Chapter 4

Capitalism Indeed

IN 1899 there died in New York a man who, though he had never made much of a study of economics and had a curiously immature mind, may have had a more pervasive influence on the thinking of American businessmen at the turn of the century than all the professors of economics put together. This man's name was Horatio Alger, Jr., and what he had done was to write more than a hundred books for boys—success stories called *Bound to Rise, Luck and Pluck, Sink or Swim, Tom the Bootblack,* and so forth—the total sales of which came to at least twenty million copies.

Horatio Alger was a creature of paradox. The unfailing theme of his books was the rise of earnest, hard-working boys from rags to riches; yet he himself did not begin life in rags and did not by any means achieve riches; during his later years he lived mostly in the Newsboys' Lodging House on one of New York's drearier streets. His paper-bound guides to success were, and are, generally regarded by educated readers as trash; they were literal, prosy, unreal, and unsubtle to a degree. Yet they were the delight of millions of American boys during the years between the Civil War and World War I, and it is possible that most of these boys got from Horatio Alger their first intelligible picture of American economic life.

The standard Horatio Alger hero was a fatherless boy of fifteen or thereabouts who had to earn his own way, usually in New York City.

He was beset by all manner of villains. They tried to sell him worthless gold watches on railroad trains, or held him up as he was buggy-riding home with his employer's funds, or chloroformed him in a Philadelphia hotel room, or slugged him in a Chicago tenement. But always he was strong and shrewd and brave, and they were foolish and cowardly. And the end of each book found our hero well on the way toward wealth, which it was clear resulted from his diligence, honesty, perseverance, and thrift.

To the farmer's son, thumbing his copy of *Andy Grant's Pluck* by lamplight on the Illinois prairie, or to the country banker's son, scanning the *Brave and Bold* series in a Vermont village, the lesson of Horatio Alger seemed clear: business was a matter of trading among individuals and small groups of men, and if you worked hard and saved your money, you succeeded. The basic principles of economic conduct were the same as those laid down by Benjamin Franklin's Poor Richard:

"God helps them that help themselves."

"Early to bed, and early to rise,
Makes a man healthy, wealthy, and wise."

"If we are industrious we shall never starve, for, as Poor Richard says, *At the working man's house, Hunger looks in; but dares not enter.*"

"A fat Kitchen makes a lean Will."

And, to sum up: "In short, the way to wealth, if you desire it, is as plain as the way to market. It depends chiefly on two words, *industry* and *frugality.*"

There was no denying that the Alger thesis had a certain magnificent validity. Look at John D. Rockefeller, who had begun as a $4-a-week clerk in a commission merchant's house in Cleveland, and by the beginning of the twentieth century was becoming the richest man in the world. Look at Andrew Carnegie, who had begun at thirteen as a $1.20-a-week bobbin boy in a Pittsburgh cotton mill, and had become the greatest of steel manufacturers. Look at Edward H. Harriman, who had begun as a broker's office boy at $5 a week, and was building a railroad empire. And as for thrift, look at the great banker, George Fisher Baker, who not only had begun his career as a clerk, but during his early married life had imposed upon himself and his wife the discipline of living on half their income and saving the other half. These were only a few of the examples which proved the formula for success: begin with nothing, apply yourself, save your pennies, trade shrewdly, and you will be rewarded with wealth, power, and acclaim. To which the natural corollary was: poor people are poor because they are the victims of their own laziness, stupidity, or profligacy.

Naturally it was pleasant for succesful businessmen to believe that these were, in fact, the first principles of economics. But, one might ask, hadn't they learned in the classroom that economics is just a little more complex than that?

To this question there are two answers. The first is that mighty few of the tycoons of 1900 had ever studied economics. Take, for instance, eight of the most successful of all: John D. Rockefeller, Carnegie, Harriman, and Baker, whom we have just mentioned; and also J. Pierpont Morgan, William Rockefeller, James Stillman, and H. H. Rogers. Of these eight, only Morgan had had anything approaching what we today would call a college education; he had spent two years at the University of Göttingen in Germany, where he had pretty certainly not studied anything that we would now classify as economics. And it is doubtful if even in the prime of life many of these men, or of their innumerable rivals and imitators, had much truck with economic science, or thought of professors of economics as anything but absurdly impractical theorists. A man who had come up in the world liked to describe himself as a graduate of the School of Hard Knocks. Education was all right in its way, and you sent your son to college if you could, if only because it was a good place to make useful contacts with the right people; but these college professors knew nothing about business, which was a battlefield for hard-shelled fighters. And anyhow the principles laid down by Ben Franklin, and somewhat foolishly simplified for boys by Horatio Alger, were fundamentally sound.

At the turn of the century there were, however, several hundred thousand Americans who *had* gone to college. Of these, a somewhat smaller number had gone to institutions so up-to-date as to include economics in the curriculum. And a still smaller number had actually studied the subject. What had they been taught about economic life?

Despite the efforts of men like Richard T. Ely, Charles S. Walker, Simon N. Patten, and John Bates Clark, during the last quarter of the nineteenth century, to modernize the science of economics and bring it into accord with the changing actualities of a new financial and industrial era, most of these college graduates had been indoctrinated with the theories of "classical" economics. These theories were supposed to explain how individual men, or groups of men, behaved when they bought and sold goods. The classical economists had been bemused with the notion that just as the physicists could expound the laws of nature which accounted for the behavior of inanimate matter, so they themselves ought to be able to expound the laws of economics which accounted for the behavior of economic man in the market place: such as the law of supply and demand, the law of diminishing returns, and the law that bad money drives out good. They assumed, for their theoretical purposes, that any man, when he did business in the market place, was animated exclusively by motives of pecuniary self-interest—in other words, by the selfish love of gain. They assumed that, under normal circumstances, men thus motivated would tend in their buying and selling to produce an equilibrium of supply and demand, thereby automatically determining how much labor would earn, how much management would earn, and what would be the return on invested capital. They might admit, when pressed, that man was in actual fact animated by a variety of motives, such as the desire to be in the swim, the desire to do the decent thing, the desire to look successfully lavish. They might also admit that the normal operations of the market place were being constantly abnormalized by the efforts of pools, trusts, and holding-company combinations to enforce monopolies; that battles between rival interests for the stock-market control of this property or that had violent indirect effects on the course of other businesses; that tariffs, and factory laws, and labor conflicts altered or interrupted the orderly workings of economic law. But such phenomena as these, they felt, were "abnormal":

it was better to focus one's attention upon the normal course of the supposedly self-regulating markets. (It was somewhat as if meteorologists should find it more logical to concentrate upon the behavior of fair weather than upon the behavior of storms.) Furthermore, such present-day concepts as those of the national economy, the national income, the national gross product, and the interdependent functioning of economic groups, had not yet entered their thinking; the principles they propounded dealt with the behavior of individual, independent units of mankind.

Fascinated by the laws they had discovered, these classical economists tended to feel that anything which upset these laws was bad. In short, they taught the economics of laissez faire. Everything worked best when you let it alone. Even the gentlest and most amiable of men, for instance, would proclaim that "legislative interference with wages and hours" was "an abomination."

Nobody expounded the folly of tampering with the laws of economics more eloquently than Yale's great teacher of political economy, the dynamic William Graham Sumner. In his book *What Social Classes Owe to Each Other,* published in 1883, he had put the reformers to rout. "The yearning after equality," he had written, "is the offspring of envy and covetousness, and there is no possible plan for satisfying that yearning which can do aught else than rob A to give to B; consequently all such plans nourish some of the meanest vices of human nature, waste capital, and overthrow civilization."

This emphatically did not mean that Sumner was opposed to a better life for everybody. On the contrary, as a man of high and generous principle—he had begun his working life as a clergyman—he was heartily in favor of it. But he believed in the wider extension of opportunity, not in changing the rules under which business was conducted. He argued that

instead of endeavoring to redistribute the acquisitions which have been made between the existing classes, our aim should be to *increase, multiply, and extend the chances.* Such is the work of civilization. Every old error or abuse which is removed opens new chances for development to all the new energy of society. Every improvement in education, science, art or government expands the chances of man on earth. Such expansion is no guarantee of equality. On the contrary, if there be liberty, some will profit by the chances eagerly and some will neglect them altogether. Therefore, the greater the chances, the more unequal will be the fortune of these two sets of men. So it ought to be, in all justice and right reason.

Sumner would not have argued that there were not some ways in which legislation could protect the economically helpless. But he thought that most reform legislation was conceived in ignorance and drafted in folly. "You need not think it necessary," he would tell his Yale classes, "to have Washington exercise a political providence over the country. God has done that a good deal better by the laws of political economy."

Sumner was in dead earnest, just as John D. Rockefeller was when he said, "God gave me my money." The laws of economics were benign. All you needed to do was to let them work unhindered. If they seemed to shower benefits upon one man while others scrabbled for crumbs outside the back door of the restaurant, that was part of God's design.

The irony of the situation lay in the fact that for generations men had been tinkering with economic law to their own advantage, and in the process had produced institutions which were emphatically not God's work—as most of Sumner's hearers presumably supposed them to be—but man's. The corporation, for instance, was not an invention of God's. It was an invention of man's. It was a creature of the state: its privileges, its limitations, were defined by legislation. As put to work for the furtherance of industry and business in general, the corporation was one of the great inventions of the nineteenth century: an instrument of incalculable value. Yet, by taking adroit advantage of the legislative acts which defined its privileges, one could play extraordinary tricks with it. Corporate devices could be used to permit A to rob B—or, let us say, more charitably, to permit A to drain off all the gravy in sight and leave none for B. And it was a little foolish to defend such devices on the ground that one must let economic nature take its course.

It was largely as a result of the discovery of tricks that could be played with corporations, and particularly with their capital stock, that the wealth produced in such a tremendous spate at the turn of the century flowed in large proportion into a few well-placed hands. While the eyes of boys in Economics A were fastened upon the benignity of the law of supply and demand, the eyes of corporation lawyers and their clients were fastened upon the benignity of the New Jersey Holding-company Act. Most of these gentlemen would have regarded an income tax, let us say, as a flat transgression by man of economic law. But few of them regarded the Holding-company Act in any such light, even though it made the theoretical rewards of capital, as defined by the classical economists, look trifling.

I once amused myself by studying a number of Horatio Alger's stories to see how the young hero ultimately became rich. Clearly, his initial steps up the ladder of success were the direct fruits of his own industrious labor. These might lift him from five dollars a week to ten dollars a week. But that was not quite wealth. And I noticed that at the end of the book he had a way of getting his hands on capital.

Sometimes this capital was inherited: the supposed orphan, ragged though he was, proved to be the son of a man whose mining stock, previously considered worthless, was good for $100,000. Sometimes the capital was a gift: the boy's pluck made such a good impression upon rich Mr. Vanderpool that the old fellow made over to him the $50,000 that the boy had helped him to save from the robbers. Or the boy befriended an invalid gentleman in a Tacoma hotel, and out of gratitude this gentleman gave him a part interest in some house lots which promptly soared in value. The method varied; but when the time came for our hero to get into the money, it was a transaction in capital which won the day for him.

Manifestly the lesson of these books was not supposed to be that hard work brings in but a pittance and that the way to succeed is to stand in with the rich. The lesson was rather that capital comes as a reward from heaven to him who labors mightily, puts his pennies in the savings bank, and shuns the fleshpots. Work, save, be a good boy, and presently the railroad stock will fall into your lap and all will be well.

Perhaps the Horatio Alger stories help to explain to us why it was that a generation of businessmen who sincerely believed that wealth was the fruit of virtue and poverty the fruit of indolence, and that one should not tinker with economic law, were simultaneously shaping economic and social institutions which often seemed to follow quite different—and much more dynamic—principles. Let us look at some of these institutions.

II

In 1900 capitalism was capitalism indeed. Businesses were run by their owners, the people who had put up or had acquired the capital with which to finance them. There was very little of what Paul Hoffman has called the "diffusion of decision-making power." It would have seemed wildly irrational that a man should manage the destinies of a corporation while owning only a minute fraction of its stock, as so frequently happens today. Only two-thirds of the manufactured products of the country were made by corporations; the other third were made by partnerships or individual proprietors. No corporation in the country had over 60,000 stockholders; American Telephone and Telegraph, which by 1951 could boast a million of them, had in 1900 only 7,535. The Pennsylvania Railroad had 51,543; the Union Pacific, 14,256; United States Steel, shortly after its formation in 1901, had 54,016. These, it must be understood, were among the big stock-market favorites of the day; in most concerns, ownership was concentrated in far fewer hands. Witness, for example, Carnegie's personal holding of 58½ per cent of the stock of his huge Carnegie Steel Company.

The head of a company was likely to be a man who had started with an idea and some money to finance it—either his own money or his friends'; or else, if the concern were older, he might be the inheritor or purchaser of most of its capital stock. If the company were a large one whose shares were listed on the Stock Exchange, he might have bought a controlling interest in the course of stock-market trading. In any case he was likely to have a sense of personal proprietorship which few heads of businesses possess today, except in small or young concerns. And his freedom to do as he personally pleased with this working property of his was only slightly restricted either by law or by custom. The very idea of a "managerial revolution" would have been unintelligible to him. The business belonged to him, didn't it?

In many cases he felt that how he ran it was nobody else's affair. Some companies made ample reports to their minority stockholders, but others made scanty ones, and some made none at all. During the years between 1897 and 1905 the Westinghouse Company apparently held no annual meeting of stockholders. The United States Express Company held no meetings and made no report, year after year. The American Sugar Refining Company—a big concern with over 10,000 stockholders—reported nothing at all to them; all one could find out about its operations was contained in a balance sheet filed with the Secretary of State of Massachusetts in order that it might hold its corporate license to do business—and this balance sheet consisted merely of four generalized items of assets and three of liabilities. When John D. Archbold, who had succeeded John D. Rockefeller as active head of the great Standard Oil Company, got hold of an advance copy of a governmental report advocating more publicity about corporate affairs, he commented to Senator Boies Penrose: "Private corporations should not be required to make public items of receipts and expenditures, profits and losses. A statement of assets and liabilities is all that can benefit the public. Items of receipts and expenditures, profits and losses can only benefit the competitors."

If even minority stockholders had no business to know what was going on, still less did the government or the courts. The records of governmental investigations and of court trials during the last years of the nineteenth century are full of instances of men saying over and over again on the witness stand, as William Rockefeller did in a railroad rate case, "I decline to answer on advice of counsel." In this particular case the lawyer who was questioning him pursued the matter, and the following colloquy took place:

"On the ground that the answer will incriminate you?"

"I decline to answer on advice of counsel."

"Or is it that the answer will subject you to some forfeiture?"

"I decline to answer on the advice of counsel."

"Do you decline on the ground that the answer will disgrace you?"

"I decline to answer on the advice of counsel."

"Did your counsel tell you to stick to that one answer?"

"I decline to answer on the advice of counsel."

There was a general laugh, in which Rockefeller himself joined. But he was not simply amusing himself. Nor was he necessarily covering up anything specifically wrong. He was preventing people from sticking their heads into what was not their business, but private business; and this should be secret.

There had long been professional stock-market operators who had bought and sold the control of businesses—of railroads especially—almost as if they were counters in a game. These operators might be quite innocent of any concern about the company's actual operations, and might interest themselves only in making a profit in buying and selling it. The greatest railroad enterpriser of the early years of the twentieth century, E. H. Harriman, had begun his career as a stockbroker, and had first got into railroading when he bought a controlling interest in the shares of a weak railroad with the idea of renovating the property and selling it at a profit to either the Pennsylvania or the New York Central—which he did a few years later. That was one way of operating; there were others of a less laudable nature. One favorite one, of which the most formidable practitioner had been Jay Gould, was to buy control of a company, then cause it to make contracts which sucked money out of its treasury into some other concern to which one had personal access; and then, after thus squeezing the juice out of it, to sell out, leaving the company a financial wreck. During the latter half of the nineteenth century many slick traders had bought, used, and thrown away railroad properties almost as casually as if they were paper cups.

If one got proper legal advice, or could bribe a judge to decide in one's favor, one could do this sort of thing time after time without running afoul of the law, and without incurring much public disfavor except among the people whose lives and fortunes had been directly brought to ruin by one's action. The attitude among other citizens was likely to be, "Well, I don't think I'd do a thing like that if I were in his place, but after all you've got to admit that he's smart."

Prominent among those who played games with capital were the stock-market speculators and manipulators—men to whom a company was not the people who managed and worked for it, or its buildings and machines, or the products which these turned out, but merely the securities which represented its ownership, and the succession of figures on the stock-market ticker which reflected the going value of these securities. Listen to Henry Clews's account of how the "Standard Oil crowd," a group of speculators headed by Archbold and Rogers of the Standard Oil Company, so cannily bought and sold the shares of other concerns—which often had nothing at all to do with the oil business—that they could manipulate prices at will. Clews was no muckracker, but a stalwart defender of Wall Street and its ways. But even he was awed by the speculative success of these men:

> With them, [wrote Clews a few years after the twentieth century opened] manipulation has ceased to be speculation. Their resources are so vast that they need only to concentrate upon any given property in order to do with it what they please. . . . They are the greatest operators the world has ever seen, and the beauty of their method is the quietness and lack of ostentation with which they carry it on. There are no gallery plays, there are no scare heads in the newspapers, there is no wild scramble or excitement. With them the process is gradual, thorough, and steady, with never a waver or break. How much money this group of men have made it is impossible even to estimate. That it is a sum beside which the gain of the most daring speculator of the past was a mere bagatelle is putting the case mildly. And there is an utter absence of chance that is terrible to contemplate.

Sometimes the efforts of two competing groups of men to get control of a given property by means of buying on the Stock Exchange had convulsive effects. In the spring of 1901, for instance, the Morgan forces and the Harriman forces were both trying to acquire the

Burlington Railroad—Morgan, in order to supplement the Northern Pacific system, which his group controlled; Harriman, in order to supplement his Union Pacific system. Harriman conceived the bold idea of accomplishing this end by buying the control of the Northern Pacific itself out of his unwary rivals' hands. He bought Northern Pacific stock quietly and rapidly. The Morgan forces, taking belated alarm, in turn bought furiously. Numerous Wall Street speculators, seeing what looked to them like an unwarranted rise in the price of Northern Pacific stock, sold short (that is, sold Northern Pacific stock which they didn't own, in the hopes of buying it later at a lower price for subsequent delivery). The result was that the Morgan and Harriman forces, between them, bought more stock than existed. The price of Northern Pacific on the ticker leaped to 1,000; there was a panic as the frantic short sellers sold everything they possessed in order to save themselves.

To us today such a cause for panic would be inconceivable; the operations of the stock market are so hedged about with restrictions that nothing of the sort could happen. But in 1901 the buyers and sellers of capital could do almost as they pleased with it, no matter how much damage a collision between them might bring about.

Most businessmen believed in competition—theoretically. But in practice there was a ceaseless search for ways in which to prevent it, so that rival companies in an industry might all jack up their prices and enlarge their profits. Again and again the heads of various steel companies, let us say, would form a "pool"—make an agreement not to sell below a certain price. But often—as one industrialist put it—such agreements lasted only as long as it took the quickest man in the group to get to a telegraph office and quote a lower price in order to grab business from the others. So the search went on for a way of making agreements that would stick.

In 1879 John D. Rockefeller's lawyer, Samuel C. T. Dodd, found one. He got the owners of forty different oil companies to put their stock into the hands of a group of trustees (headed by Rockefeller), who could then operate all forty companies as a unit, charging what they pleased and forcing their competitors to the wall; hence the term "trust." During the eighteen-eighties there appeared a sugar trust, a butcher trust, a rubber trust, and many others. But so ferocious was the outcry of protest from rival businessmen against the trusts—and from the gouged public too—that the legislators went to work to outlaw such practices, the most famous of their legislative products being the Sherman Antitrust Act of 1890.

Yet even this obstacle to the consolidation of competing businesses did no more than delay the trend temporarily. For a Supreme Court sympathetic with big business interpreted the Act very narrowly for many years. And anyhow, meanwhile another lawyer had made another corporate invention.

In 1889 the Governor of New Jersey had asked a lawyer named James B. Dill to suggest a way of fattening the state's treasury. Dill had suggested that a neat way to do this would be to pass a New Jersey law permitting companies incorporated in New Jersey to buy and hold the stock of other corporations—something which up to that time had generally been held illegal. The New Jersey legislature acted; there was a rush to incorporate companies in New Jersey; the state accordingly made a lot of money out of incorporation fees. And before long a new era of American capitalism began.

For now a group of competing companies no longer needed to form a trust in order to combine themselves into a giant concern which would command the market and choke off competition. They could organize a new corporation, a holding company which would buy the stock of their various companies—or, more strictly, exchange its shares for theirs—and this holding company would thereupon control the operations of all of them.

During the last years of the nineteenth century there was a furious epidemic of holding-company incorporations, and it raged most spectacularly in the steel industry. The manufacturers of wire got together to form the American Steel & Wire Company. Another group of producers got together to form the American Tube Company; another, to form the American Tin Plate Company, and so on. At last, in the winter of 1900-1901, the combinations in turn combined. A new super-holding company was organized which exchanged its shares for those of these new consolidated concerns—and even bought, too, the control of Andrew Carnegie's hitherto independent steel company, and also some Rockefeller iron mines—thus bringing into one vast unit about three-fifths of the steel production of the entire country. This new giant was called the United States Steel Corporation. It was breathtakingly huge—the biggest business unit that the world had ever seen.

The rush to form such holding-company combinations, not only in the steel industry but elsewhere too, was enormously accelerated by the fact that you could make big money out of them, and quickly. For it was discovered that the public could be encouraged to buy the shares of the combinations at prices far exceeding the total prices of the shares of the individual component companies. Each time there was a combination, the value of shares leaped. A man who had held the controlling interest in a small steel company—perhaps a struggling one—suddenly found himself the owner of a valuable block of shares of, let us say, American Tin Plate; and then, only a couple of years later, of a far more valuable block of shares of United States Steel. Millions of dollars appeared as if from nowhere and fell into his hands. No wonder that Pittsburgh was full of new millionaires; that the city became, as Herbert N. Casson put it, "a Klondike for artists, book agents, curio dealers, and merchants who had expensive gewgaws for sale"; and that one of the beneficiaries of the consolidation boom "ordered a special brand of half-dollar cigars made in Cuba, each with his name and coat of arms on the wrapper." The bankers and promoters who launched the new issues of stock of these great combinations profited even more hugely. The total profit of the syndicate which put United States Steel on the market came to about $60,000,000, of which the share of J. P. Morgan & Company, which managed the great transaction, came to at least $12,000,000.

One could argue that the inflated value put upon the stock of these new monsters of industry was quite unjustified; that what these huge profits represented was a capitalization of the hoped-for earning capacity of the new companies for a decade or even a generation to come. One could argue that the basic aim of such consolidations was simply monopoly, and in some cases the result certainly was monopoly, though not in all. But another idea was working too; the idea of integration, of making a single efficient unit out of a multiplicity of fragments. Although the public outcry against what people still called "the trusts" continued, and although now there was a rising note of fear in it—the fear that big business would gain such a stranglehold on the country that the small enterpriser would be stifled—nevertheless there was a magnificence about these new giants of industry that provoked admiration along with fear. For by integrating operations and cutting costs, the new consolidated companies opened the way to economical mass production. In the process of playing highly remunerative games with the tokens that represented capital, the bankers and the steel men had introduced into America something new: twentieth-century industry, undisciplined still, but full of promise.

III

Two more things remain to be noted about the giant corporations. One is that in their formation, individual men of wealth, as against institutions, played a part far bigger than would be expected today. For instance, the syndicate which launched the issue of Steel Corporation stock in the spring of 1901 included approximately three hundred participants. Of the twenty-six leading ones, only four were institutions (J. P. Morgan & Co., the First National Bank of New York, the New York Security & Trust Co., and Kidder, Peabody & Co. of Boston); the remaining twenty-two were individuals. The four leading members were all individuals: the two Moore brothers, William H. and James H.; William B. Leeds; and Daniel G. Reid. American business was not as institutionalized as it is today; the rich man counted for more, the rich institution for less.

The other thing to be noted is the sort of men these combinations brought to the top. Take this new Steel Corporation, for instance. Andrew Carnegie, who had been first and foremost a steel manufacturer, was out of it. The dominant figure in it was not a steel manufacturer, but a banker—J. Pierpont Morgan. And his right-hand man was not a steel manufacturer primarily, but a corporation lawyer —Judge Elbert H. Gary.

I have said that in that age of unbridled capitalism, a company was run by the man who owned it, and he tended to be its personal proprietor. But unless he was overwhelmingly successful, and also astute enough to plow his profits back into the property—as Henry Ford did some years later—there was one group of men of whom he stood in awe: the bankers. They commanded the credit he might need to tide him over lean seasons; and if he had to reorganize his company or to sell bonds or stock to investors, they had the power and prestige in the financial world to provide—or deny—a market for his securities. To command capital was even more important than to own capital.

There was also, during the epidemic of holding-company consolidation, another species of businessman who shot into new prominence: the promoter. This man was a sort of marriage broker for corporations. He might know little about steel, for instance, but be able to bring steel companies together. He knew how to coax and threaten their owners into combining, and he knew what were the successive steps that had to be taken to get the new holding company set up. There was also the corporation lawyer, who knew the necessary legal devices. ("What looks like a stone wall to a layman," said Finley Peter Dunne's Mr. Dooley, "is a triumphal arch to a corporation lawyer.") Morgan was both a promoter and a banker; Gary was both a promoter and a corporation lawyer. The banker and his lawyer aide were becoming the presiding geniuses of big business.

Indeed as the twentieth century began Pierpont Morgan was becoming by all odds the most powerful figure in the American world of business, if not the most powerful citizen of the United States. He controlled, or at least was highly influential in, the corporations that ran a number of the most important railroads of the land; not because he was a railroad man, for he was not, but because he was a master of the art of financial reorganization, and when big railroads got into financial trouble, as many of them did during the depression of the eighteen-nineties, he was the man who could best put them on their feet again—partly by reason of the wealth that his firm directly commanded, partly by reason of his great prestige and moral force in Wall Street, and partly by reason of his reputation for insisting upon proper management of any property for which he had raised money. When Morgan reorganized a railroad company he either called the tune from then on, or else listened to the tune and intervened if he didn't like the sound of it. He was also a power among bankers; gradually he and his partners were becoming major factors in the policies of many of the leading banking houses of New York. And now, in 1901, he had become the kingpin of the great steel industry, and was looking about for more worlds to supervise. His authority was vague, but it was immense—and growing.

This gruff, thundering, awe-inspiring man with the hideous red nose and the piercing eyes—this banker, promoter, churchman, art collector, yachtsman, and philanthropist—this inwardly shy, deeply religious, narrowly patrician, and boldly enterprising gentleman was no believer in competition. Morgan seemed to feel that the business machinery of America should be honestly and decently managed by a few of the best people, people like his friends and associates. He liked combination, order, the efficiency of big business units; and he liked them to operate in a large, bold, forward-looking way. He disapproved of the speculative gangs who plunged in and out of the market, heedless of the properties they were toying with, as did the Standard Oil crowd. When he put his resources behind a company, he expected to stay with it; this, he felt, was how a gentleman behaved. His integrity was solid as a rock, and he said, "A man I do not trust could not get money from me on all the bonds in Christendom." That Morgan was a mighty force for decent finance is unquestionable. But so also is the fact that he was a mighty force working toward the concentration into a few hands of authority over more and more of American business.

When in the spring of 1901 the news broke that he had formed the Steel Corporation, there was a note of dismay in the comment even of conservative citizens. President Hadley of Yale said in a speech that unless some way could be found to regulate such trusts, there would be "an emperor in Washington within twenty-five years." John Brisben Walker, editor of the *Cosmopolitan Magazine,* which was then a journal of public affairs, wrote that between the lines of the Steel Corporation announcement could be read these words: "The old competitive system, with its ruinous methods, its countless duplications, its wastefulness of human effort, and its relentless business warfare, is hereby abolished." Others feared that if the trend toward consolidation continued, the public would rebel and embrace socialism. Said the Boston *Herald* editorially, "If a limited financial group shall come to represent the capitalistic end of industry, the perils of socialism, even if brought about by a somewhat rude, because forcible, taking of the instruments of industry, may be looked upon even by intelligent people as possibly the lesser of two evils." The Philadelphia *Evening Telegraph* likewise feared the eventual coming of "one of the greatest social and political upheavals that has been witnessed in modern history."

What irony that the revolution which these observers feared should indeed have taken place—but not in the United States! It has often been noted that when the orators of Moscow berate American capitalism and turn their invective upon Wall Street, they are a couple of generations out of date; one might say, more specifically, that a typical Communist propagandist of the nineteen-fifties sounds exactly as if he were reacting angrily to the news in the morning papers of March 3, 1901.

On that date there were true grounds for uneasiness. To a generation whose economic thinking had been running in the grooves fixed by Benjamin Franklin and Horatio Alger and the classical economists, it was disquieting enough to see the masters of capital using new instruments and devices to set at naught the traditional economics of man-to-man bargaining. It was more unsettling still to see them apparently moving, in what had been a political democracy, toward the mastery of America.