave $400,000 to Kuhn, Loeb, and divided the rest among people connected to the Edison business; none of the stock was offered to the general public. Villard, with the blessings of the Deutsche Bank, appointed himself president of Edison General Electric, put Edison's personal secretary, Samuel Insull, in charge of daily business, and began to centralize operations with headquarters in Schenectady, New York.

Edison did not have much to do with the new concern. He was preoccupied with his phonograph and an electromagnetic machine that would separate iron from low-grade ore. Thomson-Houston, meanwhile, had continued to expand: it built twice as many central power stations as Edison General, earned twice the profit, dominated the street railway business, and hired the best sales force in the industry.

At the end of 1890, Villard proposed to end the industry's "ruinous" competition through price- and output-agreements. Westinghouse flatly turned him down. Coffin at Thomson-Houston made a counterproposal—to consolidate

* Villard and Coster set the values at which constituent companies were brought in. The Morgan bank and its partners had invested over $1 million in the Light Company since 1878, and Coster made sure that EELC shareholders were amply rewarded in the reorganization: each $100 share was exchanged for new stock and trust certificates worth $266.66.

Edison General and Thomson-Houston into a single corporate unit, since building integrated facilities to take advantage of central distribution networks, economies of scale, and strategic, long-range planning required such enormous amounts of money that it was wasteful for similar properties to compete. In this kind of capital-intensive industry, consolidation could eliminate duplication as well as price- and patent-wars; it could also concentrate major product lines in the best-equipped plants, combine sales forces and distribution systems, and secure a steady stream of income for research, development, and expansion.

Morgan, busy trying to control railroad competition for exactly these reasons—greater efficiency and stability, an end to price wars, adequate profits—did not at first see the advantage of consolidating the electrical firms. When Coffin's banker Henry Lee Higginson suggested a merger early in 1891, Morgan wrote back: "The Edison system affords us all the use of time and capital that I think desirable to use in one channel. If, as would seem to be the case, you have the control of the Thomson-Houston, we will see which will make the best result. I do not see myself how the two things can be brought together."

A year later he had changed his mind—perhaps because Thomson-Houston was winning the marketplace war. Coffin bragged that he was "knocking the stuffing out of them all along the line." Morgan wrote to Higginson's associate T. Jefferson Coolidge in March of 1892: "I entirely agree with you that it is desirable to bring about closer management between the two companies."

Edison hated the idea of cooperating with his enemies, and began selling his holdings in Edison General Electric as the Boston and New York bankers worked out terms for consolidation. He and Villard expected EGE to take over Thomson-Houston, but the architects of the merger decided on just the opposite plan: Thomson-Houston, clearly the stronger, better-managed company, had earned 50 percent more per share than EGE in 1891. Villard resigned, and later said he disapproved of the whole thing.

Morgan told Coolidge in March that Villard's resignation would take effect on April 1, and urged that Coffin "be then elected President of the Edison General Company." When the new firm was chartered in New York on April 15, 1892, however, with Coffin as president, it was called not Edison General but General Electric.

Each Edison share was converted into one share in the new company, while three Thomson-Houston shares brought five in GE. The bankers capitalized the consolidation at $50 million: $15 million went to the Edison stockholders, $18 million to Thomson-Houston's, and $17 million (in stock) into the GE treasury. Drexel, Morgan underwrote the company's first security offering—$4 million of 5 percent convertible bonds, sold entirely to the stockholders. Morgan and Coster took seats on the GE board, as did Higginson, Coolidge, and Edison. Furious at the removal of his name and the subordination of his interests to those of his rival, Edison attended one board meeting, then gave up in disgust to pursue other interests. Still, he continued to use the services of the Morgan Bank.*

The pioneers in the electrical industry had had to turn to financiers for funding, just as capital-intensive railroads did. As a result, bankers played a central role in shaping the financial structure of the business. Morgan had no overarching design for the Edison enterprises, and did not initiate their consolidation: making his way through uncharted territory, he was following what seemed to work. With even less intimate knowledge of this industry than he had of railroads, he relied for information on Coster, and on experts such as Edison, E. H. Johnson, and Charles Coffin.

As long as individual managers did well, he left them alone. "I always make it a rule," he told a colleague in the early nineties, "unless something is radically wrong, to follow the wishes of those who are in the management of the properties in which I am interested, and refrain from pushing my views unduly." When things did go wrong, however—when the stock market was "demoralized," or the Union Pacific about to go bankrupt, or the Edison companies losing competitive ground—he felt called on to step in.

Finding the right specialist to run a given property was crucial to its long-term success, and fourteen years after Edison invented the lightbulb, it seemed clear that he was not the man to lead the electrical industry into the twentieth century. Coffin was. As president of General Electric, Coffin proceeded to rationalize its

* Leaving the electrical industry behind, Edison worked on the phonograph, the iron-ore machine, a storage battery, and a motion-picture projector. He spent his GE profits on the iron-ore device. On being told what the stock would have been worth had he held on to it, he shrugged, "Well, it's all gone, but we had a hell of a good time spending it." His studio in West Orange, New Jersey, produced the world's first feature film, *The Great Train Robbery*, in 1904, and a patent-pooling movie monopoly earned the inventor $1 million a year between 1907 and 1917.

One night at a dinner in 1896, he met a young engineer from the Detroit Edison Company named Henry Ford. Ford talked about an internal combustion engine he had devised for automobiles, when most people thought the future belonged to electric cars, and Edison offered enthusiastic encouragement. Ford never forgot it. Soon, he was making millions in Detroit, and bailed Edison out every time he got the chance. When Edison's West Orange headquarters burned down in 1914, Ford gave the aging inventor a $750,000 interest-free loan. When Edison retired in 1926, Ford and the tire magnate Harvey Firestone put up $93,000 for an Edison Botanic Research Company, and quietly fed in money to keep the old man occupied. Edison called his young friend "Henry," though Ford always addressed him as "Mr. Edison"—and this unlikely pair built houses next door to each other in Fort Myers, Florida. They toured the Everglades, and went camping in the Great Smokies. In 1929, to celebrate fifty years of incandescent light, Ford built a museum of Edison's works, reconstructed the Menlo Park facilities in Dearborn, Michigan, and hosted a party that included President and Mrs. Calvin Coolidge, Marie Curie, Orville Wright, Jack Morgan, and all the original Edison employees who were still alive.

constituent companies into a model of integrated modern corporate enterprise. GE stock did not pay dividends during the long depression of the nineties—its bankers organized a syndicate to supply it with cash by buying $4 million worth of company assets, at a price far above the market value, and holding them in trust until the contraction eased. Coffin used the downturn to cut costs, diversify operations, develop new products, and build a pioneering research lab. Earnings rose again at the end of the decade, and GE and Westinghouse shared a global oligopoly with Germany's leading electrical firms until after World War II.

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All kinds of businesses tried to put together industry-dominating combinations at the end of the nineteenth century—in sugar, flour, leather, glue, cottonseed oil, linseed oil, whiskey, thread, hay, tobacco, meatpacking, lumber, salt, ice, lead, steel—and national anxiety about "monster" trusts obscured the fact that more of them failed than succeeded. A century later, General Electric, the Standard Oil spinoffs, and U.S. Steel (as USX) remain, but National Cordage, U.S. Leather, Laclede Gas, and American Ice have long since disappeared. The process of building efficient, powerful, industry-dominating firms worked well in certain kinds of business and not in others, but the differences are clear only in retrospect.*

Neither a succession of pro-business Presidents nor the courts did much to enforce the Sherman Act in the 1890s. The federal government lost seven of

* Alfred D. Chandler, Jr., has compared the companies that grew to industry dominance with those that did not. Successful *center firms*, capital-intensive and technologically advanced, were able to take advantage of processes and equipment that made possible enormous economies of scale and scope. They integrated backward into resource acquisition and forward into product distribution; they devised managerial hierarchies to run complex operations, maximized their productive and allocative efficiency, and developed long-range planning strategies suited to their markets. By contrast, companies that were labor-intensive and relatively small did not gain significant scale economies; they tried to control prices and markets through cartels, did not integrate vertically, developed no managerial hierarchies, and paid more attention to short-term profits than to long-term planning. These *peripheral firms*, in modern economic terminology, did not grow to dominate their industries, and most did not survive.

The major center firms that evolved during the period from 1880 to 1920 had extraordinary stability and longevity: Chandler compared the two hundred largest U.S. manufacturing firms (measured in assets) for 1917 and 1973, and found that the dominant companies remained concentrated in the same areas (petroleum, chemicals, food products, transportation equipment, rubber), and were mostly the *same* companies. He found an identical pattern abroad, with large center firms providing the stable, dominant group in Germany, France, Britain, and Japan, in the same industries as in the United States. That these firms survived for so long, in spite of intense domestic and foreign competition, leads to the conclusion that it was not simply a matter of monopoly or price control, but productive efficiency and the eight cases against corporations between 1890 and 1893. In 1895 the Attorney General charged that the "Sugar Trust"—H. O. Havemeyer's American Sugar Refining Company, which had acquired the stock of four Philadelphia refineries—constituted a monopoly of production in restraint of trade. The Supreme Court dismissed the case, called *U.S. v. E. C. Knight*, ruling that the states, not the federal government, had jurisdiction over production, and that since the sugar industry mergers concerned *manufacture*, they did not fall under the Sherman law's strictures against restraint of interstate *commerce*.

The Court's construction of the Sherman Act in the nineties tended to rule out loose cartel associations and price-fixing agreements, but not large-scale mergers or consolidations. According to the historian Thomas Cochran, the lesson seemed to be that "buying up of rivals and merging them into one big company" was lawful, while "efforts by small companies to control markets by cartels or agreements were illegal." Ironically, the Court's proscription of certain kinds of trade restraint under the Sherman law fostered not increased competition but stronger forms of consolidation, culminating in the great merger movement of the late 1890s.

In the decade that followed the appearance of the first Dow Jones average, made up primarily of railroad stocks, the American investment landscape radically changed. Dow Jones began to publish *The Wall Street Journal* in July 1889, and when it inaugurated an industrial average in 1896, General Electric was on the list. Though it dropped out twice, in 1898 and 1901, GE is the only one of the original twelve companies that remains in the average one hundred years later.* Its cumulative performance over the century, excluding dividends and adjusted for stock splits, shows a rise of 21,999 percent, compared to the Dow Jones average performance of 10,120 percent. As of May 1997, it was the largest company in the United States, and the first to be valued at more than $200 billion.

nature of the industries themselves that determined success. According to Chandler's Harvard Business School colleague Thomas K. McCraw, the striking cross-national similarities "suggest strongly that *the inherent economic and technological characteristics of given industries almost force them to assume either a center or peripheral configuration and to maintain that configuration over a long period of time. These inherent characteristics seem much more important than different legal systems or different national cultures in determining the relative size and organizational structure of firms within those industries. This is a fact of surpassing importance in assessing the historical record of big business in the United States and the conceptualization of the trust question from the late nineteenth century to the present day* [his italics]."

* The twelve stocks in the first industrial average were American Cotton Oil, American Sugar Refining, American Tobacco, Chicago Gas, Distilling & Cattle Feeding, General Electric, Laclede Gas Light, National Lead, North American (which financed street railways and gas and electric companies), Tennessee Coal, Iron & Railroad, U.S. Leather (preferred), and U.S.

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Outside the boardroom, Morgan served as ambassador-at-large for GE. He had helped bring Edison's light to the attention of European and American capitalists in the early eighties; ten years later he recommended GE bonds to wealthy friends, and in September of 1893, when Boston was about to build a new railroad terminal—the Union (later North) Station—he sent a note to Lucius Tuttle, president of the Boston & Maine.

"I don't want favoritism," he began, with his standard disclaimer about exercising undue influence, but hoped Mr. Tuttle would defer a decision on the electrical contract for the station until they could confer, "as I think that on an impartial examination you will find that the General Electric Company can suit you better than any of its competitors. I should like to feel sure that it got a chance on equal footing with the others. If you will do what you can in this direction I should be much obliged."

There was nothing improper in this request—it was the sort of promotional work Morgan did for many of his clients, and no doubt GE would "suit" the new station at least as well as its competitors. Yet the letter came from a uniquely powerful quarter. In the fall of 1893, Morgan had just negotiated peace between Tuttle's Boston & Maine and its chief regional rival, the New Haven Railroad. This agreement to divide New England rail traffic, north and south, proved more effective than those made between western roads in 1889–90, because this time Morgan had financial control. He was a director of the New Haven, was in the process of reorganizing (yet again) the Philadelphia & Reading, which owned the Boston & Maine, and his bank was financing both roads: he had secured a $2 million loan for the Boston & Maine in 1891, and issued $13 million in New Haven securities in April 1893. When he wrote to Tuttle about the Union Station contract in September 1893, his bank was about to purchase another $6 million of Boston & Maine bonds. Yet in the end, Westinghouse supplied the pneumatic switch and signal system for the new station, and probably its electrical generators as well. The General Electric archives have no record of contracts for this station in the 1890s. Contrary to popular perception, Morgan did not dictate the decisions of his clients, even when he controlled their access to capital.

Rubber. Several of the original twelve companies have survived in some form into the late twentieth century, but only GE has retained its membership in the Dow and its name. The early average was unweighted: Charles Dow simply added up the closing prices of the stocks (which came to 491.28 on May 26, 1896) and divided the total by 12, for an opening average of 40.94. He continued to publish a separate railroad listing, and frequently reconfigured both averages according to the fortunes of the corporations.

For the 1892 election, the Republicans renominated Benjamin Harrison, but replaced Levi Morton with Whitelaw Reid, owner of the New York *Tribune.* The Democrats called Grover Cleveland back from his New York law practice to run with Adlai E. Stevenson of Illinois, grandfather of the Illinois Democrat who ran for President in the 1950s. Agrarian reformers, having scored significant victories in 1890, put up their own Populist candidate in 1892—General James B. Weaver, on a platform demanding free silver and government ownership of railroads. At the Populist convention in Omaha that July the renowned orator Ignatius Donnelly denounced the corrupt corporate "interests" to thirty minutes of applause. In November the Populists earned a million popular votes—8.5 percent—but Cleveland won the election with 5.5 million (46 percent) to Harrison's 5.2 (43 percent). He was the only President ever returned to the White House after a term out of office.

Though Morgan probably voted Republican, he had no objection to Cleveland, who had spent the last four years working with Stetson's law firm. In March 1893 Harrison returned to Indiana, Morton to New York, and Cleveland to Washington with close friends and colleagues in the Morgan camp.

The conservative Democrat had just taken the oath of office when a new stock market panic touched off one of the worst depressions in U.S. history: banks failed; factories, mills, and railroads went bankrupt; thousands of people lost jobs; and the price of farm crops, already in long-term decline, fell even further. The Dow Jones twelve-stock railroad average stood at 90 in January 1893; by July it had fallen nearly 30 percent, to 61.94.

When a friend asked Morgan about General Electric, he replied that the stock had "tumbled so I do not know what to do about executing a discretionary order." Bullish about the long run—he himself would "not hesitate" to buy GE—he was conservative with other people's money: "these industrials have so fluctuated, without regard to their dividends, that I am loth to purchase it for another person without a direct order. If you are willing to take the risk, please let me know or if you prefer something that is absolutely sure with half the income."

A major factor in the 1893 panic was the Sherman Silver Purchase Act, which had had exactly the effect Morgan and his colleagues feared: as the dollar's value plummeted in the early nineties, foreigners in a "flight to quality" cashed in American securities and shipped gold home. At the end of 1892, the *Commercial and Financial Chronicle* had deplored "the lack of confidence which our policy is causing Europe to feel in our financial stability. No more foreign capital comes to the United States and as fast as Europeans can dislodge their holdings in America they take their money away."

Treasury officials had tried since 1879 to maintain a $100 million gold reserve, and though there was no legal mandate for that figure, $100 million had become a measure of public confidence in government solvency. Morgan told the managing editor of *Harper's Weekly* in February 1893 that repeal of the Silver Act was "essential to the sound financial policy of the government." In April the Treasury reserve fell below $100 million, and in May the failures of the National Cordage Company and the Philadelphia & Reading Railroad sparked the stock market crash.

President Cleveland shared Morgan's view that silver was largely to blame. In August, as banks and businesses across the country failed and gold drained out of the Treasury, he told Congress that the crisis had been brought on largely by the Silver Purchase Act, and urged the legislature not only to repeal the law but to require the government to honor its obligations "in money universally recognized by all civilized countries"—i.e., gold.

The administration's clear intent to press for repeal of the Silver Act temporarily slowed the Treasury drain. Congress debated repeal in August, and William Jennings Bryan, the newly elected representative from Nebraska, delivered an eloquent three-hour oration that would echo through the nation's political debates for years: "On the one side stand the corporate interests of the United States," Bryan declared, "the moneyed interests, aggregated wealth and capital, imperious, arrogant, compassionless. . . . On the other side stand an unnumbered throng. . . . Work-worn and dust-begrimed, they make their mute appeal, and too often find their cry for help beat in vain against the outer walls, while others, less deserving, gain ready access to legislative halls."

Bryan notwithstanding, a majority of the House voted to repeal, the Senate followed suit, and at the beginning of November the government rescinded the Silver Purchase Act—to Morgan's relief and the Populists' dismay. Still, Europe worried about the U.S. commitment to gold. The Treasury drain continued. The lines of a class struggle over the politics of gold had been clearly drawn.

The panic and crash of 1893 brought major corporations to 23 Wall Street for help. National Cordage, called the "rope trust," had been using the bank's international services for years. Reorganized as a holding company after the passage of the antitrust law—a holding company owns enough voting stock in subsidiary companies to control their management and operational policies—Cordage had embarked on an expansion spree that made its stock the most actively traded industrial on Wall Street in the early nineties and the talk of the financial town. When a stock market dip in May of 1893 caused lenders to call in their short-term loans, the overextended "rope trust" failed—hanged itself, mordant humorists said.

At the time of the failure, Cordage had over $1 million in outstanding credits with J. S. Morgan & Co., and Pierpont helped set up a syndicate to refinance the company with $5 million of first mortgage collateral trust bonds. Drexel, Morgan took a small ($250,000) share. By keeping the company's mills working, the loan enabled Cordage to repay some of its debt—J. S. Morgan & Co. recouped $1 million in February 1894. Pierpont told his London partners that these "satisfactory" results had come "after the hardest fight we have had in some time."

Nonetheless, Cordage failed again in 1895. Its initial default and the depression that followed cast a four-year pall on the market for industrial securities, which reinforced Morgan's caution. Besides, bankrupt railroads were demanding his time.

More roads defaulted during the 1890s than at any other time in American history. A year after the panic, 192 lines operating 40,000 miles of road and capitalized at $2.5 billion had fallen into the hands of receivers. By 1898, a third of the nation's track mileage was in foreclosure, and the impact of these failures on the national economy was catastrophic: a single rail system employed more workers and used more capital than the Post Office or the entire U.S. military service, and the railroads' bonded debt dwarfed the Treasury's.

The repeated failures of Morgan's efforts to stabilize what was still the country's most important industry had led him finally to give up on voluntary agreements and negotiated peace. He concluded after 1890 that only tighter forms of consolidation would work, and other experts agreed: John Moody had predicted that protecting investment capital from the "gigantic waste and fraud and duplication" of the American railroad system would require concentration in a "few strong hands," and Charles Francis Adams had wondered whether Morgan had the force to become a "railroad Bismarck." As bankruptcy delivered rail properties all over the country into Morgan's hands, he built huge regional consolidations that definitively answered Adams's question.

The technicalities of the bank's railroad work in the nineties were largely managed by Coster, Stetson, and Samuel Spencer, a special adviser to the firm who had years of experience as vice president of the Baltimore & Ohio and president of the Elgin, Joliet & Eastern. Describing Spencer some years later, *The New York Times* said, "there was no man in the country so thoroughly well posted on every detail of a railroad from the cost of a car brake to the estimate for a terminal."

The first big "Morganization" of the nineties involved a weak agglomeration of roads in the Southeast called the Richmond & West Point Terminal and Warehouse Company, which connected Washington, D.C., to major cities in the South, including Richmond, Atlanta, Birmingham, and New Orleans. The Richmond Terminal had been mismanaged for years by speculators interested mainly in their own profits, and a group of its investors applied to the Morgan

bank for rescue in May of 1892. Knowing that the road had been used as "football of speculation," Morgan refused to take the case unless he had full control. He invited three of the principal stockholders to his office and asked them to surrender their shares. Two agreed, the third did not. According to Jack, William P. Clyde lounged on the partners' sofa at 23 Wall Street and said, "in a queer drawling tone with considerable smacking of the lips"—"Well, Mr. Morgan, I've bought the Richmond Terminal at 7 or 8 and sold it at 15 twice in the last few years—and see no reason why I should not do it again."

Morgan showed his visitors out. They shopped the property around until the onset of the 1893 panic brought them back to the Morgan bank. This time, Clyde agreed to surrender his shares. Coster drew up a radical plan for a new company, the Southern Railway, to take over the Richmond Terminal and its profitable subsidiaries but not the less successful roads. He was able to dictate terms because the Richmond Terminal had no choice—it could either work with Morgan's experts or fail. To cut down on fixed charges, the bankers refinanced some of the road's debt at lower rates, and replaced the rest with preferred stock; to raise new capital for the floating debt and future expansion, they assessed stockholders for cash and issued new securities.

Years of experience with bankrupt railroads had convinced Morgan that high fixed costs were a greater danger than large capitalization, and the hallmark of his reorganizations came to be the reduction of obligatory charges to little more than a road's minimum earning capacity; with less debt to service, the company would be able to avoid bankruptcy even in stringent times. Morganization tended to shift the balance of a firm's securities from debt to equity—from mortgage bonds requiring annual interest payments to stocks that depended on company earnings. To persuade investors to trade their relatively safe, high-interest notes for riskier equity instruments, the bankers relied heavily on *preferred* stock, which took precedence over common: companies had to pay dividends on the preferred stock first, at a specified rate.*

The financial restructuring of the Richmond Terminal was just the beginning. The bankers put all the new company's stock into a voting trust headed by Morgan, George Baker, and Charles Lanier, which would oversee the Southern Railway's management and balance sheets for five years, or until the preferred shares began paying an annual 5 percent dividend. In its first major decision, the trust appointed Samuel Spencer president of the company.

* In terms of investor safety, bondholders come first and holders of common stock last. Regular interest on bonds has to be paid at a specified rate, regardless of earnings. Common stock dividends are issued at the discretion of the directors, and vary with earnings. Preferred shares fall in between: they generally bear a set dividend rate, but it is paid only when earnings are sufficient. If the company defaults, the same order prevails in liquidation: bondholders take precedence, followed by preferred shareholders, then holders of common stock.

With the ongoing help of the Morgan bank, Spencer took over a badly structured, unprofitable consortium of roads and turned it into a smoothly functioning regional system. The Southern Railway added new track miles, bought back some of the roads it had sold, doubled its rolling stock, and spent millions on other improvements. Earnings over the following decade tripled.

Almost everyone connected with the Southern Railway did well. Shippers and passengers got continuous, efficient service; bondholders earned regular interest; the reorganization syndicate took payment in $750,000 of Southern common stock (5 percent of the first $15 million issued), and Drexel, Morgan earned additional management and underwriting fees.*

That the syndicate took its fee in common stock was a measure of Morgan's confidence in the railway's long-term profitability. He would be charged in the coming decade with overcapitalization, or "watering" his companies' stock. In fact he was basing his financings on future earning capacity rather than on the traditional measure of asset value, and in most cases the "water" in the stock was eventually absorbed. By taking its own payment in common stock, the syndicate assumed the highest level of risk.

Contemporary observers called the Richmond Terminal rescue "one of the noteworthy achievements of American railroad history," and predicted a "new era" for transportation in the South. The Morgan bank emerged from its twenty months of work with a secure hold on all future Southern Railway business, control of the system's management, and enhanced prestige. The combination of Morgan's reputation and his strong affiliate firms in Europe enabled him to sell the railroad's bonds even at the height of the 1890s depression.

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Other major roads on which the bank performed reconstructive surgery in the mid-nineties included the long-troubled Erie, the Philadelphia & Reading, and the Northern Pacific. Morgan had rescued the latter two lines before, and these repeat failures, after the expiration of banker-dominated voting trusts, strengthened his commitment to vigilant, protracted control.

The New York, Lake Erie & Western—once run by Jay Gould, who died of tuberculosis in December 1892—declared its fourth bankruptcy the following July. The Morgan firms had sold millions of dollars' worth of Erie securities, and proposed a draconian reorganization that would reduce debt, raise cash, and consolidate the line's subsidiary roads into one tightly managed system. It took two years and another bankruptcy, but in November 1895 the bankers

* Largely because of its high capitalization, the Southern did not pay dividends on the preferred stock until 1897, and then less than the 5 percent required to terminate the voting trust; it finally paid 5 percent in 1902. By 1906, when Samuel Spencer died, the company had not paid dividends on its common shares.

(chiefly Coster) brought the main line and its affiliates into a fully integrated network called the Erie Railroad Company—two thousand miles of track running through New York, Pennsylvania, Ohio, Indiana, and Illinois. To fund the plan three months before it went into effect, Morgan sold $25 million of new Erie bonds through syndicates in London and New York: frankness about the road's condition, and capitalization based on realistic projections of earnings, helped assuage investor anxiety. The syndicates sold the entire issue in a month—an astonishing feat in a depression, and "an impressive show of confidence in Morgan's business judgment and financial strength," since no one trusted the Erie.

For two years of work, Morgan charged the road $500,000, payable in $5 shares of common stock, plus expenses. His New York and London houses split the fee, each dividing its half with the members of its syndicate. Walter Burns wanted payment in cash, but Morgan insisted on the material and moral value of equity: "We have always taken reimbursement in common stock," he cabled—"first, because think it desirable, more valuable in itself," and also because it publicly demonstrated "our belief in property when reorganized." He offered to buy London's allotment for $250,000 if Burns held out for cash, but his brother-in-law accepted the shares. In July, at the time of this exchange, the stock was trading at 8 in New York, its low for the year. By the end of December, when both syndicates closed their accounts, the price was 15¾.

Morgan rejected the railroad's candidate for president as "useless," and installed Eben Thomas, an Erie executive who had worked on the reorganization with Coster and on other "Morgan" roads as well. The men appointed to the new Erie board for long-term supervision included Coster, Stetson, Spencer, Jim Goodwin, and J. Lowber Welsh. Morganization imposed financial stability on the Erie for the first time in forty years.

It was the failure of the Philadelphia & Reading, along with National Cordage, that had started the 1893 panic. Morgan's rescue of the Reading coal roads in 1886 had earned him Wall Street's respect and extravagant praise, but seven years later his voting trust had disbanded and the conservative Austin Corbin had been replaced as president by Alexander A. McLeod, a reckless expansionist who preferred rate-cutting warfare to Morganatic cooperation. Drexel, Morgan refused to take on a second Reading rehabilitation unless McLeod resigned, and the holders of the road's securities rejected several proposals before accepting a tough reorganization plan in the summer of 1895. It followed the usual Morgan pattern, and split the road's rail and coal properties into independent entities under one corporate umbrella. *The Commercial & Financial Chronicle* called the plan not only "drastic and radical," but "thorough and effective." It was also expensive: in the fifteen months the Morgan firms spent on the second Reading rescue, they earned commissions amounting to $2.76 million, plus $650,000 in management fees.

Morgan was slowly imposing order on the "gigantic waste and fraud and duplication" of the American transport system. When the economy had fully recovered at the beginning of the new century, one Wall Street analyst said Morgan had made railroad bonds among the country's "safest investments." Henry Clay Frick compared them to Rembrandts.

However, a writer in the *Machinists' Monthly Journal* asked, "When J. Pierpont Morgan, the patron of bishops and exalted pillar of the church, is at his devotions; when with a gilt-edged prayer-book in his hand he wiggles himself into a more comfortable position in his satin-lined pew . . . does he think of the starving miners who are suffering through his efforts and that of his colleagues of the coal trust? When he reads the lessons of charity and good will toward men, does he think of the tyrannous system that reduces wages to the subsistence point, or is he figuring some new combination whereby he can augment his plethoric fortune? When the organ peals forth does not his conscience supply a discord with the wails and cries of those whose lives are sacrificed to the voracious demands of his class?"

In July of 1893, as the stock market hit its postpanic nadir, Anthony Drexel died in Carlsbad, Germany. Pierpont reported himself "stunned" by this new loss: Mr. Drexel was "very dear to me," he told a friend, "and I am at a complete loss to know how I am going to get along without him." He cabled the same message to Walter Burns in London after the funeral, still feeling "dazed and staggered in deciding what best for future." Perhaps Burns would come over to "help me decide."

Morgan's sense of paralysis had more to do with mourning than with basic doubts about his ability to carry on. The economic indicators echoed his mood: "Everything here continues as blue as indigo," he wrote in late July as the country slid from panic into depression: "hope we shall soon have some change for the better, for it is very depressing and very exhausting."

He virtually lived on board his yacht that summer, anchored in the Hudson River off 23rd Street or cruising up the Atlantic Coast to Newport and Maine with Edith Randolph. After consultation with Walter Burns, he arranged for Drexel's estate to leave the partnerships as they were for a year, so that he would not have to close out the holdings in an economic downturn.

Chapter 17

ROMANCE

Fanny had spent most of the summer of 1893 at Cragston, although she went to Bar Harbor for two weeks in late July, noting the presence of "Mrs. Randolph" in her husband's *Corsair* parties without comment. She left many of her diary's pages blank in the first months of 1894, but reported from time to time, "Pierpont dined home," "Pierpont dined out," "had a treatment . . . & book keeping lesson." On April 15 she wrote: "Spoke with P. about Mrs. R."

Whatever she said to her husband that day, she never mentioned Mrs. R. in her diary again. She went to Europe for the summer of 1894 with Louisa and Anne, and after she returned, Pierpont no longer saw Edith in her presence.

"Why does the wife of a certain wealthy man always go to Europe about the time he returns home, and *vice versa?*" wondered *Town Topics* in July of 1895. The editorship of this gossip chronicle had passed in 1891 from its publisher/owner, Eugene Mann, to his brother, Colonel William D'Alton Mann, a Civil War hero and cheerful swindler who used the paper to blackmail prominent men. The colonel's method was to detail some illicit behavior without specifying the transgressor, print the name in a paragraph nearby, and wait to be paid for silence. When he posed his question about the wife of a wealthy man in July 1895, he mentioned Mr. and Mrs. Pierpont Morgan and Edith Randolph in unrelated stories on the preceding page.

Mann knew that his success as journalist and blackmailer depended on getting facts right—he once fired an assistant for leaving the "h" out of Rhine-

Grover Cleveland.
(Culver Pictures, Inc.)

Chapter 18

POLITICS OF GOLD

Morgan's defense of the gold standard in the 1890s, hugely unpopular in the anguished South and West, established his image there as a "great financial Gorgon." As in the currency fights of the seventies, each side from its own point of view was right. Farmers, workers, and small businessmen who suffered under economic stringency were desperate for easier money simply to survive. Eastern bankers and government officials, guarding the European sources of capital for the still-emerging U.S. economy, were determined to protect the westward flow of money by keeping the dollar strong.

The United States was running a trade deficit in the early nineties, and the repeal of the Silver Purchase Act had not stanched the flight of gold: foreign investors, worried about rising U.S. demand for cheap money, continued to sell American securities and take the proceeds home. "Few people have any idea of the amount of property of every description in this country that is held by foreigners," wrote National City Bank president James Stillman to a Treasury official in July of 1894. Between 1890 and 1894, nervous creditors unloaded $300 million worth of American securities and transferred gold abroad.

By the end of 1893 the Treasury's $100 million gold reserve had fallen below $60 million. Since there was no income tax and the government had no power to issue money, the Treasury had to buy or borrow gold in order to maintain its reserve—and its ability to borrow depended on foreign confidence in the dollar.

President Cleveland and his Treasury Secretary, former Kentucky Senator and Speaker of the House John G. Carlisle, had tried in 1894 to shore up the gold supply by selling bonds. Several New York commercial banks took a $50 million issue in January, which restored the reserve to $107 million, but by November $46 million of it had disappeared. Another bond issue in November—this one sold through Drexel, Morgan—raised $50 million more.

By the end of the year it was clear that the concerted efforts of Cleveland and Carlisle could not keep the government in gold. In what amounted to an international run on the Treasury, an estimated $84 million left the country in the last three months of 1894. At the beginning of 1895 the nation watched in fascination as its gold reserve fell to $68 million on January 24 and $45 million a week later. Stock prices plummeted as Europeans sold American holdings. By early February the Treasury was losing over $2 million a *day*. At that rate, the government would have to stop payment in gold and default on the national debt in three weeks.

Cleveland tried to get congressional authority for a new issue of gold bonds, but at the height of the depression, sentiment in both houses was running high for silver and against the "goldbugs" on Wall Street and in the White House. Congress refused to authorize a bill that would strengthen gold.

Morgan had seen this crisis coming for years. If the Treasury reneged on its debt, he expected the financial markets to collapse and U.S. borrowing costs to soar. To avoid that disaster he had been quietly working with Treasury officials all along. Connecticut Representative Louis Sperry, on the House Banking and Currency Committee, asked him on January 1, 1895, whether a new bond issue would restore confidence and relieve the Treasury of the present emergency: "If so," Sperry wrote, "I'll say so to the House of my own information, knowing you don't like to be quoted, and would not use your name."

The head of the house of Morgan did not like to be quoted in part because any mention of his name in connection with these matters would heighten public antipathy to Wall Street. Cleveland told Congress on January 28 that regardless of the ongoing silver debate, the only way to restore urgently needed public confidence was to pay the Treasury's obligations in gold, and the only way to procure the necessary gold was to sell bonds. Silverites, convinced that the entire "supposed emergency" had been trumped up by eastern plutocrats, demanded to know why the shortage could not be made up in silver.

Perhaps to keep Morgan's name out of the public eye—and because any successful bond sale appeared to require foreign capital—Cleveland asked the English Rothschilds through August Belmont, Jr. (the senior Belmont had died in 1890), about syndicating a $100 million Treasury loan. Nathaniel Mayer Rothschild immediately called in Walter Burns, who cabled Morgan, and on January 30, Assistant Treasury Secretary William Edmond Curtis took a train to New York to confer with Belmont and Morgan. Lord Rothschild insisted, and

the Morgan firms agreed, that in order to succeed abroad a new loan would have to be payable in gold or pounds sterling, but the administration could not sell gold bonds without authority from Congress, which it was unlikely to get.

Morgan cabled Burns of the unfolding drama: "situation . . . is critical & we are disposed do everything our power to avert calamity." He felt sure that another domestic bond issue would not work, since Americans would simply withdraw Treasury gold to buy the new government paper, leaving the Treasury with more debt and no more gold. Only a new supply of gold from Europe could restore confidence in the Treasury and stop the drain. If all these conditions could be met, Morgan concluded, an international loan would be "most creditable all parties & pay good profit. We can secure cooperation best parties this side including leading National Banks."

As he saw it, his efforts to stem the drain, avert default, and restore confidence in the dollar would protect the billions invested in the United States and reopen the channels for foreign capital: "We all," he reminded his brother-in-law, "have large interests dependent upon maintenance sound currency U.S."

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While the bankers and Treasury officials conferred, rumors reported on default and secret rescue plans. A broker who saw Morgan emerge from the New York Subtreasury building with Curtis ran onto the floor of the Stock Exchange shouting, "The Treasury is negotiating a loan." The panic subsided at the hint of Rothschild/Morgan action, and withdrawals stopped. Nine million dollars in gold taken out for shipment abroad one night was actually returned to the Treasury coffers the next morning.

As in his railroad reorganizations, Morgan was not willing to take full responsibility unless he had full authority. When other bankers put in for participation in these negotiations, he wired Treasury Secretary Carlisle that his own house and Rothschilds would underwrite the new issue alone.

For the next few days, Assistant Secretary Curtis shuttled between Washington and New York discussing rates and terms for a bond sale that would bring in $100 million worth of gold, while Congress and the press grumbled about "dark-lantern financiering" and a conspiracy between the Treasury and Wall Street. Grumbling notwithstanding, the fact of the bankers' negotiations continued to assuage public anxiety. Morgan cabled Burns on February 3: "Effect of abandonment upon all interests would now be worse than if never begun."

Then suddenly on Monday, February 4, when he thought everything was firmly settled except the exact amount of the loan and price of the bonds, Morgan got a letter by special messenger from Secretary Carlisle canceling the negotiations. The Secretary, a former silverite who had all along been reluctant to deal with Wall Street, declared the syndicate's terms too harsh: the President would force Congress to authorize gold bonds for sale directly to the public instead.

Whether Carlisle was angling for a better deal or seriously meant to cancel, Morgan thought this news would bring on a crisis in public confidence and a crash in the markets. He telephoned the Treasury to ask for a day's delay in announcing the change: he and Belmont would go to Washington to confer personally with the Secretary and the President.

Belmont left immediately. Morgan followed a few hours later accompanied by Bob Bacon and Frank Stetson, the President's former law partner. Just before leaving, he sent Burns a gloomy wire: "We consider situation critical, politicians appear to have absolute control. We shall make strongest possible fight for sound currency, if fail & European negotiations abandoned it is impossible over estimate what shall be result U.S. . . . Must admit am not hopeful."

War Secretary Daniel S. Lamont, one of Cleveland's closest advisers, met the Morgan party at Washington's Union Station. He said the President was determined to force an issue of public bonds through Congress and would not meet with the bankers.

Although it was late, Morgan dropped his bags at the Arlington Hotel and went with Lamont, Bacon, and Belmont to see the Attorney General, Richard Olney, at home. "All were much wrought up," recalled Olney, a former Massachusetts corporate lawyer who had known Bob Bacon in Boston, "and anticipated, apparently with reason, that unless something were done the next day to save the situation, great financial and commercial calamities must follow." Morgan told the Attorney General he had a plan, but if Cleveland refused to see him he would return in the morning to New York.

Olney telephoned the President and persuaded him to set up a meeting with the bankers at nine-thirty the next morning. Returning after midnight to the Arlington, Morgan cabled Burns: "Still some hopes but small, have strong allies in Cabinet but greatest fear Secy Treasury[;] will do our best." He sat up alone in his hotel room for another hour, smoking a large Rosa de Santiago Celestiale and playing out rounds of solitaire.

Right after breakfast on Tuesday morning, flanked by Stetson and Bacon, Morgan crossed a chilly Lafayette Park to the White House. Ushered upstairs to the library that served as the President's workroom, the representatives of J. P. Morgan & Co. found Cleveland, Treasury Secretary Carlisle, Attorney General Olney, War Secretary Lamont, and August Belmont.

The banker, his "Attorney General," and the President knew each other well, but Cleveland greeted his guests with formal reserve. He had Olney settle the New Yorkers in a corner of the room.

While the President's men conferred among themselves, Morgan sat silent, rolling an unlighted cigar between his fingers. Every few minutes a message came in for Carlisle. One telephone call reported just $9 million of gold left in the New York Subtreasury.

After what seemed like hours, Cleveland rose from his desk with a distracted air and crossed the room to address the bankers. Standing before them with his hands in his pockets, he insisted once again that he would not discuss a bond issue. Congress was holding him up, he said, and he wanted the public to know exactly where the blame for the present crisis lay.

Morgan replied that there were outstanding drafts on the New York Subtreasury for $12 million, against $9 million in gold: if the drafts were presented that day, the government could not pay—it would have to default on its debt and destroy its credit. There was no time for congressional approval or a public sale of bonds, he said. Something had to be done.

"Have you anything to suggest?" Cleveland asked at last.

Accustomed to taking charge at moments of crisis, Morgan had been holding himself back all morning with great effort. Now, he quickly sketched out a plan. A new public issue of bonds, which Congress probably would not authorize, could not in any case work, since it would simply recycle domestic gold. Instead, a syndicate of international bankers could provide the Treasury with a new $100 million reserve.

Morgan reported that a statute enacted in 1862 had authorized Civil War Treasury Secretary Salmon Chase to buy coin with U.S. bonds as an emergency measure in the public interest. If the loan he had in mind were considered a purchase of coin rather than a sale of bonds, it would not require congressional approval. Under the 1862 law, Carlisle ought to have the same power Chase had had to buy gold.

Cleveland sent Olney out to look up the statute, and the Attorney General returned a few minutes later to read aloud the Act to Authorize the Purchase of Coin of March 17, 1862, from Section 3700 of the Revised Statutes. It provided exactly the authority Morgan described, and it was still in force. Cleveland asked his chief law officer whether the act would allow the Treasury Secretary to buy gold in the present emergency and replenish the federal reserve. Olney thought it would.*

The tension that had held the room in its grip all morning suddenly broke. Cleveland, Carlisle, and Morgan immediately started to work out terms, al-

* Accounts of this meeting differ as to whether it was Morgan or a member of the administration who proposed the 1862 statute as a solution. Some claim that Morgan simply recalled the law as he sat in the President's library with the minutes ticking down, although that scenario seems unlikely. He had been worrying for months about the impending crisis, and had told Olney on Monday night that he had a plan. It seems more likely that Stetson or one of his partners had found the old law on the books and provided Morgan with the

though the President insisted that they keep the negotiations secret, since Congress was scheduled to vote two days later on the issue of public bonds. No one present expected the measure to pass, but given the politics of 1895, Cleveland had to avoid any appearance of collusion with what the silverites considered "goldbuggery and Shylockism." The government could turn to Wall Street only after it had exhausted every other remedy.

The crucial feature of the negotiations concerned the continuing gold drain. Could Morgan guarantee that the new metal would not immediately be shipped abroad? the President asked.

He could, nodded the banker, without consulting London or even Belmont across the room. In the past, his father had excoriated him for making instantaneous, autocratic decisions. Now, Pierpont had only himself to answer to, and he promised to protect the Treasury from further withdrawals—in effect, to control the international markets for gold and foreign exchange during the life of the contract. It was an extraordinary warranty, and it substantially strengthened his hand.

The bankers and administration agreed that the government would buy 3.5 million ounces of gold coin from the syndicate at $17.80 per ounce, in exchange for $62 million worth of thirty-year bonds paying 4 percent interest—bonds that could ultimately be redeemed in gold or silver coin at the discretion of the government. Since the value of gold at the time was $18.60 per ounce, the bankers were selling the government $65.1 million in gold in exchange for $62.3 million in bonds; in effect, they paid a $3 million premium, buying each $100 bond for $104.5, at a yield of 3¾ percent.*

information he brought to the White House; that, after all, was what Morgan had first-class lawyers for. A week after the meeting, Stetson sent Cleveland a list of references to the 1862 debate "out of which has emerged the present section 3700 of the Revised Statutes."

What was there to gain from telling the story as if Morgan simply remembered the obscure law on the spot? It clearly made for better drama, and also indicated no premeditation on anyone's part. Both the bankers and the White House came under fierce attack for the 1895 loan, and participants on both sides had every reason to emphasize in retrospect the improvised nature of the proceedings. In March, after the first round of censure, Stetson told Cleveland that "your last public service is beginning to be seen aright; were it otherwise I should not cease to regret that even incidentally I was the occasion of drawing upon you criticism where you should have had only grateful praise."

* Morgan had expected to make a $100 million loan in exchange for bonds paying 3⅝ percent. Cleveland and Carlisle ultimately agreed to the higher 3¾ percent rate, but not on a full $100 million. Over Morgan's protest they reduced the amount of the loan to $65 million—just enough to restore the reserve to $100 million. Cleveland later said he thought Morgan had been right: the government should have taken the full $100 million to give the Treasury a healthy surplus—"and I have always since regretted that [Morgan's 'wise suggestion'] was not adopted."

Morgan was able to get a lower purchase price (i.e., a higher yield) than he expected because he knew exactly how desperate the situation was, had access to the capital that offered a solution, and could promise, at least in theory, to make the solution work. The Treasury agreed to give the bankers a large spread—the difference between the price the syndicate paid and the price it could charge the public—in exchange for urgently needed gold and protection of the federal reserve. The syndicate would have six months to complete the contract, and would procure half the new gold abroad at a rate not exceeding 300,000 ounces a month.

The meeting ended at 2:00 P.M.—it had lasted four and a half hours—and when Morgan stood up, a fine brown powder drifted from his lap to the floor. He had all morning been grinding the unlit cigar in his hand into dust. Cleveland laughed and handed around a box of fresh cigars.

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"Impossible convey any just idea of what I have been through today," Morgan cabled Burns from the Arlington Hotel later that afternoon, "but we have carried our point & are more than satisfied." The new plan "will we think inspire confidence & act as an indicator that the U.S. Govt will buy gold when & where needed to maintain its Credit."

He took an evening train to New York, arriving late Tuesday night. Two days later, as expected, Congress defeated the bill to issue public bonds. Morgan returned to Washington on Thursday, February 7, in a heavy blizzard, to conclude the negotiations. He wired Burns on Friday: "Have just left Treasury Department, homeward bound. Could not have better document." He and Belmont would have "absolute control sales U.S." The Rothschilds and J. S. Morgan & Co. would have the same in London.*

* In a retrospective account of these events, Cleveland dated his initial meeting with Morgan three days later than it actually took place, making it seem as though he had negotiated with the bankers only after Congress rejected the public bond issue on February 7. In fact he had carefully worked out terms for the private loan before the congressional vote.

On Friday, the eighth, he sent a message to Congress announcing the terms of the deal. He had reserved the right to substitute 3 percent gold bonds at par for the 4 percent coin bonds selling at a premium—bonds that might ultimately be redeemed in silver—if he could get congressional authority within ten days of signing the contract. The full 1 percent difference in yield indicated that investors would have been willing to earn substantially less interest for guaranteed payment in gold. Substituting a gold bond bearing lower interest would have saved the government $16 million, but congressional silverites rejected the alternative and gave up the $16 million. Morgan would have been delighted to substitute a 3 percent bond payable in gold for precisely the reason Congress refused it—it would have substantially strengthened the country's commitment to gold.

London and New York each took half of the $62 million issue, and applications for syndicate participation were overwhelming. In the United States, Morgan and Belmont allotted their own firms about $2.7 million each, and gave large shares to George Baker's First National Bank, James Stillman's National City Bank, the United States Trust Co., and Harvey Fisk & Sons. They allotted lesser amounts (under $1 million each) to Standard Oil, the Mutual and the Equitable life insurance companies, and private banks including Winslow, Lanier; Kuhn, Loeb; Lazard Frères; Kidder, Peabody; Brown Brothers; and Morton, Bliss. The life insurance companies and Standard Oil, the only industrial firm in the syndicate, had so much available capital that they acted like banks.

On February 20, twelve days after signing the contract with the government, J. P. Morgan & Co. offered the bonds for sale at 112¼—nearly eight points above the syndicate's purchase price—and sold out the entire issue in twenty minutes. "Subscriptions something enormous," Morgan cabled his London partners. The issue was heavily oversubscribed, with a total bid of almost $200 million. J. S. Morgan & Co. in London had the same experience, closing its books after two hours with bids amounting, not including Rothschild's figures, to $100 million.

"We are quite overwhelmed by success of transaction," continued Morgan to Burns the next day. "We send you our deepest heartfelt congratulations. You must appreciate the relief to everybody's minds for the dangers were so great scarcely anyone dared whisper them."

A week later the price of the bonds in New York climbed to 124, which suggested that the initial offering could have been priced higher. Yet as it was, the public objected to unconscionable Wall Street profits; the criticism would have been even louder had the opening price been higher.

Morgan's messages to Burns recall Junius's remark about duty being a word whose definition could be made to conform to almost anything one *wants* to do. Pierpont preferred to have railroad companies and national economic affairs run smoothly on their own, and when they didn't—they often didn't—he complained of the responsibilities thrust onto his shoulders by a troublesome world. He rarely acknowledged how much he enjoyed being the man to whom other people turned in an emergency. Some years after the gold crisis, discussing his various rescue operations with his librarian, he highlighted this view of himself as reluctant hero, observing: "Sometimes I had to *take* command but it was always because there was no one else to do it."

"Perhaps there was no one else who *could* do it," she obligingly suggested. He nodded: *"Vous avez raison."*

With the 1895 bond issue placed, gold on its way to the Treasury, and congratulations exchanged, Morgan turned to the harder part of his job—protecting the new reserve from withdrawals. The day before the bonds went on sale he had cabled Burns: "Whole transaction promises large profit but what is much more essential now that profit secured is to show public that our promises made at the time of the negotiations will be fulfilled & that our influence is powerful enough to maintain so far as possible Treasury gold reserves."

He could not reverse the trade deficit or stop the legitimate payment of gold for imported goods. He could and did, however, sustain the reserve by other means. At the outset he had set aside $3 million in bonds to sell as necessary to protect the exchange market, and a reserve of $10 million in gold to cover Treasury withdrawals. When people traded paper currency for gold, the syndicate replaced the gold, effectively providing the government with another $25 million—$15 million more than Morgan had anticipated with his $10 million reserve. The bankers took paper notes in exchange, but since the notes did not pay interest, the syndicate lost income on these substitutions. Morgan also set up a credit fund in Europe so that American traders buying foreign products could pay for them on credit rather than ship gold from New York.

And he intervened in the foreign-exchange markets, borrowing pounds in London and selling them in New York to prop up the dollar. Having allotted syndicate participation to the major traders in foreign exchange on condition that they not sell gold below a set price, he managed temporarily to offset the law of supply and demand. It was a classic Morgan consortium, with each party having a vested interest in a common end—in this case, protecting the Treasury against further loss of gold.

Morgan was in his element with the foreign-exchange campaign. Ever since his first trip abroad at age fifteen, he had been fascinated with the prices of money in different markets. Clerks at his Wall Street office brought him hourly reports of currency quotations, and at home over breakfast he got the figures from London by wire or phone. He monitored exchange markets the way a doctor takes a pulse, gauging the pressure in the financial arteries of nations. Through this information he could predict roughly what was going to happen to various currencies, and, reported his son-in-law Herbert Satterlee, "personally conducted considerable operations in exchange"—arbitrage operations, buying money in one market and immediately selling it in another to profit from the discrepancy in price. He used these diagnostic skills in 1895 to keep other people from speculating in Treasury gold.

To the surprise of skeptics on both sides of the Atlantic, his strategy worked. The $32.5 million in gold pledged by the American syndicate was delivered within a few weeks. The dollar's value held. Gold not only stopped leaching out of the Treasury—throughout the spring of 1895 it flowed steadily in. By the end of June the Treasury's reserve stood at $107.5 million. And as Morgan had hoped, the loan's success brought European capital back into U.S. markets.

It also amplified public perceptions of his power. The New York *Sun* attributed the restoration of foreign faith in America's credit entirely to Morgan. When he returned from his annual spring trip abroad that June, he not only had sold millions in U.S. securities through his own firms, reported the *Sun*, but had "revived a confidence in the wealth and resources of this country that has made a market for issues of securities of corporations with which he has no connection."

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"I support Pierpont Morgan for President on a distinct gold monometallic platform," announced Henry Adams that June. To this Cassandra of America's economic politics, the country in 1895 consisted of two elements—borrowers and lenders of money—with the latter incontrovertibly in command. Adams, whose private income depended on the lenders, saw Morgan as the incarnation of capital, the gold standard, and America's financial dependence on England—all of which he regarded with antic dismay: "As a man of sense," he continued by mail to his brother Brooks, "I am a gold-bug and support a gold-bug government and a gold-bug society. As a man of the world, I like confusion, anarchy, and war."

On the sidelines Adams kept switching sides, concluding one minute that "the gold-bugs are not likely to lose the fight. They can't"—and the next that the syndicate would not be able to fulfill its obligations under the government contract, much less carry the country through the 1896 election.

With regard to the contract, Adams was partly right. The syndicate failed to provide the government with the full $32.5 million in gold it had pledged to deliver from Europe. During the six-month life of the contract, some of the foreign investors who had agreed to buy bonds reneged on their commitments—probably because of the depression, unresolved U.S. currency questions, and new corporate bankruptcies. When the bankers made their final gold delivery to the Treasury on June 24, they had imported just $15.75 million, less than half the amount promised. Secretary Carlisle allowed them to modify the contract and eliminate the import requirement. Syndicate members made up the difference from their own domestic reserves.

Morgan had insisted in February that public confidence could be restored only if half the coin came from abroad. As it happened, everyone *thought* the gold was coming from Europe, which in itself restored public equanimity. In financial markets, confidence can be as good as gold.

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The sale of gold to the government involved significant risk. If the markets had not taken the bonds at or above the purchase price, syndicate members would have had to hold or sell them at a loss. Had the bankers failed to come up with $65 million in gold, had Morgan been unable to protect the reserve, had the trade deficit grown, a renegade currency trader broken ranks, or the country repudiated the gold standard, the whole operation could have gone off track.

To Morgan, those risks were worth taking because of the greater danger posed to the national economy by government default and the related threat of currency devaluation. All the foreign investment in the United States—much of it represented by the house of Morgan—depended on gold's disciplinary "rule of law." Morgan couldn't afford *not* to take the action he did in 1895. As he had cabled Walter Burns at the outset, "We all have large interests dependent upon maintenance sound currency U.S."

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The people who suffered most under the economic stringency of the nineties were outraged by the bankers' gold bond issue. Rumors put the syndicate profits at $5 million to $18 million. A Farmers' Alliance publication denounced the "great bunco game" that had cheated the American people out of more than $8 million in bankers' profits while adding another $62 million to the national debt, and called for a revolution against the vampires of the financial trust.

The Rothschilds' participation provoked a display of the anti-Semitism that has animated xenophobic populism of the left and right throughout American history, reflexively linking issues of money and credit with Jews. William Jennings Bryan ordered the House clerk to read Shylock's bond, then demanded "that the Treasury shall be administered on behalf of the American people and not on behalf of the Rothschilds and other foreign bankers." Pulitzer's *World* complained that a "Wall Street conspiracy" of foreign aliens and bloodsucking Jews had robbed the country of millions in twenty minutes. Mary E. Lease, a populist writer who advised farmers to "raise less corn and more hell," denounced Cleveland as "the agent of Jewish bankers and British gold."

With the archfiend Rothschild far away across the Atlantic, his accomplice in New York took the brunt of American wrath. "The abuse poor Morgan has received, is receiving, and is likely to receive," wrote a Brown Brothers partner to his London office at the beginning of March, "is both outrageous and discouraging." In mid-March, exhausted by the syndicate work and public attacks, Morgan reported himself to Walter Burns as "completely worn out hardly fit for business."

No President for two decades forgot the intensity of public outrage at Washington's deal with Wall Street. Cleveland published an account of the episode nine years later, using the language of his accusers with heavy irony: "Without shame and without repentance, I confess my share of the guilt" in the "crime charged," he wrote, "and though Mr. Morgan and Mr. Belmont and scores of other bankers and financiers who were accessories in those transactions may be steeped in destructive propensities, and may be constantly busy in sinful schemes, I shall always recall with satisfaction and self-congratulation my collusion with them at a time when our country sorely needed their aid."

Some of the press took a sympathetic line. Villard's *Evening Post* said in February of 1895 that the bankers and the President had acted to allay an unprecedented "emergency in public finance," while Congress stood by "like a lot of boys playing with dynamite." *The New York Times* reported that "the admiration of the financial world is turned upon [Morgan's] masterly management of the loan": no other banking house "could have pledged the power now behind the contract, to keep the Treasury reserve intact, and investors large and small would not have trooped so willingly for possession of the bonds except for the safeguards thrown about them and about the gold reserve." The syndicate had earned its profits, concluded the *Times*—no corporation could have "put the business of the country on its feet for $5,000,000."

In fact, the syndicate earned far less than $5 million on the transaction. It had pledged to deliver $65 million in gold in exchange for $62 million in bonds. The American group as a whole netted about $1.5 million—just under 5 percent of the $31 million U.S. half of the issue—plus roughly $500,000 in interest (not generally calculated as profit) on the securities. J. P. Morgan & Co.'s share of the American profits came to $131,932; the firm's total earnings from the operation, including interest and half of the U.S. management fee, were $295,653.*

In view of the amounts these bankers regularly handled and the specter of federal default, the American syndicate's $1.5 million earnings were relatively modest, yet even that figure would have been seen by their political opponents as robbery. When the Senate investigated the transaction the following year, Morgan refused to discuss his fees. He regarded a private banker's earnings and losses as private. Testifying in June 1896, he was questioned first by the probusiness New York Republican boss (now Senator), Thomas Collier Platt, and then by an ardent silverite, George Vest of Missouri.

* The Morgan and Belmont firms earned a ¾ percent commission for managing the loan, paid out of the syndicate account, which came to $116,841 each. Pierpont also received 40 percent of the London house's profits. Total figures for the European syndicate are not available, but J. S. Morgan & Co.'s earnings came to £18,400, or about $89,424.

Platt, endorsing Morgan's declaration that he had acted out of large, public motives, concluded: "And so your real purpose, as I understand you, in this transaction was not the idea that you could take this bond issue and make money out of it, but that you could prevent a panic and distress in the country."

Morgan: "I will answer that question, though I do not think it necessary, in view of all that I have done. I will say that I had no object except to save the disaster that would result in case that foreign gold had not been obtained."

Senator Vest asked, "If that was your sole object, why did you specify in your telegraphic communication to Mr. Carlisle that your house, or you and Mr. Belmont, were to have exclusive control of the matter?"

Morgan: "Because it was absolutely impossible for more than one party to negotiate—to make the same negotiation for the same lot of gold. It would only have made competition."

A skeptical Vest: "If the gold was abroad I take it for granted that anybody could get hold of it who had the means to do so. If you were actuated by the desire to prevent a panic, why were you not willing that other people should do it, if they wanted to?"

Morgan. "They could not do it."

Theoretically, investors with access to good information buy securities on the merits. Yet taking into account the condition of the Treasury in 1895, unresolved currency questions, and the weakness of the Executive Office, Morgan thought large numbers of investors would buy bonds only if his name was on the deal.

He did what he did. It made sense to him. He insisted on control. He would not go into particulars. To his antagonists at the time and since, this reasoning seemed arrogant and self-serving. Yet his claim in response to Vest's last question—that other people "could not do it"—was probably true. Another banker might have raised $65 million in gold, but probably no one else could have managed the markets and the men involved in them for six months as effectively as Morgan did. His power lay in his willingness to take on this kind of risk and responsibility, his knowledge of markets, his access to capital, and the record that had earned him the confidence of the world's leading financiers.

Grover Cleveland years later recalled that when the syndicate contract expired he asked Morgan how he had known he could "command the cooperation of the great financial interests of Europe?"

"I simply told them that this was necessary for the maintenance of the public credit and the promotion of industrial peace," Morgan replied, "and they did it."

An inadvertent witness at the time testified both to the dubious profitability of the loans and to the unquestioning trust the international financial community now placed in Morgan. The London firm of C. J. Hambro & Son, on being offered a share in a new bond issue in January of 1896, told the Morgan bank that under present circumstances it did not have much hope of profits on the business, but would nonetheless "readily subscribe if you in any way wish."

Other bankers did what Morgan told them to do because he was working for them all, to maintain the dollar's value and the international credit of the United States. The President had not been able to stop the gold drain or calm the agitated markets in 1895, and Congress wouldn't. Morgan alone seemed to have the power, motive, and will to end this crisis.

Contrary to his assertions before the senators, he had been careful from the outset to secure the syndicate's profits—partly because he was in business for profit, and partly to offset the expenditures he would, and did, have to make to protect the reserve. In the political climate of 1896, however, he could not make that obvious point in public.

Once again, he did not question the equation of his own and the country's best interests. The acute distress of farmers and workers probably seemed to him an unfortunate but inevitable side effect of business-cycle downturns, tight money, and rapid industrialization, and he was trying on several fronts to get the entire economy back on course. His own short-term profits in issuing the 1895 loan were immaterial next to the long-term growth that depended on stable U.S. credit, and it was in that light that he saw himself as having averted national disaster.*

Just a few weeks after the syndicate contract expired in the summer of 1895—as Colonel Mann reported on the swirling Atlantic "nor-wester" involving a beautiful widow (Edith Randolph), a potential Democratic presidential candidate (Whitney), and an eminent financier (Morgan)—gold exports and the flight from the dollar resumed: further railroad bankruptcies and the prospect of more struggle over the U.S. currency prompted European investors once again to sell American stocks. The syndicate supplied the Treasury with another $2 million in gold, but a dejected Morgan cabled Walter Burns from Newport: "We must acknowledge defeat[,] accept the situation and lose prestige attained. Subject deepest regret to me for unfortunately I seem to be personally held [responsible] by public for whole business."

* It is impossible to say what would have happened if Morgan had not intervened in 1895. Going off the gold standard would probably have escalated the flight of foreign capital, as he feared, leading to a market collapse, a deeper depression, and an increase in unemployment, but it probably would not have derailed the essentially vital U.S. economy for more than a few years. Milton Friedman and Anna Schwartz have characterized the 1893 panic and subsequent depression as "at bottom simply the way in which an adjustment, forced by other considerations, worked itself out." World gold prices dropped 11 percent between 1891 and 1897, and as long as the United States remained on the gold standard, it had to reduce prices and income accordingly. Unlike Morgan, however, Friedman and Schwartz do not think it would have been economically undesirable for the United States to abandon the gold standard: "On the contrary, our own view is that it might well have been highly preferable to the generally depressed conditions of the 1890s. We rule it out only because, as it turned out, it was politically unacceptable."

Burns replied, with unintended comic understatement, "You cannot control US balance trade"—and tried to cheer his brother-in-law up: "Do not feel unhappy, our prestige firmly established by what you have done already."

The gold reserve fell from $93 million in late September to $50 million by the end of January 1896. Morgan met quietly with Cleveland and Carlisle at the White House the day before Christmas, 1895, to discuss ways of protecting the money supply. Returning to New York that night, he began organizing a new international group to furnish the government with gold. The press, led by Pulitzer's *World*, promptly attacked him and his syndicate of thieving "sharks."

On January 4 Morgan wrote to the President "with great hesitation," but "the gravity of the situation must be my excuse." His recent visit to Washington had convinced him that Congress would not act, as he delicately put it, to "improve the methods at the disposal of the Executive." Since Cleveland's hands were tied, Morgan offered to raise another $200 million in gold: "I do not hesitate to affirm, in fact to urge that such a contract would in every way be for the best interests of the Government and the people." Still, he knew that political opposition might prohibit another private loan. If Cleveland had to resort to a public bond issue, Morgan would "pledge to you every influence and effort in my power to assist the Government" and make the sale succeed.

Cleveland's potential successor, William C. Whitney, urged the administration to work with Morgan on a new loan: "Personally," he told War Secretary Daniel Lamont, "I think it very fortunate there is such an alliance to be had by the Government as Morgan & his great power. . . . If I were the President whatever I did I should do with Morgan—It will fail of the effect otherwise."

Public sentiment that winter ran higher than ever against the syndicate. Henry Adams, writing at the end of 1895 to his brother Brooks, lumped together "Lombard Street, Wall Street, State Street, and all the other Judengassen" now running the world. Brooks in turn denounced Wall Street as "the final result of the corruptest society which ever trod the earth. I tell you," he wound up, in a tirade that might have made Morgan, had he seen it, chuckle—"Rome was a blessed garden of paradise beside the rotten, unsexed, swindling, lying Jews, represented by J. P. Morgan and the gang who have been manipulating our country for the last four years."

Even men who might have been expected to trust Morgan sided with his critics. The Reverend Endicott Peabody, the Groton headmaster who had enlisted the financier's help in the founding of his school, did not "at all like Cleveland's giving out this new loan to Mr. Morgan," he told a friend early in 1896: "Nothing is more calculated to bring out dissatisfaction in the West—and it does not seem to me altogether above suspicion. I can't quite understand a man like Mr. Morgan making money out of his country's need. . . . The fewer of such men we have in this country the better I say. Dullness which is contented with smaller profits is better in the long run."

As the din of condemnation swelled to a roar, Walter Burns cabled his brother-in-law from London: "I cannot bear thought your incurring such obloquy and annoyance as you had before for profit which at best doubtful and mostly reaped by others. Only object doing business is patriotism and gaining national credit."

Morgan replied: "You have no idea situation here personal to myself from certain classes politicians others who desire wreck everything. Am watched & followed attacked papers—hence necessary very careful."

Cleveland and Carlisle decided against a second private contract. On January 6 they announced a public sale of bonds to raise $100 million in gold. Morgan dissolved his new syndicate and, as if he were the head of an allied independent state, urged its members to subscribe to the government's loan: "I desire to sustain the Executive to the fullest extent in his efforts to maintain sound currency and the credit of the country," he told them, "for which every loyal citizen should hold him in gratitude."

When an irate Walter Burns declined to share in the loan, Morgan warned that they could not play Achilles: "In view our position here we cannot withdraw and appear to sulk." He put together a smaller consortium to bid for the entire $100 million issue; the government awarded a third to his group. The bonds sold well, which Burns saw as likely to have "great influence restoring general confidence."

Morgan went briefly to Europe that May. Louisa left Fanny in Germany to meet him in Paris on the ninth, noting in her diary, "Father arrived this morning looking very well & seeming cheerful." Morgan *père et fille* dined with friends and shopped at Worth's, then crossed to London. Louisa accompanied friends to Scotland for two weeks while her father tended to his London business. On June 3 she returned to her mother, he to New York: "Dearest Father!" she wrote in her diary, "he has seemed like his old self these last days. The queer strain of this spring was quite gone."

The new gold did not stay in the Treasury. As the fight over the currency continued, the reserve dropped from $128 million at the end of March to $101 million by July, when the Democrats met to nominate a presidential candidate.

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The 1896 election generated greater national excitement than any since the Civil War, and most of it centered on the economy. The Republicans had taken control of Congress by a large majority in 1894, promising economic recovery from the Cleveland-era depression, while Democrats and Populists across the country were voted out. Still, the Populists' numerical tally rose 42 percent between 1892 and 1894. In 1896, the Democratic Party split along sectional lines, just as it had in 1860: this time, agrarian Democrats in the South and West allied with Populists to support silver and oppose the "conspiracy" of goldbugs, led by the apostate Cleveland, in the conservative Northeast.

The leading candidate for the Republican nomination was William McKinley, a former congressman and two-term governor of Ohio. Courtly, heavyset, and handsome—the wide V of his eyebrows gave him the look of an amiable falcon—McKinley had a formidable asset in his friend Mark Hanna, a wealthy Ohio industrialist turned political boss. For more than a year, Republican Party chairman Hanna had been spending all of his time and much of his own money in the effort to put McKinley in the White House.

Because the candidate from Ohio was willing to work for international bimetallism—a double standard of silver and gold—the eastern wing of the party judged him a "Straddle-bug." Hanna called him the "advance agent of prosperity." To Morgan, a president not firmly committed to gold looked like the advance agent of disaster.

Shortly before the Republican convention in June, Ohio banker and state party leader Myron Herrick called on Morgan and found the banker "violent" in his views. According to Herrick, Morgan declared McKinley's waffling on the currency question "nauseating," and said that if the candidate did not have a "backbone of jelly" he ought to come out squarely for gold.

Herrick pointed out that the election was not entirely up to Wall Street: politicians had to answer to larger constituencies, and the country was sharply divided over gold. Political expediency dictated that McKinley hedge now in order to get elected. "If the bankers are on one side and the politicians on the other," warned Herrick, "you will divide the country at the Mississippi, and we shall lose."

To help get the bankers and the politicians on the same side, Herrick arranged for Mark Hanna to meet Morgan on board *Corsair* that night. In the yacht's oak-paneled dining saloon, Morgan delivered an impromptu lecture on the gold standard. Hanna in turn made out the case for McKinley, promised to stiffen the candidate's backbone on gold, and asked his host to help underwrite the campaign. By the time the trio left the yacht late that night, Morgan had agreed to raise money for the Republican ticket. McKinley won the nomination on the first ballot in June, on a Hanna-engineered platform committed to protectionism and gold.

A month later, silver Democrats took over their party's convention in Chicago. They overwhelmingly rejected the Old Guard represented by Cleveland and Whitney, with speeches denouncing gold, the trusts, national banks, the Morgan loan, and the Supreme Court. The "new" Democrats nominated the relatively unknown William Jennings Bryan, on a platform committed to unlimited coinage of silver.

It was at this convention that Bryan delivered his famous speech: "We have petitioned, and our petitions have been scorned; we have entreated, and our entreaties have been disregarded; we have begged, and they have mocked when our calamity came. We beg no longer; we entreat no more; we petition no more. We defy them. . . . Having behind us the producing masses of this nation and the world, supported by the commercial interests, the laboring interests, and the toilers everywhere, we will answer their demand for a gold standard by saying to them: You shall not press down upon the brow of labor this crown of thorns, you shall not crucify mankind upon a cross of gold."

The "Cross of Gold" speech brought the convention to its feet—delegates cheered, cried, shouted, and applauded for thirty-five minutes. Two weeks later, in St. Louis, the Populists also nominated Bryan, with a different vice presidential candidate. Gold Democrats bolted their party. The day after the Chicago convention, 150 Democratic members of the New York Stock Exchange waving American flags marched to the rostrum and put on McKinley buttons, shouting "Down with the red flag" and "up with the Stars and Stripes." The *World* somewhat prematurely concluded that "the sceptre of political power has passed from the strong certain hands of the East to the feverish, headstrong mob of the West and South."

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One Southern Democrat who believed in "the strong certain hands of the East" was a young German-Jewish newspaperman from Chattanooga, Tennessee, named Adolph Simon Ochs. His *Chattanooga Times* had come out squarely for gold, and in the summer of 1896, Ochs made a bid for the country's leading metropolitan newspaper, *The New York Times*. Founded in 1851, the *Times* had been staunchly Republican during and after the Civil War; when its "Mugwump" editors backed Cleveland against Blaine in 1884, however, Republican readers and advertisers defected in droves. Democrats took over the paper, but with poor management and lively competition—especially from the new, scandal-mongering "yellow" press such as Pulitzer's *World* and Hearst's *Journal*—it had gone deeply into debt. By 1896 its paid circulation had fallen to nine thousand and it was losing $2,500 a week.

The combination of Ochs's success in Tennessee, his credible ambitions, his stalwart support of gold, and a letter of endorsement from Grover Cleveland persuaded the owners of the *Times* to sell him a controlling interest in the paper for a quarter of the stock's face value. Next, Ochs asked the principal bondholders, including Morgan, to exchange their securities for new ones paying lower interest. He later recalled his terror at the prospect of approaching the

formidable financier. To his amazement, when he arrived at the inner sanctum at 23 Wall Street, Morgan—who specialized in refinancing debt—rose to greet him, shook his hand, and said warmly, "So you're the young man I have heard about. Now, where do I sign the papers?"

In his first issue as publisher of the *Times* on August 19, 1896, Ochs announced that he would publish the news "impartially, without fear or favor, regardless of party, sect, or interests involved," and would not depart from the policies that distinguished the *Times* as a "non-partisan newspaper—unless it be, if possible, to intensify its devotion to the cause of sound money and tariff reform, opposition to wastefulness and peculation in administering public affairs, and in its advocacy of the lowest tax consistent with good government, and no more government than is absolutely necessary." It was a measure of the moment's moral absolutism that an honest proponent of sound money and small government could call them nonpartisan issues.

Morgan, Belmont, and Jacob Schiff each held $25,000 worth of the *Times*'s $600,000 debt, which the new owners eventually bought back and retired. That the men involved in the resuscitation of the paper shared a commitment to gold was taken for conspiracy. Rumors that Morgan owned *The New York Times* haunted the paper and the banker for years.

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The Populist movement, growing out of the Grange associations, Greenback Party, and Farmers' Alliances, tried to redirect the course of American economic development. According to one of its leading historians, Lawrence Goodwyn, it was "the largest democratic mass movement in American history." Relentlessly squeezed by falling crop prices, high railroad rates, and the rising cost of debt, America's farmers and their urban allies had in the early nineties proposed a range of measures to take power away from the "money centers" and giant corporations of the Northeast, and to expand government authority over finance, transportation, and land. The United States eventually adopted many of those measures, but in 1896 silverites gained control of the Populist/Democratic "fusion," and focused the campaign on a single panacea.

Throughout the summer and fall, Bryan traveled across the country speaking to large crowds. In clear, powerful language he denounced a complacent plutocracy that appeared to be governing the country in predatory self-interest, and promised more money to people who did not have enough—higher crop prices, easy credit, cheaper (silver) dollars available in abundance. His appeal was personal as well as ideological. Ellen Maury Slayden, the wife of a Democratic congressman from Texas, found Bryan's conversation "easy, unpretentious, and amazingly humorous for such a dead-in-earnest person." She thought his hair too long ("the usual weakness of Western statesmen") and his clothes "queer, but I didn't notice them until he was on the stage. I saw only his clear, steel-blue eyes with black brows and lashes, very Irish, his straight uncompromising mouth, and well-kept teeth." He addressed a crowd of Texans with "the most perfect voice I ever heard," continued Mrs. Slayden. "The audience went wild. When he finished people swarmed around him, shaking his hands, touching his shoulders, almost kissing the hem of his garment. How can a man retain his sanity amid such adulation?"

The double nomination of Bryan and his single-minded commitment to silver united the formerly bipartisan conservative establishment. In what amounted to a twentieth-century fund-raising effort orchestrated by Mark Hanna, wealthy individuals, banks, railroads, insurance companies, and corporations contributed roughly $7 million to the McKinley campaign, while the Populist national treasurer took in about a dozen letters a day containing "twenty-five cents to a dollar." Brooks Adams claimed that Hanna got $2 million out of one Boston office building in the first week of August.

Hanna also ran a modern publicity campaign in 1896. He distributed propaganda by the ton—posters, pamphlets, leaflets, banners, buttons—and sent Republican speakers, including former President Benjamin Harrison and New York City police commissioner Theodore Roosevelt, out to rally voters all over the country. McKinley refused to go on the stump, partly on account of his wife's poor health, but also, he said, because "I might just as well put up a trapeze on my front lawn and compete with some professional athlete as go out speaking against Bryan. I have to *think* when I speak." Instead of sending McKinley to the voters, Hanna brought the voters to the candidate's front porch. Pro-McKinley railroads offered such low rates to Ohio that over 750,000 people made the trip—somebody quipped that visiting the Republican nominee was cheaper than staying home.

While the Democrats fanned popular fears of malevolent foreign bankers, Republicans played up the specter of revolutionary anarchy and appealed to widespread anxieties about radical foreign ideas. At the Chicago Coliseum in October, Roosevelt warned an audience of thirteen thousand against people who read Tolstoy, Marx, and Proudhon—and against anyone who "believes that at this stage of the world's progress it is possible to make everyone happy by an immense social revolution."

Just the word "revolution" was enough to unhinge the stock market and renew the Treasury drain. The new Dow Jones average of twelve industrial stocks had opened at 40.94 on May 26, 1896. By the end of August it had fallen over 30 percent, to 28.28.

The day after the Populists nominated Bryan in July, Morgan put together an informal combination of New York's leading international bankers to restrict gold shipments and stabilize the markets for foreign exchange, just as he had done under the 1895 Treasury contract. In effect, he appointed himself extragovernmental Secretary of the Treasury, and Assistant Secretary Curtis applauded his efforts in a private letter home: "The New York people have come up well," Curtis wrote, "& we see the curious spectacle of the U.S. finances being controlled by a committee, of which J. P. Morgan is the Chairman, & the majority of whom are Hebrews, while the Secretary of the Treasury sits, practically powerless, in his office."*

To the Republicans' delight, Bryan focused on silver to the exclusion of all other issues: he did not press for agricultural loans, railroad regulation, or an income tax, nor did he address the troubles of the urban working class. Hanna exulted that the Democratic/Populist candidate was "talking silver all the time, and that's where we've got him." Henry Demarest Lloyd, the author of *Wealth Against Commonwealth*, pronounced free silver "the cow-bird of the reform movement. It waited until the nest had been built by the sacrifices and labour of others, and then it laid its eggs in it, pushing out the others which lie smashed on the ground."

On November 3, McKinley defeated Bryan by 610,000 on the popular ballot, and 271 to 176 in the electoral college. Bryan had won 6,493,000 votes—more than any previous presidential victor—but carried no state north of Virginia or east of Missouri, and not a single industrial urban state. The Republicans won majorities in the Senate and House, and in many state legislatures as well. "If the primary purpose of the old [Democratic] party was a national victory for silver," concludes the historian C. Vann Woodward, "the campaign was a failure. If on the other hand the purpose was the destruction of the Populist party, it was a success." The sweeping Republican victory meant a return to conservatism, an uncontested gold standard, and the dominion of big business, but many of the issues that animated the Populist revolt resurfaced in the Progressivism of the early twentieth century.

The day after the 1896 election, Morgan cabled Walter Burns: "Have won glorious victory—from present returns McKinley has secured 310 Electoral votes at least. Heart full thankfulness."

Burns replied: "Result most gratifying, gives great satisfaction here as evidencing determination maintain country's credit. We congratulate you most heartily & we feel you have contributed largely to the result." Ironically, just as the hard-money men were winning their fight against silver, huge deposits of gold were discovered in Colorado, Alaska, and South Africa. The doubling of the world's gold supply between 1890 and 1914 brought about the monetary easing that Bryan and his supporters desperately wanted. Moreover, a combination of crop failures abroad and a bumper U.S. harvest in 1897 helped

* Once again, Morgan created sufficient capital inflow to forestall a flight from the dollar. Just the formation of a Morgan syndicate virtually stopped the gold drain. At the end of August, when the seasonal export of agricultural produce began to bring in new supplies of gold, the syndicate dissolved without having made a single transaction.

American farmers and ended the trade deficit, bringing in a steady flow of European gold: at the end of that year the Treasury reserve stood at $137 million, and by mid-1898 at $245 million.

From the edge of bankruptcy the U.S. economy recovered, and the country embarked on a new period of expansion. Farm prices rose steadily in the first decade of the twentieth century, as did the price of land—without the benefit of silver, and without the loss of national credit that Morgan had fought to prevent in his long defense of gold.

Chapter 19

ACQUISITIONS AND LOSSES

Morgan turned sixty in 1897. He had emerged from the Treasury gold crises as one of the most influential bankers in the world, to applause in some quarters and vilification in others. The complicated arrangements of his private life were bringing him more pleasure than his marriage had in decades. And he was making a great deal of money. The profits of his American firms rose from $2 million in 1895 to over $8 million in 1899, and his share of those earnings came to nearly $8 million. For the same period in London, J. S. Morgan & Co. posted profits of £622,000, or $3,110,000, to his account. Not including investment returns, he earned about $11 million in five years—nearly half of what his father had accumulated in a lifetime.

The explosion of activity in Morgan's public and private lives over the decade that followed Junius's death would have been remarkable in a man half his age. During the closing years of the Victorian century he extended his railroad consolidations, began organizing industrial trusts, bought four more country properties, built a new yacht, and started in earnest on his second career as collector of art.

In the fall of 1895, a month after *Town Topics* first reported on his liaison with Adelaide, Morgan bought a "fishing box" in Newport. Fanny apparently never saw it. Louisa described it to her many years later as "quaint, and so entirely different from anything suggested by the name 'Newport' that it amuses me greatly." It amused her father to hear that drivers of tour buses stopped

Highland Falls, and eventually built them another next to his own in town. Satterlee adapted to his father-in-law's peremptory ways, and came to share Louisa's solicitude for his health and state of mind. Morgan saw Louisa constantly in New York, but needed a new partner for his travels. After 1900 he turned to his youngest daughter, Anne, and to Adelaide Douglas.

Chapter 20

THE DYNAMO AND THE VIRGIN

With the economy booming, incomes rising, prices falling, a relatively painless recent military victory, eight thousand new "motorcars" driving around the country, and a proud sense of international stature, much of the United States was in an ebullient mood on the eve of the twentieth century. At the Republican National Convention in June of 1900, Senator Chauncey Depew, former president of the New York Central Railroad, declared, "There is not a man here that does not feel 400 per cent bigger in 1900 than he did in 1896, bigger intellectually, bigger hopefully, bigger patriotically, bigger in the breast from the fact that he is a citizen of a country that has become a world power for peace, for civilization, and for expansion of its industries and the products of its labor."

Outside the Republican Convention hall, there were plenty of people who did not feel 400 percent bigger and more hopeful in 1900. Although the ferment over silver had died down, the impetus for social change and radical reform had not. Progressive activists and journalists were beginning to focus national attention on the widening gap between rich and poor, on the problems of cities, political corruption, the rights of women, the depletion of natural resources, continuing racial inequality, and the power of big business. The new Governor of Wisconsin, Republican reformer Robert M. La Follette, gained national prominence pledging to tax corporate property, regulate railroads, and manage public resources in the public interest.

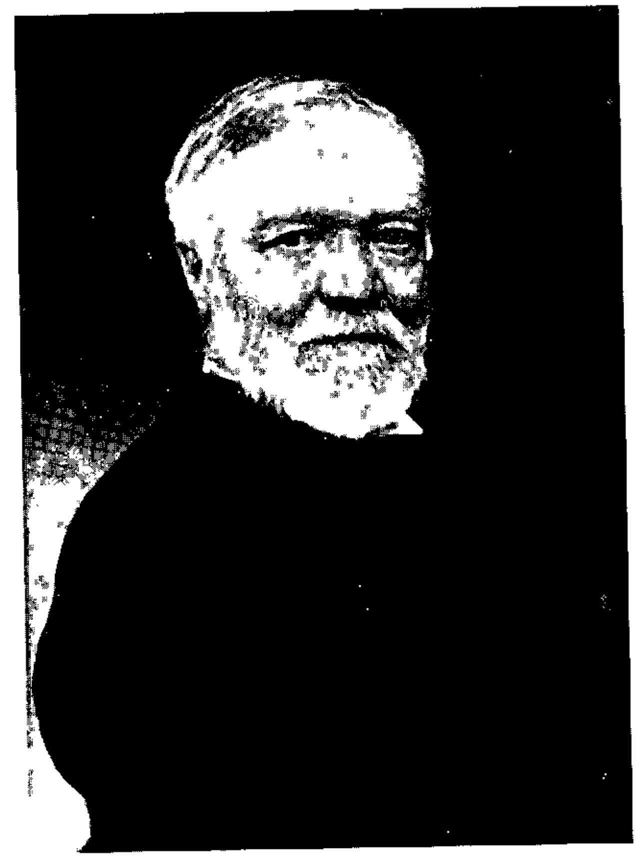
Henry Adams, who felt more at home in the twelfth century than in the twentieth, did not share Depew's centennial triumphalism. After touring the 1900 Paris World's Fair, he genuflected in sardonic awe before the power of technology: "As he grew accustomed to the great gallery of machines," wrote Adams of himself in "The Dynamo and the Virgin," "he began to feel the forty-foot dynamos as a moral force, much as the early Christians felt the Cross. The planet itself seemed less impressive, in its old-fashioned, deliberate, annual or daily revolution, than this huge wheel, revolving within arm's length at some vertiginous speed, and barely murmuring,—scarcely humming an audible warning to stand a hair's breadth further for respect of power,—while it would not wake the baby lying close against its frame. Before the end, one began to pray to it; inherited instinct taught the natural expression of man before silent and infinite force."

Adams then compared this "occult mechanism" for the conversion of motion into energy to an older and higher power: at the Louvre and at Chartres, "the force of the Virgin" was "the highest energy ever known to man, the creator of four-fifths of his noblest art, exercising vastly more attraction over the human mind than all the steam-engines and dynamos ever dreamed of. . . . All the steam in the world could not, like the Virgin, build Chartres."

Unlike Adams, Morgan experienced no moral shock at the force of the new machine. On the contrary, his own energies had for years been helping to drive the industrial dynamo. What little he said about the changes he was setting in motion contained no modernist note of irony or ambiguity and no question about their ultimate meaning. If he perceived conflicts beneath the surface of life at the beginning of the new century, he did not seem to find them irreconcilable. He was subsidizing commerce and art, the modern and the medieval, railroads and Rainsford, the ideas of Darwin (at the Museum of Natural History) and the idea of God.

He left no reflections on the state of the union in 1900, nor on the death of Queen Victoria in January 1901. She had begun her reign the year he was born, and had ruled over the world he knew, as monarch and metaphor, all his life. H. G. Wells said she had sat on England like a great paperweight, and after her death things blew all over the place.

Political conservatives, including Morgan, were relieved to see McKinley reelected in November 1900, with 51.7 percent of the vote. William Jennings Bryan had run again on a Democratic/Populist ticket, but did less well (45.5 percent) than he had four years earlier: a Prohibition Party candidate and Eugene Debs, running as a Social Democrat, took a few points off the Bryan vote. Morgan was not sure what to make of McKinley's Vice President, the reform-minded young Governor of New York, Theodore Roosevelt. The Republican insider Mark Hanna had warned the party's nominating convention, "Don't any of you realize there's only one life between this madman and the Presidency?"



Andrew Carnegie.
(Culver Pictures, Inc.)

From London early in 1901, Clinton Dawkins sketched for Alfred Milner in South Africa a picture of his employer that surpassed Junius Morgan's dreams. "Old Pierpont Morgan and the house in the U.S. occupy a position immensely more predominant than Rothschilds in Europe," Dawkins reported. The New York and London firms combined "probably do not fall very far short of the Rothschilds in capital, are immensely more expansive and active, and are in with the great progressive undertakings of the modern world." The next twenty years should "see the Rothschilds thrown into the background, and the Morgan group supreme," but Dawkins thought the head of it all must finally be winding down: "Old Pierpont Morgan is well over 60, and no human machine can resist the work he is doing much longer."

Dawkins radically underestimated the force still left in the aging Morgan machine. Visiting New York six months later, he took more of an insider's view: "This is a place where things 'hum,' " he wrote, "and they have been humming a good deal . . . since I have been over here. . . . [I]t is extremely interesting to find oneself in the very heart of Wall Street excitement and combinations, and to note the prodigious amount of nervous excitement and energy the Americans throw into their work. . . . Few of them live through it to advanced years except physical and intellectual giants like Morgan who has something Titanic about him when he really gets to work."

Charles Coster, Morgan's master of detail, did not live through it. He collapsed with pneumonia and died in March of 1900, at forty-seven. *The New York Times* blamed his early death on a workload "far heavier than any one man ought to bear." John Moody echoed Dawkins in noting how many Morgan partners "succumbed to the gigantic, nerve-wracking business and pressure of the Morgan methods and the strain involved in the care of the railroad capital of America." Only " 'Jupiter' Morgan" himself managed to "come through that soul-crushing mill of business, retaining his health, vigor, and energy."

James J. Hill, head of the Great Northern Railway, feared that Coster's death would leave the railroad end of Morgan's business "unprotected." Morgan wasted no time replacing the partner he most relied on: at Coster's funeral he persuaded an astute railroad lawyer named Charles Steele to join the firm.

Thinning white hair, occasional trouble hearing, and use of a silver-tipped mahogany walking stick were the chief signs of Morgan's advancing years. Dawkins described his senior partner's face as "delightful in spite of his beastly nose; it is so lit up with intelligence and quickness." The Markoes' daughter recalled that when "the Commodore" entered a room "you felt something electric: he wasn't a terribly large man but he had a simply tremendous *effect*—he was the king. He was *it*." The bishop of Massachusetts said that a visit from Morgan left him feeling "as if a gale had blown through the house."

The gale that blew through the American economy early in 1901 was the creation of U.S. Steel. Financial historians nine decades later called it "the deal of the century." The century was three months old.

Somewhat to the surprise of the financial community, industrial securities had come through the depression of the nineties in better shape than railroad stocks, and several of the biggest corporations had suffered least. As business confidence picked up in 1897–98, that performance helped persuade investors to venture into the market for industrial stocks and bonds. It helped persuade Morgan as well. His firm had handled just a few non-railroad issues in the past—for the Atlantic Cable, the Illinois & St. Louis Bridge, James Scrymser's Mexican Telegraph Co., a French company trying to build a canal across Panama—and had not played a major role in the mergers of the early nineties. Morgan had just managed to recoup his loan to National Cordage, the overextended "rope trust," before its second failure, but had been more involved in the organization of General Electric, which used the long contraction to cut costs and broaden operations, and emerged at the end of the decade strong, diverse, and profitable.*

Enforcement of the Sherman Antitrust Act hit a "low water mark" during McKinley's first term. In *E. C. Knight* and *Hopkins v. U.S.*, the Supreme Court created the impression—short-lived, as it turned out—that the Sherman Act would not be applied to mergers among local manufacturing concerns, since the government had failed to show that they restrained interstate commerce. These judicial decisions, combined with a surge in economic activity, the

* Early in 1901 Morgan advanced $150,000 to Nikola Tesla, an eccentric Croatian-born electrical engineer who had developed an alternating-current motor, worked briefly for Edison in the mid-1880s, and sold his AC patents to Westinghouse, Edison's chief rival, in 1888. Tesla's system provided the basis for the first major harnessing of power at Niagara Falls. Like Edison, Tesla worked on a wide range of projects, including high-frequency currents, an air-core transformer called the Tesla coil, wireless communication, and artificial lightning. He attended Louisa Morgan's wedding, and there were rumors (entirely false) of his engagement to Anne. With Morgan's funding in 1901—for which he assigned the banker a 51 percent interest in his patents—Tesla set out to develop a worldwide communications system, and built a 200-foot transmission tower at Shoreham on Long Island. At the end of 1904, he asked his patron for another $75,000—"Since a year, Mr. Morgan, there has been hardly a night when my pillow was not bathed in tears," he wrote. The banker replied through his secretary that he could not "do anything more in the matter"—nothing came of the Shoreham project—and declined to fund other Tesla proposals, but Jack lent the inventor $25,000 after Pierpont died.

surprisingly strong performance of industrial securities during the depression, and Wall Street's sky's-the-limit mood, created a tidal wave of industrial combinations between 1897 and 1904. Virtually overnight, in the most intense merger activity in American history, 4,277 firms consolidated into 257. The hundred largest concerns quadrupled in size and took control of 40 percent of the country's industrial capital. "Every conceivable line of manufacturing had its trust," wrote the financial historian Arthur Stone Dewing—"conservative bankers, shrewd business men, and doctrinaire economists became infected with the virus of large-scale production. People condemned the trusts one moment and bought their securities the next. It was the harvest time of promoters."

Steel, which had succeeded railroads as the country's most important industry, seemed to Morgan a natural next step. Even in the context of the long-term postwar expansion, American steel productivity had been phenomenal. World output rose from roughly half a million tons in 1870 to almost 28 million in 1900—a 56-fold increase. U.S. output grew from 22,000 tons in 1867 to 11.4 million by 1900, increasing 520-fold. The new machinery and production processes that made this spectacular growth possible fueled competition as well, and in the boom that followed the depression of the nineties the steel industry was faced with overcapacity, price cuts, buccaneer profiteering, hostile takeovers, and speculative raids—all familiar to Morgan from the railroad wars.

Andrew Carnegie remained the uncontested sovereign in steel. He had combined his operations into the Carnegie Steel Company, Ltd., in 1892, capitalized at $25 million, although in fact it was worth far more; three years later he acquired exclusive rights to the richest iron-ore deposits in the country—the Mesabi Range in Minnesota—from John D. Rockefeller, whom he referred to as "my fellow millionaire."* Carnegie Steel made money throughout the depression, and its earnings doubled yearly as the economy recovered, from $11 million in 1898 to $21 million in 1899 to $40 million in 1900.

Carnegie's personal control of this gigantic business was a rarity by the nineties, when most large corporations had outgrown the ability of their founders to finance and run them. Converting private companies into publicly held corporations had helped establish the market for industrial securities, and also a class of professional managers. Unlike the new corporate officers,

* In leasing this land, Carnegie did not have to put up a cent. Instead, he agreed to pay 25¢ per ton of ore extracted, and to ship at least 1.2 million tons a year for fifty years on Rockefeller's railroad and shipping lines. The magnitude of his operations enabled him to promise huge annual volumes, which brought him essential raw materials and transport at minimal cost. No small competitor could have made such a promise.

Carnegie could plow his earnings back into the company rather than pay them out as dividends to investors.

Even though he dominated the industry from Pittsburgh, there were successful steelmakers in other parts of the country, and the merger mania of the late nineties brought new contenders into the field. Among the most flamboyant were the Chicago brothers James and William Moore, and the notorious gambler John W. Gates, a burly man with a bullet-shaped head who allegedly once bet $1,000 on which of two raindrops would reach the bottom of a windowpane first. The Moores cobbled together combinations of companies—primarily makers of finished products such as wire, nails, hoops, and tubes—and embarked on competitive price-slashing sprees. "Bet-a-Million" Gates had built a barbed-wire trust in the eighties with the help of a loan from Morgan, and in 1895 became president of Illinois Steel, the largest producer west of Pittsburgh. Two years later he asked the Morgan bank to finance a consolidation of steel and wire companies. Morgan entertained the idea for several months, then—partly because of the Spanish-American War and partly because he did not trust Gates—said no.

Gates enlisted Elbert Gary, general counsel for Illinois Steel, and put together a $90 million combination called American Steel and Wire in April of 1898. Gary was a corporate merger expert and former county judge from Illinois who looked like "a Methodist bishop—benign, suave, cordial and earnest." Morgan preferred the Methodist bishop to the speculative plunger, and when Gary approached 23 Wall Street late that spring with a meticulous proposal for combining Illinois Steel with raw-material suppliers and transport systems into one self-contained, low-cost, centrally managed firm, Morgan assigned his partners to study the figures, then said yes.

Over the summer of 1898, Gary and Bob Bacon worked out the details. In September they contracted to buy controlling interests in Illinois Steel, the Lorain Steel Companies of Ohio and Pennsylvania, the Minnesota Iron Company (the second largest producer in the northern ore country), and two railroads, and to bring them all into a holding company called Federal Steel. It did not include Gates's American Steel & Wire. The *New York Commercial* described the Gary/Morgan combine as "the beginning of one of the greatest contests for supremacy that the world has ever seen. It is a fight between a new concern and the Carnegie interests, both backed by almost unlimited capital."

Carnegie was generating "almost unlimited capital" through his spectacularly remunerative steel operations, while the bankers for the new concern had to raise money in markets that were still wary of industrials. Morgan's name on the deal assured investors that Federal would issue "investment quality" securities, in contrast to those of the fly-by-night promoters.

The organizers of Federal Steel issued $100 million each of preferred and common shares. Since there are few surviving records of this deal, exactly how the financing worked is not clear, but it probably went like this: Morgan exchanged about $100 million of Federal shares for the stock of the properties he was bringing into the merger. At the same time, he organized a syndicate to provide the consolidation with $14 million in immediate cash. Syndicate members put up $4.8 million of this commitment right away, and pledged to furnish the rest pending the outcome of a public sale of Federal stock. The Morgan bank offered the second $100 million of stock for purchase—first to the shareholders of the constituent companies, then to the public, although not a very wide segment of the public. The buyers of industrial securities were still an elite group of wealthy institutions and individuals; small investors did not enter the capital markets in large numbers until the 1920s. The stock sold so well that the syndicate never had to produce the rest of its $14 million commitment. During the first year of operations, Federal Steel paid dividends on its preferred and common shares, and produced about 15 percent of the country's steel ingots.

"Bet-a-Million" Gates, who made half a million dollars selling Illinois Steel stock to Federal, wanted to run the new consolidation, but Morgan had a better idea. As soon as the deal was complete he called Elbert Gary to his office.

"Judge Gary," he said, "you have put this thing together in very good shape. We are all very well pleased. Now you must be president."

Surprised, Gary said no.

"Why not?" asked Morgan.

"I have a law practice worth $75,000 a year," Gary explained, "and I cannot leave it."

"We'll take care of that," Morgan assured him. "We must make it worth your while."

Gary wanted time to think it over. Morgan, as always, wanted an answer right away.

Who, asked Gary, would be the directors of the new concern?

Morgan shrugged: "You can select the directors, name the executive committee, choose your officers and fix your salary."

Twenty-four hours later, Gary said yes.

Like the head of the house of Morgan, the new head of the second largest steel producer in the United States knew little about making steel—one adversary said that Gary didn't see the inside of a blast furnace till the day he died. Gary did know about law and corporate organization, and he believed, with Morgan, in rationalizing competitive and overlapping enterprises through administrative consolidation and coordination of production and pricing. Since both men also believed that corporations issuing publicly traded securities had to account for their financial performance, Federal took the then unusual step of issuing quarterly reports.

Andrew Carnegie did not think Gary and Morgan could make the consolidation work. Now in his mid-sixties, with his close-cropped beard and hair gone white, the diminutive Scot took an entirely different approach to the market, and in 1898 he dismissed his new rivals out of hand: "I think Federal the greatest concern the world ever saw for manufacturing stock certificates," he said, ". . . but they will fail sadly in steel."

Carnegie represented the pure type of autocratic free-market competitor—capitalism in its most effective, ruthless form. Unlike the railroad pirates whom Morgan had been trying all his adult life to control, the steelmaster was not a profligate wrecker. He concentrated on primary steel and heavy products—ingots, rails, billets, sheets, bars, and beams—and he dominated the industry by making a better, cheaper product than anyone else, keeping tight control over costs, supplies, and output, and holding workers' wages down. One of the worst labor-capital conflicts of the 1890s had taken place at Carnegie's steelworks in Homestead, Pennsylvania.

The Amalgamated Association of Iron, Steel, and Tin Workers had already organized the plant when Carnegie bought it in 1883, and after a strike in 1889, the Amalgamated leaders accepted a sliding wage scale that would parallel industry profits in exchange for union recognition. Although Carnegie, born into poverty and reared among radical Scots Chartists, liked to see himself as an enlightened champion of workingmen, he opposed organized labor, and his hardheaded instincts won out over his benevolent ideals when the Homestead contract came up for renewal in 1892. The man in charge of the Homestead works in 1892 was the president of Carnegie Steel, Henry Clay Frick, an enormously successful coke producer who shared Carnegie's antipathy to unions but not his avowed compassion for individual workers. Since the steel markets were in decline in 1892, Carnegie and Frick proposed to reduce the minimum wage in the new contract and to abolish the bargaining power of the union. Just before the old contract expired, Carnegie went to Scotland for the summer, leaving the situation in Frick's hands. He knew that his own sympathies would be divided, and that Frick would use draconian measures to win the fight. He may not have realized just how draconian.

Frick built a stockade around the Homestead works, fortified with barbed wire and rifle slits, and hired three hundred men from the Pinkerton Detective Agency to stand by. On July 1, he offered union officials conditions they could not accept. The Amalgamated called a strike. Five days later the Pinkertons came down the Monongahela River on barges in the middle of the night to take over the plant, but steelworkers surprised them with an armed counterattack. The battle raged all day, until the heavily outnumbered Pinkertons surrendered and the workers seized control of the plant. Nine strikers and seven guards had been killed, and hundreds of others wounded. The governor of Pennsylvania sent eight thousand troops to occupy Homestead while strikebreakers operated the plant. An anarchist who tried to assassinate Frick succeeded only in wounding him—and in eroding sympathy for the walkout. Frick made no concessions to the union. When the strike ended in November, the company imposed lower wages and longer hours. Carnegie said nothing in public at the time. He continued to talk about his friendly relations with workers, but he knew where the fault for this hideous confrontation lay, and that it undermined all his pious claims. Years later he wrote, "No pangs remain of any wound received in my business career save that of Homestead."

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Once the Illinois/Federal consolidation of raw-material suppliers, basic-steel producers, and transportation facilities was complete, Judge Gary began to aggregate makers of finished products as well, aiming to build a "steel republic" that would reach around the world. With Morgan's backing he organized companies called National Tube (a consolidation of 14 large manufacturers, capitalized at $80 million) and American Bridge (25 companies, $60 million). Early in 1900, according to his biographer Ida Tarbell, he suggested to Morgan that they buy the gigantic Carnegie Steel as well, which would give them the "capacity to develop a systematic foreign trade." Morgan replied, "I would not think of it. I don't believe I could raise the money." When a market downturn later that year reduced demand, the Gary/Morgan group and the more speculative Moore brothers' trusts decided to economize by expanding their manufacture of basic steel and reducing their dependence on Carnegie's firm.

To Carnegie, these canceled orders amounted to a declaration of war. If his rivals were integrating backward to encroach on his territory, he would move forward to take over theirs. "The situation is grave and interesting," he wrote from Scotland to the new president of his company, Charles M. Schwab. "A struggle is inevitable and it is a question of the survival of the fittest." There was no question as to who would survive. No one could beat Andrew Carnegie at the steel game.

He asked Schwab how much more cheaply they could make tubes, if they built a new manufacturing plant, than Gary's National Tube could. "At least $10 per ton," reported Schwab.

"Well," said Carnegie, "go ahead and build the plant then." Schwab started work on a $12 million factory at Conneaut Harbor, Ohio, with its own ore source, cheap transportation on Lake Erie, and the technology to make a new type of seamless tube.

Carnegie outlined to Schwab what he would do to run the steel industry "if I were czar"—pretty much what he already was doing—which prompted his biographer Joseph Wall to remark that "his use of the subjunctive . . . was an amusing conceit. He was czar."

If Morgan wanted to win this contest and prevent a hugely disruptive battle in the country's basic industry, it would have to be with dollars, not tubes, and an opening appeared on December 12, 1900. That night he attended a dinner in honor of Charles Schwab at the new University Club designed by Charles McKim on Fifth Avenue at 54th Street. Schwab was just thirty-eight, two decades younger than most of the men who had come to pay him tribute—among them Jacob Schiff of Kuhn, Loeb, E. H. Harriman of the Union Pacific Railroad, Standard Oil president H. H. Rogers, and Bishop Henry Codman Potter. He had started out at seventeen carrying leveling rods at Carnegie's Edgar Thomson plant in Braddock, Pennsylvania, and worked his way up through the ranks to become president of Carnegie Steel by the time he was thirty-five, in 1897. Dark and strapping, with a clean-shaven, pudgy face that made him look even younger than he was, he knew almost as much about the industry as Carnegie himself. He also knew that Carnegie intended to stop work at some point in order to give away his fortune, and would be willing to sell out under the right circumstances.

For the testimonial dinner at McKim's formal Renaissance palazzo in December 1900, Morgan was seated next to the guest of honor. After coffee had been served, Schwab gave a speech that outlined his hopes for American steel. Carnegie's hard-driving methods had brought production costs down as far as they could go, noted Schwab, but there were large economies still to be gained at the distribution end. If a giant, centrally managed, superefficient firm could run specialized plants that concentrated on single products, it should be able to rationalize and almost infinitely expand the markets for steel. Locating plants near the buyers of products would cut delivery costs. Combining competing sales forces into one streamlined unit could match supply to demand. Coordinating product shipments would eliminate "crosshaul" duplications. Evaluating comparative plant performance would enable the firm to concentrate resources on the best producers and managers, and to strengthen or eliminate stragglers. Executives would cooperate on pricing and production in mutual self-interest. Research would find better ways of making and using steel. If this kind of consolidation could be achieved, concluded Schwab, the premier enterprise driving the American economy would continue to grow, ensuring stable markets and ample profits for producers, lower prices for buyers, and pride of place in the modern industrial world for the United States.

This picture of industrial/national order was tailor-made for Morgan, who listened closely. He and Schwab talked briefly before the evening broke up, and agreed to meet again. Bob Bacon described his "Senior" as "very much impressed by the new light that had been thrown on the whole steel situation, its growth and possibilities, and for the first time he indicated to me that it seemed a possible thing to undertake the purchase of the Carnegie Company."

Early in January 1901 Morgan and Schwab resumed their conversation over dinner, then met Bacon in Morgan's mahogany-paneled study at 219. Fanny was in New York that winter—she had stayed for Louisa's wedding in November, and would not go abroad until early March—but her husband's guests did not see her or any other member of his family that night. The three men talked until 3:00 A.M., and agreed that they would try to put together a giant combination in steel. Its pillar would have to be Carnegie's firm. A few days after the midnight meeting at 219, Schwab brought down to 23 Wall Street a list of all the companies he thought should be included. Morgan, glancing over it quickly, said, "Well, if you can get a price from Carnegie, I don't know but what I'll undertake it."

Carnegie apparently knew nothing of these plans. He and Morgan had worked together in the early seventies, and though they never became intimate, their enmity has been exaggerated. Carnegie participated in several Morgan underwritings, called on Junius whenever he visited England, and later said that after Pierpont bought out a $60,000 Carnegie interest in a railroad for $70,000—showing a "nice sense of honorable understanding as against mere legal rights"—he "had in me henceforth a firm friend." Carnegie joined a party Morgan took to Philadelphia in December 1891 to celebrate the opening of the Drexel Institute. Still, he had not been pleased when the West Shore Agreement interfered with his attempt to break the Pennsylvania Railroad's monopoly in the coal regions in 1885, and he had far more faith in competitive action than in negotiated "communities of interest."

Schwab had no idea whether or not Carnegie would sell to Morgan. It depended in part on how eager the steel czar was to get on with dispersing his fortune. It also depended on his puritanical streak. Schwab had taken care to conceal certain facts of his own life from his uncompromisingly straitlaced boss—estranged from his obese, childless wife, he had an illegitimate daughter by her nurse—and he suspected that Carnegie's misgivings about Morgan had more to do with the banker's womanizing than with his manufacture of stock certificates. According to Schwab's biographer, Robert Hessen, "Carnegie could not fault Morgan for no longer being sexually attracted to his wife, but he was appalled by the rumors that Morgan kept a steady succession of mistresses, as many as seven at a time, and he was revolted by the rumor that Morgan had made a gift of land, buildings, and funds for the New York Lying-In Hospital in order to have some place to accommodate the women whom he was alleged to have made pregnant. To Carnegie's mind, these rumors far outweighed the well-known facts that Morgan was an active layman in the Episcopal Church and a patron of the arts." The rumors also outweighed the truth.

In early February, Schwab called on Carnegie's wife, Louise, at home on 51st Street, for advice. She suggested that he broach the subject of selling out to

Morgan over golf, which usually put "Andy" in a good mood. Accordingly, Schwab joined his chief for a round of golf on a dry, wintry day in Westchester County, and let him win. He presented the proposition over lunch: Carnegie could name his price.

Carnegie deliberated overnight. The next day—apparently disregarding moral qualms—he handed Schwab a single sheet of paper with his terms spelled out in pencil: the price he wanted for the Carnegie Company and all its holdings was $480 million.* Since the company made approximately $40 million a year, the purchase price amounted to about twelve times earnings. Schwab drove downtown and presented the paper to Morgan, who took one look and said, "I accept this price."

Thirty years earlier, Carnegie had been enthralled when Junius agreed "to move into the market the necessary gold to heat the foundries in Pittsburgh and put iron beams across a muddy river 5,000 miles away." The necessary gold in 1870 was £1 million. In 1901, Junius's son promised with a nod of his head to move half a billion dollars into the market.

A few days after accepting "this price," Morgan drove up to 51st Street to congratulate Carnegie on becoming the richest man in the world. The owner of over 50 percent of Carnegie Steel stood to make $240 million at one stroke, in addition to the fortune he had already earned. According to Wall Street lore, Carnegie several months later sidled up to Morgan on board a steamer headed for Europe and, clearing his throat, said, "Mr. Morgan, I believe I should have asked you for another $100 million." Morgan allegedly replied, "If you had, I'd have paid it."†

Although he had been skeptical about the "manufacturers of stock certificates," Carnegie wrote to one of his partners at the end of February 1901: "Morgan has succeeded as I felt he would. Now we are all right"—and he added

* Carnegie specified:

$160,000,000 of Carnegie Company bonds to be exchanged at par for bonds in the new company	$160,000,000
$160,000,000 stock, each $1000 Carnegie Company share to be exchanged for a $1500 share in the new concern	$240,000,000
Profits for the past and coming year (estimated):	$80,000,000
Total:	$480,000,000

† In prosaic fact, Carnegie told a congressional committee in 1912 that he had named his price and Morgan considered it fair: "I have been told many times since by insiders that I should have asked $100,000,000 more and could have got it easily. Once for all, I want to put a stop to all this talk about Mr. Carnegie 'forcing high prices for anything.' " Adding $100 million to the deal would have implied a price/earnings ratio of 14.5.

to a friend a week later, "It is a marvel . . . the new company will make such enormous profits it can afford to pay Carnegie Company what it has."

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Less than twelve weeks had elapsed between the Schwab dinner and Morgan's announcement on March 3, 1901, that he was organizing the largest corporation in the world. United States Steel would be capitalized as a New Jersey holding company at $1.4 billion. Hardly anyone thought in terms of billions in 1901. The federal government was spending about $350 million a year—$130 million less than Carnegie's selling price. As Dawkins observed, things were indeed "humming" at 23 Wall Street.

Working with his partners and lawyers, Morgan bought up the other properties on Schwab's list, mostly without haggling over prices—he wanted them in the new combination, and took their own measures of their value. (One exception was John W. Gates, who tried to hold up the combination for far more than Morgan thought his American Steel and Wire company was worth, and had to back down.) The bankers contracted to pay for shares in the old companies with stock in the new. They also acquired rights to additional Lake Superior iron-ore deposits from the Rockefellers; when Gary balked at the price ($30 million), Morgan said: "Judge Gary, in a business proposition as great as this would you let a matter of $5,000,000 stand in the way of success?"

The giant holding company would own steel mills, blast furnaces, coke ovens, ore mines, barges, steamships, thousands of acres of coke and coal land, and several railroads. It would control nearly half of America's steelmaking capacity, and produce more than half its total output—7 million tons a year. The $1.4 billion figure was equivalent to 7 percent of the U.S. gross national product in 1901. A comparable percentage in the 1990s would come to roughly $400 billion.

Power over this colossal enterprise would be concentrated in the hands of a few men, all appointed by Morgan. Charles Schwab resigned from Carnegie Steel to become president of U.S. Steel—Morgan had asked Carnegie about the younger man's ability to run the new corporation, and the steelmaster had recommended him "unreservedly." Elbert Gary was made chairman of the Executive Committee, Bob Bacon the head of Finance. Morgan himself would sit, with three of his partners, on the twenty-four-man board of directors, and also, with his friend George Baker of the First National, on the Finance Committee. He refused to give Bet-a-Million Gates a seat on the board.

The formation of U.S. Steel captured headlines all over the world, and reactions to the "Billion Dollar Trust" overshadowed reports of the ceremonies ushering in the McKinley-Roosevelt administration. Senator Albert Beveridge of Indiana called Morgan "the greatest constructive financier yet developed among mankind." A writer in Hearst's *Cosmopolitan* magazine announced that "the world, on the 3rd day of March, 1901, ceased to be ruled by . . . so-called statesmen" and had been taken over by "those who control the concentrated portion of the money supply." The journalist Ray Stannard Baker, who published a study of the new corporation in *McClure's* magazine, concluded that U.S. Steel was "planning the first really systematic effort ever made by Americans to capture the foreign steel trade," and that it was virtually "a republican form of government, not unlike that of the United States." Yale's president Arthur T. Hadley predicted that unless the government checked the advancing power of the trusts, the United States would see "an emperor in Washington within twenty-five years." The inimitable Henry Adams said, "Pierpont Morgan is apparently trying to swallow the sun."

Some of the criticism was surprisingly good-humored. William Jennings Bryan's populist *Commoner* quoted Morgan as saying, "America is good enough for me," and replied: "Whenever he doesn't like it, he can give it back to us." Finley Peter Dunne described Morgan's power in the voice of his fictional Irish saloonkeeper, Mr. Dooley: "Pierpont Morgan calls in wan iv his office boys, th' prisident iv a national bank, an' says he, 'James,' he says, 'take some change out iv th' damper an' r-run out an' buy Europe f'r me,' he says. 'I intind to re-organize it an' put it on a paying basis,' he says. 'Call up the Czar an' th' Pope an' th' Sultan an' th' Impror Willum, an' tell thim we won't need their savices afther nex' week,' he says. 'Give thim a year's salary in advance. An'. James,' he says, 'ye betther put that r-red headed book-keeper near th' dure in charge iv th' continent. He doesn't seem to be doin' much,' he says."

In London, bizarre rumors said that people were insuring Morgan's life at 3 percent a month for £2 million—not true, Jack told Fanny, but one man *had* taken out a policy at 3 percent a year for £50,000: "It's a curious idea," reflected Jack, "but this man considered it the wise course, as Father is in the same category with Queen Victoria and other rulers on this side of the Atlantic!" Since Victoria had just died, Jack's analogy was as curious as the idea of insuring Pierpont's life.

Compared with the high-rolling speculators, Morgan looked like the Rock of Gibraltar, but he was using unfamiliar financial procedures and techniques. Investors were accustomed to bonds—loans mortgaged by "hard" assets of physical plant, real estate, and equipment—and critics of U.S. Steel, noting by how much the new securities exceeded the assets of the constituent companies, accused the bankers of "watering" the stock. The corporation issued $304 million in 5 percent gold bonds, and $1.1 billion in stock—$550 million in 7 percent convertible preferred shares, $550 million in common—for the $1.4 billion total. Even the experienced banker Isaac Seligman pronounced it "enough to take one's breath away." The Bureau of Corporations, a fact-finding agency in the Department of Commerce and Labor, later estimated that the tangible value of the properties in the combination was somewhere between $676 million and $793 million.*

U.S. Steel easily had enough tangible assets to back its $304 million issue of bonds, and even at the low estimate, nearly enough to cover its $550 million of convertible preferred shares as well. The value of the common stock depended on the company's future earnings, which, as in Morgan's railroad reorganizations, were expected to rise because of increased efficiencies, economies of scale, and administrative rationalization. To the extent that the consolidation worked, it would create value for the $550 million of common stock.

Since this financial structure did not differ in kind from those Morgan devised for railroads, it was apparently the sheer *size* of the consolidation that took Wall Street's breath away. The pro-industry *Iron Age* praised the stabilizing Morganization of steel in February, but in April criticized the company as "an aggregate of large consolidations, each liberally dosed at the time it was formed with *aqua pura*," plus "additional quantities of water . . . sprinkled in to cement the amalgamation." *The Wall Street Journal* acknowledged a certain "uneasiness over the magnitude of the affair," wondering whether the company would ever pay dividends, and warning that the extraordinary transaction might be "a turning point in the market: The high tide of industrial capitalism."

The organization of U.S. Steel *did* mark the high tide of the turn-of-the-century merger movement, but Morgan entertained none of his critics' doubts. Experience with the railroads' high fixed charges had led him to prefer equity to debt. Regarding what others called "water" as capitalized future earnings, he expected the benefits of consolidation to enable the corporation to service its debt and pay dividends, probably without raising the price of steel. In a circular issued on March 2, 1901, he said: "Statements furnished us . . . show that the aggregate of the net earnings of all the companies for the calendar year 1900 was amply sufficient to pay dividends on both classes of the new stocks, besides making provision for sinking funds and maintenance of properties. It is expected that by the consummation of the proposed arrangement the necessity of large deductions heretofore made on account of expenditures for improvements will be avoided, the amount of earnings applicable to dividends will be substantially increased and greater stability of investment will be assured, without necessarily increasing the prices of manufactured products."

* The $117 million difference between these figures suggests the difficulty of measuring an industrial property's net worth. One way would have been to add up the securities of the constituent companies, but since the stock of Carnegie Steel had never traded on the market there was no reliable estimate for its preconsolidation value. Another method, calculating the value of U.S. Steel's tangible property, raised questions about what exactly to measure—the price historically paid? replacement value? probable price if offered for sale? According to William T. Hogan, who wrote an economic history of the American steel industry in 1971, the difference between the bureau's $700 million to $800 million figures and U.S. Steel's $1.4 billion lay in the value assigned to the ore lands—$100 million by the bureau, $700 million by the corporation. Hogan concluded that "the years since have tended more to justify the $700 million figure than the smaller estimate."

Morgan organized a syndicate to secure at least 51 percent of the stocks of the constituent companies (by exchanging them for shares of U.S. Steel), and also to underwrite $200 million of the new corporation's securities to meet immediate cash needs.* He had done the same thing on a smaller scale for Federal Steel. U.S. Steel, too, would offer shares to the public, and whether or not it had to call for the full $200 million pledged by the syndicate would depend on how the public offering went. By March 21, the merger had acquired over 90 percent of its constituents' stock, and four days later, J. P. Morgan & Co. asked the syndicate to raise $25 million in cash—12.5 percent of its $200 million commitment. Morgan hired Wall Street floor-operator James R. Keene to manage the offering on the Stock Exchange, and demand was huge. Keene reportedly made $1 million in commissions. The new shares sold so well that the remaining $175 million of syndicate cash never had to be called.

The Billion Dollar Trust raised with fresh urgency all the country's objections to financial concentration and gave new force to a range of questions: Did corporate size per se threaten competition and individual freedom? Did consolidation in fact promote efficiency over the long run? Would Morganization stifle not only destructive conflict but also the creative energy that stimulates innovation and economic growth?

Some of the consolidation's critics at the time argued that it was wildly reckless—composed of so much *aqua pura* that it would never pay dividends. Others condemned it as a monopolistic restraint of trade. Since it cannot have been both a foolhardy issue of worthless paper *and* an instrument of tight market control, these arguments suggest, again, that it was the size of the deal that elicited instinctive abhorrence.

The speed with which U.S. Steel had been put together left critical considera-

* Unlike Morgan's railroad and government bond syndicates, which were made up largely of banks, the three hundred members of the Steel syndicate included wealthy individuals. J. P. Morgan & Co. took a $6,457,000 participation, John W. Gates $6 million, E. H. Gary $4.5 million, James Stillman, William Rockefeller, H. H. Rogers, and George Baker's First National $3,125,000 each. P. A. B. Widener subscribed for $2,875,000, Kidder, Peabody for $2.5 million, and Thomas Fortune Ryan for $1,875,000. In at $1 million each were William C. Whitney, Levi P. Morton, Henry Clay Frick, D. O. Mills, Morgan, Harjes & Co., and Kuhn, Loeb. Among those who took under a $1 million share were E. H. Harriman, Charles Schwab, Mark Hanna, August Belmont & Co., Lazard Frères, Francis Lynde Stetson, H. M. Flagler, Daniel Lamont, Robert Lincoln, George Bowdoin, S. Endicott Peabody, Bob Bacon, and Chauncey Depew. The largest subscribers by far were the Moore brothers and two of their associates, who as a group subscribed for almost $75 million—about 38 percent of the total.

tions about its structure and direction unresolved (see Chapter 22), but time proved Morgan right about the financing. The corporation created real value for its investors, earning $60 million in net profit between March and December 1901, and $90 million in 1902—enough to pay a 7 percent dividend on the preferred stock and 4 percent on the common, and still have a sizable surplus. Over the next quarter of a century, its stock performed better than that of all other American steel companies except Bethlehem. Morgan seemed to be turning everything he touched to gold.

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Even more controversial than the size of the merger were the syndicate's earnings—about $50 million, paid in shares of U.S. Steel preferred and common stock at then current market valuations. For the first year of the corporation's existence the preferred shares traded at around 94, the common at 44. After reimbursing participants for the $25 million put up in cash and deducting $3 million incurred as expenses, the syndicate paid $40 million to its members and $10 million as management fee to J. P. Morgan & Co.

The Bureau of Corporations in 1911 called these charges "greatly in excess of a reasonable compensation," and *The Wall Street Journal* looking back in 1988 concluded that they "represented a level of greed probably without contemporary parallel." Fifty million 1901 dollars would be roughly equivalent to $750 million in the 1990s.

Entries in the U.S. Steel syndicate book indicate that the $40 million paid to the subscribers in four installments during 1902 was 5 percent of the $800 million worth of securities the syndicate underwrote—$200 million pledged in cash, plus about $600 million in new shares traded for stock of the constituent companies. The Morgan bank's $10 million management fee brought the total to 6.3 percent—not "greatly in excess of a reasonable compensation" at a time when underwriting commissions ranged from 2.5 to 10 percent. (In the 1990s, neither a gross fee of 6 percent for an initial public offering nor a 20 percent management fee would be out of line.)

The syndicate's defenders at the time pointed out that it had helped float the entire deal, providing well over 51 percent of the merging companies' stocks; that it would have been liable for $200 million in cash had the launching not gone so well; and that the main reason it *did* go well was the credit furnished by its organizers, specifically by the house of Morgan. Investors knew that if anything went wrong, the bank would provide the necessary capital and "stand by its goods."

U.S. Steel stock prices fluctuated for the first few years: during a contraction in 1903–4, the preferred traded below 50, the common as low as 8⅜, and the directors had to suspend dividends on the latter. If the syndicate's $50 million profit had been calculated at these prices (it was based on market values), it would have amounted to slightly over $16 million.

Morgan was confident that the corporation would create value for its paper certificates over the long run, and it did. The stock performed so well, argued economist George Stigler years later, that the formation of U.S. Steel should be seen as "a master stroke of monopoly promotion," and critics were "churlish" to complain at the syndicate's earnings. The Morgan bank argued when the merger came under attack that the properties were fully worth the value of the securities, and that since the transaction was "unique" in character and scope, it could not be judged by the standards of "ordinary experience." Virtually everyone not connected with the deal judged it monstrous.

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In early March 1901, as Morgan was about to announce the formation of U.S. Steel, he hired a new partner. George Walbridge Perkins, first vice president at the New York Life Insurance Company, was a trim man with protruding ears, a thick brush of mustache, and a gift for making deals. Between 1892 and 1899 he had transformed New York Life from the smallest of the three big insurance companies (called "the racers"—the other two were the Equitable and Mutual Life) into the largest. Under his guidance New York Life had begun to function as an investment bank, using its immense financial resources to underwrite corporate securities and foreign government loans; by 1900 its assets seemed likely to exceed a billion dollars within a decade.

Competition among "the racers" was fierce, and though Perkins outperformed his rivals, he believed that the competitive struggle for power had more costs than benefits. "The entire path of our industrial progress is strewn with the white bones of . . . competition," he declared, and the conflicts had become "too destructive to be tolerated. Co-operation must be the order of the day." He tried to impose regulation and self-discipline on insurance-industry warfare. A moralistic, second-generation insurance agent who wanted to eliminate irresponsible practices and stabilize his sales force, he also took steps to improve New York Life's relations with its workers: he set up pension plans, death benefits, and cash bonuses for workers. The bonuses were given not in relation to volume, which might have encouraged reckless expansion, but for steady performance, and Perkins was delighted with the results: he told a friend in 1897 of his pride at having linked the interests of managers and workers in "a corporation that is composed of nearly 300,000 members."

Perkins was also an adroit politician, friendly with President McKinley, Vice President–elect Theodore Roosevelt, and Senators Beveridge and Hanna. Wall Street took note of Perkins's skills, especially once he negotiated loans to the governments of Germany and Russia. In November 1900 James Stillman made him a director of the National City Bank, and commended him to Morgan. In December Morgan asked Bob Bacon, who also sat on the City Bank board, to bring the insurance man to 23 Wall Street.

Perkins welcomed the invitation. He was raising money to save the eroding cliffs on the western bank of the Hudson—he lived in Riverdale, just north of Manhattan, and Roosevelt as Governor of New York had made him chairman of a Palisades Interstate Park Commission; Perkins wanted Morgan to contribute. As soon as he took a seat in the famous glass-walled office, he started to explain his mission. Morgan cut him short.

"I know all about that," he said. "You are chairman of the Commission. What is it you want?"

Perkins: "I want to raise $125,000."

Morgan: "All right, put me down for $25,000. It is a good thing. Is that all?"

Somewhat flabbergasted, Perkins managed to ask who else might subscribe. Morgan suggested John D. Rockefeller. Perkins thanked him and was rising to leave when Morgan said: "I will give you the whole $125,000 if you will do something for me."

"Do something for you?" repeated Perkins. "What?"

"Take that desk over there," said Morgan, pointing to the room in which his partners worked. He was offering a coveted position at his right hand to a man he had just met.

Perkins stalled: "I have a pretty good desk up at the New York Life."

Morgan made it explicit: "No, I mean come into the firm."

Like everyone who got these imperious invitations, Perkins asked for time to think it over. "Certainly," said Morgan. "Let me know tomorrow if you can." As Perkins was leaving, Morgan stipulated that of course he would give up his work at New York Life if he came to 23 Wall Street, since the big insurance companies had become large buyers of securities sold by the Morgan bank.

Perkins quickly canvassed his influential friends—Senator Beveridge warned him that Morgan was a partner killer; President McKinley advised him to stay at New York Life—and declined Morgan's offer, although not without using it to raise his salary from $30,000 to $75,000 a year.

Two months later, at the end of February 1901, Morgan invited Perkins to breakfast. He explained that he was about to launch U.S. Steel, and would soon be organizing similar ventures in other industries. He knew that Perkins shared his views on excessive competition. He also knew that some of the hostility to his own work came from the "occult mechanisms" of high finance, and thought that if people understood what he was doing they would see it the way he did—as a national service. Probably he was aware as well of Perkins's popular worker-benefit programs, at a time of escalating conflict between capital and labor. He said he wanted help with the social and political problems created by the trusts, and according to Perkins's biographer, John A. Garraty, this appeal worked: Perkins believed that "size and business efficiency went hand in hand, and that the most challenging problems of the modern world were to be found in the relationships that were developing between the giant corporations and their workers, and between these corporations and the public."

The terms of Morgan's offer added incentive. Perkins would earn $250,000 a year, plus a share of the bank's profits. As to the condition Morgan mentioned at the end of their first interview—resignation from New York Life—Perkins refused, since he wanted exactly what his new employer did not, a direct link between the buyers and sellers of securities. Morgan was concerned about what a later era would call conflicts of interest, and gave in to Perkins against his better judgment: "if you . . . believe you can carry out this dual position, which I do not believe you can," he said, "I am willing to try it temporarily."

"Temporarily" turned out to be ten years. That Perkins, age thirty-nine, got his way on this critical point indicates again that Morgan's legendary power was not as absolute as people thought. In need of Perkins's skills, he put prudent objections aside.

To James Stillman at the City Bank, Perkins said he hoped "when I find my place down the street I will not, in any way, disappoint you." Stillman sent back "heartiest good wishes. You have the most splendid opportunity in being so closely associated with the greatest financier, in spite of his peculiarities, this or any other age has ever seen, and one which I am free to say I envy you."

Perkins quickly became a one-man department of public relations at the Morgan bank, holding press conferences, publishing articles and pamphlets, and giving speeches on the advantages of industrial consolidation. Appointed to the Finance Committee and board of directors at U.S. Steel, he issued such rhapsodic statements that his friend Beveridge warned him to "Go slow . . . about Mr. Morgan's philanthropic motives in Steel Trust or the public will think you protest too much."

As Morgan and Gary had done at Federal Steel, Perkins lifted the veil of corporate secrecy: in the fall of 1901 he began to publish quarterly financial reports for U.S. Steel. *The Commercial & Financial Chronicle* praised this first accounting as "the fullest and frankest earnings statement ever submitted . . . by a great industrial concern," and welcomed Big Steel's recognition of the "public's right to know." From London, Jack described the report as well received in spite of skeptics who called its figures "impossibly good," the product of "expert bookkeeping": he hoped it would force other companies to follow suit, and help dispel the prejudice against industrial securities.

In March of 1902, Pulitzer's New York *World* announced that "George W. Perkins now does all the talking . . . for the firm of J. P. Morgan and Co. . . . [He] has the facility of saying just enough and not too much on any subject." Perkins acted so consistently as the bank's ambassador to Washington over the next decade that he became known as Morgan's Secretary of State.

At the beginning of April 1901, Morgan sailed for Europe on the White Star's *Teutonic*—to avoid reporters, photographers, and curious crowds he had to duck up the second-class gangway. He would from now on find privacy only behind closed doors. For the first time in years, Louisa, four months pregnant, did not accompany him. He traveled with his sister Mary Burns instead.

He played solitaire and slept most of the way across the Atlantic. Henry Adams wrote to his friend Elizabeth Cameron: "Wall Street goes quite wild, while Lombard Street is dead broke. . . . London and Berlin are standing in perfectly abject terror, watching Pierpont Morgan's nose flaming over the ocean waves, and approaching hourly nearer their bank-vaults."

For the moment, Morgan had more interest in Europe's art markets than its bank vaults. He did not see Fanny, who was touring Italy with Anne, for several weeks. Shortly after he arrived in London he bought the *Duchess of Devonshire*, the Gainsborough portrait that Junius had been about to acquire in 1876 when it was stolen from Agnew's Bond Street gallery. The thief, Adam Worth, unable to unload his renowned white elephant all these years and now seriously ill, had finally handed it over to a Pinkerton agent and William Agnew's son Morland at a Chicago hotel in March 1901, in exchange for an undisclosed sum and probably immunity from prosecution.

Although the canvas was dirty and cut, the Duchess's face and voluptuous figure were intact. Agnew took the picture to London, where Morgan agreed to buy it sight unseen, asking the dealer to have it restored and to charge whatever he considered fair. London papers buzzed with the story, but never managed to learn the price. Morgan told a friend: "Nobody will ever know. If the truth came out, I might be considered a candidate for the lunatic asylum."

He paid £30,000 (nearly $150,000) for the well-traveled Georgiana—five times what he paid for Rembrandt's *Nicolaes Ruts* three years earlier. William Agnew, who had retired, congratulated him on "possessing the finest Gainsborough in the world," which was a proprietary stretch. Another Agnew son, Lockett, said later that he thought the "*réclame*" [publicity] aspect of the acquisition probably appealed most to Morgan, since seven weeks elapsed between his purchase of the painting and the first time he saw it. Sentiment played a role as well: Junius had wanted the picture, and Pierpont carried out his father's wishes without regard to content or cost.*

* The painting remained in the Morgan family until July 1994, when it was sold through Sotheby's to the Chatsworth House Trust for £265,500, and returned to Chatsworth, seat of the Dukes of Devonshire. With regard to long-standing doubts about the painting's authenticity, the present Duke told the London *Times*, "I personally think that it is a Gainsborough," then shrugged, smiled, and added, "To me it's a very jolly picture."

In Paris two weeks after he secured the Duchess, he made a far more significant purchase. By 1901 no painter was held in higher esteem in the United States than Raphael. Nineteenth-century American artists and connoisseurs traveled to Europe explicitly to study the High Renaissance master's work. They especially admired his Madonnas—paintings that combined grandeur with tenderness, flawless execution with sensuous color and form. The Sturgeses owned a print of Raphael's *Sistine Madonna*, and made a pilgrimage to see the original in Dresden on their European tour in 1859. As American collectors' taste for Old Masters developed toward the end of the century, and as American artists and architects looked increasingly to Renaissance Rome for cultural models, Raphael came to represent the supreme moral and aesthetic ideal. According to David Alan Brown, the curator of an exhibition on *Raphael and America* at the National Gallery of Art in 1983, Raphael was "the only artist whose prestige had endured all changes of taste and fashion up to the end of the nineteenth century," and was "referred to by Berenson without exaggeration as the 'most famous and most beloved name in modern art.' Indeed, his name was synonymous with Art."

There was not a single painting by Raphael in the United States in 1897, and the scarcity of the artist's work in a rising market had driven its prices beyond the reach of most collectors. In 1898, at the urging of her adviser, Bernard Berenson, Isabella Stewart Gardner bought Raphael's portrait of *Tommaso Inghirami*, a fat, wall-eyed Roman prelate in a red robe and cap, shown writing at his desk.* Two years later, also through Berenson, she purchased for £5,000 a *Lamentation* by Raphael, part of an altarpiece predella. These works did not satisfy her, however: like other major collectors at the time, she wanted the supreme trophy—"a *heavenly* Raphael *Madonna*"—and to Berenson's dismay she refused for a time to buy anything else, insisting that "My remaining pennies must go to the greatest Raphael. . . . Nothing short of that. I have tasted blood you see."

Mrs. Gardner never acquired a Raphael Madonna, but Morgan did. He crossed the English Channel at the end of April 1901, and on a quick visit to the Charles Sedelmeyer gallery in Paris bought an early Raphael altarpiece known as the *Colonna Madonna*, painted in 1504–5 for the convent of Sant' Antonio of Padua in Perugia. Mrs. Gardner's predella panel was originally part of it.

Vasari described the altarpiece as a "truly marvellous and devout" work, "much extolled by all painters." It had a royal pedigree, having been owned by

* Mrs. Gardner's painting came from the Inghirami Palace in Volterra, but there was another version at the Pitti Palace. For most of the twentieth century, scholars considered the Gardner picture the earlier of the two, but a careful restoration and scientific examination of the Pitti Palace portrait in the 1980s led most experts to accept it as the prime version, and attribute Mrs. Gardner's to "Raphael and School."

the Colonna princes in Rome and successive kings of Naples. Ruskin, who did not particularly admire Raphael, had urged Liverpool's merchants to buy this painting in 1874, and French critics had commended it to the Louvre as a "work of the highest order, which every European Gallery should be eager to secure." A brochure printed by Sedelmeyer quoted some of these assessments, traced the work's provenance, called it the "richest and most important composition of all the various Madonna pictures of Raphael," and compared it favorably with the *Ansidei Madonna*, which London's National Gallery had bought from the Duke of Marlborough in 1885 for £70,000 ($350,000), then the highest price ever paid for a painting.

Not all the experts agreed. The Louvre and the National Gallery had declined the painting—known as the "Madonna of a million" in the seventies because of its million-franc price tag—and it had been on display at the South Kensington Museum, where Morgan had probably seen it, from 1886 to 1896 without finding a buyer. The dealer Martin Colnaghi finally bought it in 1896 for $200,000, less than half the price then asked, and sold it to Sedelmeyer, who had it restored and cleaned. Morgan probably did not know that Sedelmeyer had offered it to Mrs. Gardner in 1897, or that Berenson had denounced it to her as only partly painted by Raphael, its composition devoid of "that spacious eurhythmy, that airy buoyancy which Raphael gives you in the *Sposalizio*, in the *Belle Jardinière*, in his Stanze. . . ." After Morgan bought the painting, Berenson went even further, lumping it with "pictures Raphael barely looked at."

Berenson exaggerated the picture's faults—he tended to disparage anything he had not authenticated—but art historians at the time and since have found the *Colonna Madonna* puzzling, lacking the elegance, lucidity, and coherence of Raphael's great work. Now at the Metropolitan Museum of Art, the panel is given to Raphael but described as "more primitive" than his other work of the period—the *Ansidei Madonna* and a fresco in San Severo, Perugia—and valued more highly for its place in the artist's development than for its aesthetic caliber.

Morgan acquired the altarpiece the day he saw it in Paris, for 2 million francs ($400,000), along with paintings by Rubens, Titian, Nattier, and Morland, paying $600,000 in all. (He later returned the Titian, probably as not genuine.) He did not hesitate to spend nearly half a million dollars for a single work by the "Prince of Painters," any more than he flinched at committing half a billion for Carnegie Steel. When he wanted something, he paid little attention to critics or price, and he wanted a Raphael Madonna.

He responded less to abstract qualities in works of art than to subject, history, rarity, provenance. The subject of the Raphael panel was what Henry Adams called "the highest energy ever known to man," and Morgan later complemented this acquisition with other Renaissance depictions of the Virgin and Child, filling his private study with Italian Madonnas. The history and rarity of the altarpiece were not in doubt. David Alan Brown has described the *Colonna Madonna* as "the most ornate of Raphael's pictures," and guessed that it appealed to Morgan's taste for "decorative richness": when the painting was cleaned at the Metropolitan in the 1970s, restorers found that marble veining and gilding had been added. Critical reservations notwithstanding, the *Colonna Madonna* was "*BIG* game"—a grand, costly prize by an incontrovertibly great artist, which would confer distinction on the collection and country to which it belonged. Since Morgan had set out to furnish America with exceptional cultural treasures, this one was irresistible.

He did not pay for it until the end of the year, as was his practice with large acquisitions. If it turned out to be "wrong," he would return it, as he did the "Titian" he had bought the same day. It did not turn out to be wrong. When Morgan paid Sedelmeyer's bill through his London office in December 1901, Clinton Dawkins cabled Jack from London (using the code name "Flitch" for the senior Morgan), "I hope, though we cannot hint it, that Flitch will not buy the National Gallery at the end of the year." In early January 1902 the *New York Herald* announced: MR. J. PIERPONT MORGAN GIVES RECORD SUM FOR RAPHAEL! Mr. J. Pierpont Morgan lent his Raphael to London's National Gallery, had it featured in a sumptuous hand-printed catalogue, and grew steadily prouder of it as the years went by. When he died in 1913, it was considered the most important painting in his collection.

At the end of April 1901, after acquiring the *Colonna Madonna* in Paris, he went off to Aix-les-Bains for a rest.

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