

Henry P. Davison



Julius Kruttschnitt (Right), Accompanied by Marvyn Hughitt, of the Chicago-Northwestern

FROM FARM BOY TO FINANCIER

STORIES OF RAILROAD MOGULS

By FRANK A. VANDERLIP

AND BOYDEN SPARKES

BECAUSE I was a director of many railroads, I traveled thousands of miles every year on trips of inspection. Consequently, I came to know well and to admire many of the men who were operating the properties controlled by such giants as Harriman and Hawley. Harriman had been a broker on the New York Stock Exchange before he began to concern himself with railroads, and Hawley—well, Hawley was a mouse-faced, taciturn bachelor who remained to the end of his life something of a mystery. To me, the biggest mystery of all was the fact that with a fortune of many millions he died intestate. These great capitalists had as their lieutenants practical railroad men. Naturally, because of the City Bank's relations with Harriman, I was in especially close touch with his roads.

Out of a host of men important in Harriman's service who clamor for recognition, I find myself fixing my mind on Epes Randolph. Mr. Randolph was a grand man, one who was particularly lovable. I am sure you might find a thousand men who would be as fully aware as I of his endearing qualities; but there was much more to him. After developing tuberculosis, he had moved to Arizona in order to stay alive. Out there, despite his affliction, he went ahead as a forceful person. It was he who built the Southern Pacific Railway of Mexico against a background and social structure almost medieval. It was a heroic work.

Another who greatly helped to give substance to Harriman's visions was Julius Kruttschnitt. Harriman was rich in vision, in imagination; there was in him something of the quality which a poet brings to his work. But Kruttschnitt had absolutely no

own division. He boned up on every possible statistic until he was prepared to report on each item of physical property for which he was responsible. At last, early one frosty morning, the special train arrived at the station where he waited. The president, from his private car, stepped down to the platform and to young Kruttschnitt propounded a dismaying question; it was the only one he was not prepared to answer.

"What," asked the president, "is the temperature?"

Kruttschnitt, when I met him, had become a ruddy-faced man of great bulk and slow movements. He had become the catechist of a host of divisional superintendents. Kruttschnitt was the one who kept Harriman's railroads in tune. He was not a man to let enthusiasm run away with his judgment, and that was something that made him the perfect complement of E. H. Harriman.

Harriman had the philosophy and the methods of a Mesopotamian monarch. He was not easy on his subordinates. He did as he pleased, ruthlessly seizing every advantage that he saw, regardless of the rules that govern ordinary men. I recollect a time when Robert Scott Lovett was just about heart-broken by a thing that Harriman did. Judge Lovett had learned about a certain matter in the strictest confidence. It was important to his honor that that confidence should not be violated, particularly from any quarter where violation of it would be harmful. Judge Lovett, who was general counsel of the Harriman roads, also felt obliged to tell Mr. Harriman what he knew. In doing so, he impressed upon him the confidential character of what he had told him.

imagination. His implements were facts; he was a living index of all railroad facts.

Kruttschnitt himself told me a story one time that illuminates his character somewhat. From a quite inconsequential beginning in railroad work, he had risen to the post of division superintendent on a railroad that crossed Kansas. In due course the president of the railroad was reported as ready to make an inspection trip over the line. Young Kruttschnitt determined to be letter perfect in his knowledge of his

Mr. Harriman immediately made use of the information.

"I don't see how you could have done such a thing to me," Judge Lovett chided Harriman in his bewilderment.

"I understand these things so much better than you do," retorted Harriman, in a tone such as he might have used to a small boy.

Well, I was not willing to let Mr. Harriman be the judge of right and wrong for me. There were times during his life, when I was sitting on the boards of his roads, where I opposed underwriting fees because I felt they were too high. As a director I believed my obligation of trusteeship ran to the stockholders, and not to Mr. Harriman, nor the City Bank. I have in mind recollections of occasions when it was pointed out to me, in a hurt tone, that the City Bank was sharing in those underwriting profits that I thought were too fat. I hope I do not sound mealy-mouthed now, because, actually, I am trying to throw light upon something that was built into my character. Words that were spoken solemnly to me through the bearded lips of my father, when I was small, seem to have filled little reservoirs of emotion that have controlled many of my decisions.

When Directors Don't Direct

NOW, it should be said that when a company is run by a strong, dominant executive, his board of directors usually is glad to vote for anything he wishes. Quite often, I suspect, directors have voted without troubling themselves to inquire as to the purpose behind some move they authorized. Indeed, I recollect an illuminating story Mr. Stillman once told me concerning the board of the New York Central, under the autocratic direction of Commodore Vanderbilt.

There had been a leak of some information to the public, and Mr. Vanderbilt was greatly irked by it. It was information that never had reached the board. One director suggested, with something of a stutter, that the best way to stop further leakage was to elect the culprit to a place on the board; then he would not know anything worth leaking. Well, Harriman did not always take his directors into his confidence, either.

There came a day when Harriman was departing for Europe. The executive committee had a regular meeting scheduled for that day; but as Mr. Harriman's ship was to sail at noon, we were asked to meet at his house and then, in the afternoon, to finish the routine matters without his presence. Accordingly we gathered at his home, transacted some business of no great importance, and, after bidding him bon voyage, went down town. Otto Kahn, of Kuhn, Loeb & Co., remained behind so that he could go with Mr. Harriman to his ship. Mr. Kahn came from the ship to our meeting and reported that there was an important matter requiring our attention, something that Mr. Harriman had forgotten to mention.

The Union Pacific, Mr. Harriman had concluded, ought to sell something quite valuable which it owned—a large amount of Wells, Fargo & Co. stock. The reason relayed to the board by Mr. Kahn, from Mr. Harriman, was that competing railroads objected to the operation over their lines of an express company owned by a competitor railroad. Mr. Harriman, we were assured, desired the directors to authorize the sale of the express-company stock. He wanted the thing done as soon as possible.

The matter had come before us with what I felt to be disturbing suddenness. I wanted to know how so much stock could be sold quickly without loss. It was listed on the Exchange, but because it was so closely held transactions in it rarely occurred. In spite of the fact that opposition to Mr. Harriman was akin to lese majesty, I asked for more time to consider the proposal. So the matter was laid over.

One other director sided with me, and so the sale did not occur. Again and again it was brought up for consideration, but we stood fast.

Because of his power to shift railroad deposits, and for other obvious reasons, Mr. Harriman was an important figure in the eyes of Mr. Stillman, Mr. Sterling and William Rockefeller. Any crotchet of Harriman was something that might, I knew, have unpleasant repercussions. I was entirely aware of this on a day when a friend came into the bank to inform me that Harriman had sailed from Europe for New York, after declaring that he was coming home for just one reason—to get my scalp.

Harriman came home, but on the surface there never was any unpleasantness between us. Eventually, at a price higher than the Stock Exchange

quotation at the time it first was proposed to sell the Wells, Fargo stock, the sale was made. I wish to add that I regard Harriman as a man of great ability who rendered service to the country, however selfishly he went about it. He built up his properties and extended them, usually with wisdom. When he fought, he fought as statesmen fight—with all the forces at his command. The most important of those forces was money.

As early as 1907 I had found myself in hearty accord with Woodrow Wilson about the matter of the social value of publicity for the affairs of big corporations. He had stated publicly at that time that he thought the aggressive antagonism toward trusts was due to the fact that the people were kept in ignorance of the affairs of the trusts. He had said further—and I still agree with him—that corporation lawyers injured the interests of their clients by counseling secrecy. Doctor Wilson at that time advocated the drafting of a statute that would compel officers of corporations to file for public inspection complete reports of directors' meetings. Well, there are some of us who have been on many boards who would say such reports might not reveal much. None of the big men of Wall Street could tolerate the thought of publicity when I arrived there. If they were suspicious of reporters, they were equally suspicious of men who would talk with reporters. Baker, Morgan, Stillman, habitually avoided journalists; it was an honorable but mistaken part of their creed.

A great corporation carrying on a public service is not a private thing; it affects too many lives. From my earliest days as a reporter, when I had to cozen my way into stockholders' meetings by buying

a single share of stock, I have felt that corporate secrecy generally was wrong. I thought then, and I think now, that corporation wealth would be better administered from the viewpoints of small stockholders, labor and the public, if the affairs of corporations had a great deal more publicity. My views on this subject were considered radical by some of my close associates when I was president of the National City Bank. I remember when there was a discussion by the New York Clearing House of a proposal to create a special authority to be vested in a clearing-house examiner. The idea behind that suggestion was that if a bank was not being run properly, the Clearing House members ought to know about it. I favored that; Mr. Stillman was horrified.

Everything in his character cried out against a proposal to admit somebody representing all the other banks into the affairs of the City Bank. I did not feel that there was anything then that might not be looked at; Mr. Stillman felt that advantage could be taken of us by some rival or some speculator if all our affairs were subjected to outside scrutiny. I felt that there was a greater risk for us in blinding ourselves to improper dealings in some other bank. It has been my experience that honest business men greatly outnumber dishonest business men. I have found that, usually, business is fairly conducted. It is because I am so sure of this that I think that publicity rather than a ceaseless flood of new laws is what we need. Publicity would sharply curb the grasping fellows.

A Secret Expedition to Jekyl Island

DESPITE my views about the value to society of greater publicity for the affairs of corporations, there was an occasion, near the close of 1910, when I was as secretive—indeed, as furtive—as any conspirator. None of us who participated felt that we were conspirators; on the contrary, we felt we were engaged in a patriotic work. We were trying to plan a mechanism that would correct the weaknesses of our banking system as revealed under the strains and pressures of the panic of 1907. I do not feel it is any exaggeration to speak of our secret expedition to Jekyl Island as the occasion of the actual conception of what eventually became the Federal Reserve System.

Congress, after 1907, had realized that something had to be done to strengthen our banking system. To provide itself with a better understanding of the problem, there had been appointed a joint commission of twenty-five members of both houses, under the chairmanship of Senator Aldrich, who was, on the whole, the best-informed and the most dominant man in Congress on financial measures. This group had gone to Europe, had interviewed bankers and the heads of the central banks, and then, after a pleasant summer, they had returned to the United States without a definite idea of what they ought to do. Senator Aldrich did not know what they ought to do, either, although he really had been working hard for two years.

For me the beginning of the adventure, I should think, was a letter that came from Mr. Stillman in Paris. He said he had just had a long conference with Senator Nelson Aldrich—Zivil in our code—who was very keen to get to work on banking and currency revision. Aldrich, Mr. Stillman reported, regretted that Henry Davison, of J. P. Morgan & Co., and I had been unable to join him in Europe during the summer; he felt that over there we might have had plenty of time for our discussions, and been free from interruptions. In a moment of entire candor he would have said, "free from reporters." Mr. Stillman said he had told Mr. Aldrich that freedom from interruptions was essential, but that it could be accomplished by getting Davison and me down to Warwick—his place in Rhode Island—without anyone's knowing of it. That was Mr. Aldrich's plan as he left Paris. Mr. Stillman wrote me that I should make everything else subservient to giving my whole time and thought to a thorough consideration of the subject. He said that Aldrich was persuaded that he could accomplish more by getting out of the Senate, so as to put the work of revision on a non-partisan basis. Mr. Stillman expressed to me his fear that after revision

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KEYSTONE VIEW

Mr. and Mrs. William Rockefeller

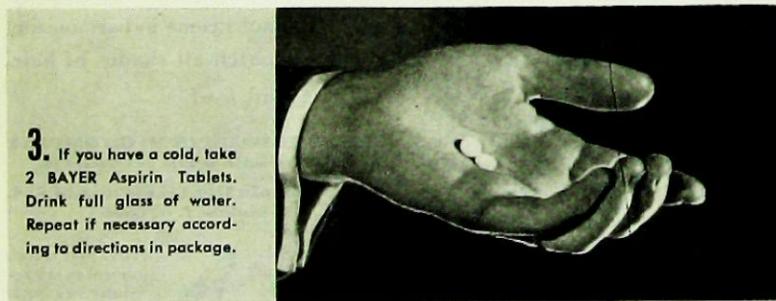
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FROM FARM BOY TO FINANCIER

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the banks might not be so well off. He wrote that from that time on Davison and I ought to follow the matter very closely, and keep in touch with Aldrich. Aldrich, I was informed, believed in some sort of centralization, but not in the establishment of a central bank such as France had. Mr. Stillman also reported to me that in his talk with Senator Aldrich he himself had not expressed any views, except as he had impressed on the senator his belief in the necessity of not being too much influenced by "our Wall Street point of view."

But would the electorate have believed that? I question their ability to do so. Just to give you a faint idea: Senator Aldrich was the father-in-law of John D. Rockefeller, Jr., and himself a very rich man. Once I had written to Woodrow Wilson at Princeton, inviting him to speak at a dinner. Wishing to impress him with the importance of the occasion, I had mentioned that Senator Aldrich also had been invited to speak. My friend Doctor Wilson had astonished me by replying that he could not bring himself to speak on the same platform with Senator Aldrich. He did come and make a speech, however, after I had reported that Mr. Aldrich's health would prevent him from appearing. Now then, fancy what sort of headlines might have appeared over a story that Aldrich was conferring about new money legislation with a Morgan partner and the president of the biggest bank.

On October 28, 1910, I wrote to Mr. Stillman in Paris: "Senator Aldrich met with what came very near being a severe, if not fatal, automobile accident. You probably have seen the report of it in the papers. He was pretty well bruised, having cuts on each side of his face. He is very much better now, but the accident has naturally postponed the conference that was in mind. He will be about in a few days, and Mrs. John D., Jr., tells me that they do not think there will be any serious effect from the accident."

Bankers in Disguise

As the time for the assembling of Congress drew near, Senator Aldrich became increasingly concerned about the report he must write on behalf of the joint monetary commission; likewise, there ought to be, he knew, a bill to present to the new Congress, and none had been drafted. This was how it happened that a group of us went with him to the Jekyll Island Club on the coast of Georgia.

Since it would be fatal to Senator Aldrich's plan to have it known that he was calling on anybody from Wall Street to help him in preparing his report and bill, precautions were taken that would have delighted the heart of James Stillman. Those who had been asked to go were Henry Davison, Paul Warburg, Ben Strong, and myself. From Washington came A. Piatt Andrew, Jr., who was then an Assistant Secretary of the Treasury, and who now is a member of Congress from Massachusetts. We were told to leave our last names behind us. We were told, further, that we should avoid dining together on the night of our departure. We were instructed to come one at a time and as unobtrusively as possible

to the railroad terminal on the New Jersey littoral of the Hudson, where Senator Aldrich's private car would be in readiness, attached to the rear end of a train for the South.

When I came to that car, the blinds were down and only slender threads of amber light showed the shape of the windows. Once aboard the private car we began to observe the taboo that had been fixed on last names. We addressed one another as "Ben," "Paul," "Nelson," "Abe"—it is Abram Piatt Andrew. Davison and I adopted even deeper disguises, abandoning our own first names. On the theory that we were always right, he became Wilbur and I became Orville, after those two aviation pioneers, the Wright brothers. Incidentally, for years afterward Davison and I continued the practice, in communications, and when we were together.

Secret Meeting on Jekyll Island

The servants and the train crew may have known the identities of one or two of us, but they did not know all, and it was the names of all printed together that would have made our mysterious journey significant in Washington, in Wall Street, even in London. Discovery, we knew, simply must not happen, or else all our time and effort would be wasted. If it were to be exposed publicly that our particular group had got together and written a banking bill, that bill would have no chance whatever of passage by Congress. Yet, who was there in Congress who might have drafted a sound piece of legislation dealing with the technical banking problem with which we were concerned? Indeed, there were surprisingly few bankers, besides those of us who had been called together, who had given the special matters under consideration any thorough study whatever. Most bankers were reluctant to accept any change; George Baker was.

We proceeded, in the rear room of that private car, to get to work as soon as the train was moving. That first discussion of the banking structure and of what ought to be done about it produced scraps of ideas as formless as the contents of a rag bag. Everyone had some little piece of a project to throw on the table for discussion, and everyone's pet scheme encountered some other fellow's objection.

We had traveled a good many miles without making much progress, when I told my companions of a piece of advice, as to the proper way to conduct a conference, that had been given to me by Frank Trumbull, a dear friend of mine who was then the chairman of the board of the Chesapeake & Ohio Railway.

"What we ought to do first," I said, "is to set down those things about which we are agreed; then, one by one, we can take up those things about which we seem to disagree."

From then on we made swift progress. I was appointed amanuensis and in my paleolithic shorthand recorded those proposals which we all were ready to echo as we heard them; of course, we knew that what we simply had to have was a more elastic currency through a bank that would hold the reserves of all banks.

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WHEN YOU BUY A CASKET

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We were taken by boat from the mainland to Jekyl Island and for a week or ten days were completely secluded, without any contact by telephone or telegraph with the outside. We had disappeared from the world onto a deserted island. There were plenty of colored servants, but they had no idea who Ben and Paul and Nelson were; even Vanderlip, or Davison, or Andrew, would have meant less than nothing to them. There we worked in a clubhouse built for people with a taste for luxury. The live-oak trees wear fantastic beards of Spanish moss on Jekyl Island; in November brown leaves make its forests utterly charming. Without our ever stopping to hunt, deer, turkey and quail appeared on the table; there were pans of oysters not an hour old when they were scalloped; there were country hams with that incomparable flavor that is given to them in the South. We were working so hard that we ate enormously. We worked morning, noon and night.

We put in the most intense period of work that I have ever had. Sometimes Davison and Strong would be up at daybreak to get a horseback ride, or a swim before breakfast, but right after breakfast the six of us would gather around the table and resume where our discussion had ended the previous midnight. We stuck to the plan of putting down on paper what we agreed upon; there was no back-tracking, no wrangling. Harry Davison was a splendid person to prevent wrangles in any company. Warburg, the best-equipped man there in an academic sense, was so intense and apparently felt a little antagonism toward Aldrich that some of our moments of strain might have developed into real hindrance had it not been for Davison. Always he could be counted on to crack a joke just at the right moment to ease a strain. No telephones rang, none could bother us to ask for an opinion of the market, there were no directors' meetings, no interruptions whatever. Thanksgiving occurred during that week, and we ate wild turkey with oyster stuffing and went right back to work. We gave, each of us, every bit of our mental energy to the job, and I enjoyed that period as I never have enjoyed anything else. I lived during those days on Jekyl Island at the highest pitch of intellectual awareness that I have ever experienced. It was entirely thrilling.

Collaborating with Aldrich

As we dealt with questions I recorded our agreements in that shorthand I had first practiced with chalk on the tail stock of my lathe back in Aurora. If it was to be a central bank, how was it to be owned—by the banks, by the Government, or jointly? When we had fixed upon bank ownership and joint control, we took up the political problem of whether it should be a number of institutions or only one. Should the rate of interest be the same for the whole nation, or should it be higher in a community that was expanding too fast and lower in another that was lagging? Should it restrict its services to banks? What open-market operations should be engaged in? That was the sort of questions we dealt with, and finally, at the end of our week, we had whipped into shape a bill that we felt, pridefully, should be presented to Congress. As I recall it Warburg had some objections, but we were in substantial agreement on the measure we had created. We returned to the North as secretly as we had gone

South. It was agreed that Senator Aldrich would present the bill we had drafted to the Senate. It became known to the country as the Aldrich Plan. Aldrich and Andrew left us at Washington, and Warburg, Davison, Strong and I returned to New York.

Congress was about to meet, but on a Saturday we got word in New York that Senator Aldrich was ill—too ill to write an appropriate document to accompany his plan. Ben Strong and I went on to Washington and together we prepared that report. If what we had done then had been made known publicly, the effort would have been denounced as a piece of Wall Street chicanery, which it certainly was not. Aldrich never was a man to be a mere servant of the so-called money interests. He was a conscientious, public-spirited man. He had called on the four of us who had Wall Street addresses because he knew that we had for years been studying aspects of the problem with which it was his public duty to deal.

I Become a Millionaire

As is now well known, the bill we drafted did not get through Congress. Aldrich retired from the Senate, and then a Democratic majority came down to Washington along with Woodrow Wilson, who had defeated President Taft. The platform on which he was elected contained a statement expressing the opposition of the Democratic Party to the Aldrich Plan, or a central bank. There was a good deal of discussion about that. It was contended that originally the platform committee had agreed upon the statement: "We are opposed to the Aldrich Plan for a central bank."

Now, although the Aldrich Federal Reserve plan was defeated when it bore the name of Aldrich, nevertheless its essential points were all contained in the plan that finally was adopted. It provided an organization to hold the reserves of all member banks and arranged that they would always be ready to relieve a member bank under pressure by rediscounting loans that it held. The law as enacted provided for twelve banks instead of the one which the Aldrich Plan would have created; but the intent of the law was to coordinate the twelve through the Federal Reserve Board in Washington, so that in effect they would operate as a central bank. There can be no question about it: Aldrich undoubtedly laid the essential, fundamental lines which finally took the form of the Federal Reserve Law.

All the experiences with which my personality has been drenched since I was born have been working changes in me. A small boy is changed when for the first time he straddles a pony and thinks, "This exciting creature is mine." As a lad, in August, I would drop watermelons over the fence into the hog lot, and as the green spheres burst into vermilion lumps that pigs devoured, I was changed by what I then felt. The wretchedness of looking down into an open grave at the coffin of my father changed me. The feel against my flesh of grease-stained, gritty overalls, and the smells of a machine shop—red-hot iron, cinders, new wood, tobacco juice—all those things put substance to my ego. Hours of newspaper reporting, the feel of my first dress-shirt bosom, a Government carriage at my disposal, awkwardness at parties, becoming a rich man's protégé, entering a bank—all the things that are indexed in seventy

years of life have worked chemical changes in that which is labeled Frank Vanderlip. Naturally, then, I am disposed to admit that I was changed when I discovered that I had become a millionaire.

A million and a half dollars became mine almost with the swiftness with which it might have happened to Aladdin. I had come from Washington in 1901, possessing barely \$2000. In nine years I never had spent all my income, and I had made some beyond my salary as a bank officer. Then I had scented a rich opportunity in a Texas land deal. There was a deposit of sulphur on the property. An ingenious method had been developed for getting sulphur out of the ground. The trick was to send live steam deep into the earth, and then pump out the water into which the sulphur had dissolved. I made a substantial commitment of one or two hundred thousand dollars, as I recall it. I went into the venture with E. P. Swenson. He had large land interests in Texas and also commanded an active organization down there which could be relied on to develop the property on a sound basis. The speculation proved highly profitable for all who went into it. What we developed is called the Freeport-Texas Sulphur Company. A million and a half! I assure you that for me it was more than an entry in my account book. It was a throbbing emotion.

Upon each of the six occasions when I was freshly aware that I was the father of a new personality, I grew excited; but I managed to do a day's work. I was forty-six when I had this experience of becoming a millionaire, so my appetites were under control. I did not indulge in a champagne celebration; that was not my way. I felt a sensation of pride, of well-being, of confidence in my ability henceforth to look after those for whose lives I was especially charged with responsibility. From boyhood I had been driven, always, by the haunting knowledge that I had dependents. Security for them was the thing I had been trying to buy with all my efforts. Now that I believed I had achieved that goal, I felt, if the word is permitted, swell.

Balance of Power in Wall Street

I never bought a yacht; I never bought a stable of race horses; I never, so to speak, kicked up my own heels. Let me see; Narcissa was born in 1904, Charlotte Delight in 1905, Frank Arthur, Jr., in 1907, Virginia Jocelyn in 1909. With plenty of money, I could create a school for them! Actually, before I was finished the project cost me about half a million and had 300 pupils. Education was what I had yearned for always, and they should have it right at their front door. Kelvin Cox came along in 1912, and John Mann Vanderlip in 1916, and none of the six ever had to go off the premises to get into the Scarborough School. That, I confess, was luxury. Wherever I was—in Europe, on the ocean, on trains at night—I could feel comfortable in the knowledge that they would all be there waiting for me when I should return to play with them. But the truth is that by the time I really could play with them, most of them had gone right ahead and grown up.

For a number of years, between the City Bank, the First National and J. P. Morgan & Co., there was an agreement that on any issue of securities originated by any of the three, the originating house was to have 50 per

cent and each of the other two was to have 25 per cent. There were other arrangements that reflected the existing balance in the money power in Wall Street. Personally, I attached a great deal of importance to the fact that the City Bank was the biggest bank in the country. Mr. Stillman attached even more, I think, to a state of good will among the big houses. He was constantly urging upon me the importance of keeping on pleasant and co-operative relations with all the important interests. He would remind me, over and over, that this meant a great deal for the nation in the development he felt was bound to occur in the succeeding years. I, too, believed in co-operation, but a situation began to develop that threatened our place as the nation's first bank. Those responsible, I felt, were partners in J. P. Morgan & Co.

A Bankers' Battle for First Place

The Bank of Commerce was really the troublesome factor. After the insurance investigations that brought to the forefront of American life the vigorous, acute and persistent Charles Evans Hughes, there had been an unmeasured shift of banking power. Harriman, as it happened, had bought control of the Equitable Life Assurance Society, which in turn owned control of the Bank of Commerce. All during 1910, the Bank of Commerce was a cloud on my horizon. At intervals I would hear of new plans for dealing with that rival bank, owned by the insurance company; each scheme was designed to make it more important in New York. In February, I recall, I had a conference at the Morgan offices with Mr. Morgan, Jr., and Harry Davison. We talked behind closed doors in a back room.

They were fearful, they told me, that the Bank of Commerce would become a derelict in the financial sea unless the house of Morgan took command of it. Their plan was for Mr. J. P. Morgan, Sr., to retire from the board of the Bank of Commerce; then a finance committee was to be formed, consisting of Mr. Morgan, Jr., Davison, Paul Morton, Mr. Peabody, of the Mutual, Woodbury Langdon, Mr. Snyder, of the Bank of Commerce, and Jacob H. Schiff. I sniffed at that as suspiciously as a wild horse inhaling strong odors on a prairie wind.

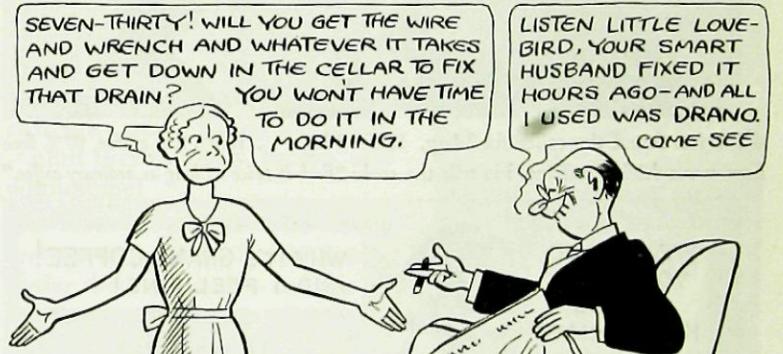
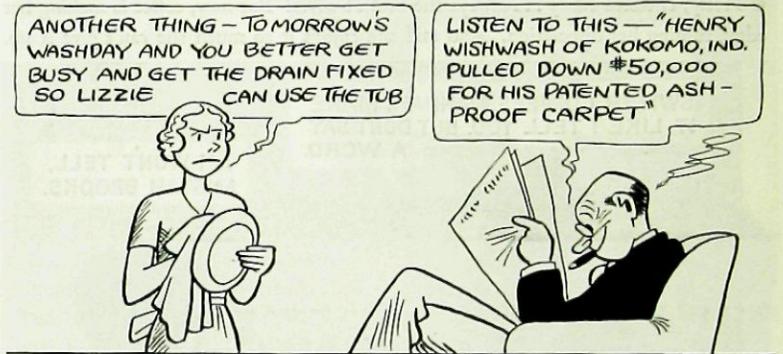
I said that the plan appeared to me a very radical step; that I thought it settled forever any question of consolidation of the City Bank and the Commerce; that if there was any reason for discussing such a consolidation as that, it ought to be discussed promptly, before this other action was taken. I told them the Bank of Commerce was directly competitive with the City Bank in every way and that putting J. P. Morgan & Co. behind it could not but dissipate the value of their connections with the City Bank. What I urged upon them was that Mr. Stillman ought to have time to consider any deal involving the Bank of Commerce.

Davison and Jaek Morgan told me plainly that delay was impossible; action had to be taken at the meeting of the Bank of Commerce board on the following day. Then I went uptown and saw Mr. Morgan, Sr., in his library. I told him that I regarded the action proposed as of the very greatest importance to the City Bank.

"Mr. Morgan," I said, "I feel it is my duty to say in the strongest way I can that this matter should be held up

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by Webster



Her husband fooled her ... for her own good!



• Pretty, cheerful Mary... always the best of wives! But now, coffee is making her edgy, ruining her disposition. And still she enjoys it so much she can't give it up.



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• Bill's deception works! Mary can't taste the difference in the coffee... but oh! what a difference in her nerves... and her smile! Give the thanks to Kaffee-Hag Coffee.



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until you can discuss it with Mr. Stillman."

"Impossible," he said. "Mr. Stillman will approve this entirely. My loyalty to the City Bank is as great as my loyalty for the firm of J. P. Morgan & Co."

"This step with the Bank of Commerce is one not easily retraced. It is much simpler to wait until Mr. Stillman has given his approbation."

"You should trust me to do what is right," said Mr. Morgan. "I would cut off my right hand before I would injure you or Mr. Stillman. You can count on that absolutely. But there are endless complications that make it quite unwise to wait."

"I regret," I said, "that I was not given more notice of the intention. The Bank of Commerce stands squarely face to face with us in competition. If Morgan & Co. get behind the Bank of Commerce, your pride will be staked on making the Bank of Commerce bigger and bigger."

The Elder Morgan as an Ally

I repeated what his son had said to me—that I ought not to feel concerned about the Bank of Commerce becoming larger than the City Bank. I told him, as pleasantly as I could with the force I felt the situation called for, that its position as the biggest bank was of the utmost importance to the City Bank.

My cables to Mr. Stillman must have alarmed him, because I found it necessary to assure him with further cable messages that the interviews I had had, while firm, were entirely pleasant. I told him, further, that it was a possible thing for Morgan & Co. to put the Bank of Commerce ahead of the City Bank in deposits any time they chose; they could do it with the deposits of trust companies they controlled and with railroad accounts.

The matter dragged along then, without serious developments, until there were only forty-eight hours left of the old year, but what I learned then made me feel that 1911 would be anything but a Happy New Year for me unless I went speedily into action. The new plan was a proposal by Mr. Jack Morgan and Henry Davison. Their suggestion was that a pool be formed to purchase the Equitable Life Assurance Society's holdings of the Bank of Commerce stock. President Snyder was to resign from the Commerce and the bank was to be merged with the Chase Bank into an institution that beyond question would overshadow the City Bank. I began to swell with something very much like rage. We were to be included in the pool, along with Morgan & Co., the First National Bank, and Kuhn, Loeb & Co. Why Kuhn, Loeb & Co.? They were too strong and had not heretofore been included in our banking group. My indignation increased.

I remember now how vigorously I crushed my hat on my head and started forth. So deeply did I breathe on that cold day as I strode along Wall Street to the Morgan offices that I am sure that any who observed me must have thought there was a lot of smoke blended with the frosty breaths that snorted from my nostrils. Happily, I had the good sense to cool off as I began the interviews. We had recognized the Morgan house as the head of the investment field, and I had been supposing that Mr. Morgan recognized the National City as the greatest bank. Second place for us? You can be sure that I was made indignant by the proposal.

Harry Davison and Mr. J. P. Morgan, Jr., sat down with me. I told them that, without indicating for the moment any opinion in regard to the fundamental proposition, I was curious to know what led them to include Kuhn, Loeb in the matter. They quoted Mr. Baker as believing it was necessary. They said they wanted to have me talk with Mr. Morgan, Sr., and with Mr. Baker, and as I wanted to play for time I cut this interview short. They desired a further talk in an hour.

In the meantime I saw William Rockefeller and Mr. Sterling. Both seemed to feel that there was no use attempting to combat the issue; that the best thing for us to do was to acquiesce as cheerfully as possible. The important thing, they felt, was to play for a third of the purchase. The way to get a third was to keep Kuhn, Loeb out of the transaction. They had no objections to Kuhn, Loeb, but they did want a third of the purchase for the City Bank. I returned then for an interview with Mr. Morgan, Sr., Mr. Baker, Mr. J. P. Morgan, Jr., and Mr. Davison. In my own mind there was no agreement whatever with the view of William Rockefeller that there was nothing left to do but acquiesce.

The interview started off fortunately. "I am ready to put my arms around you," began the elder Mr. Morgan, "for the stand you are taking about Kuhn, Loeb." He clearly did not want in this matter to make partners of them. Mr. Baker at once coincided with Mr. Morgan's view, saying that on further reflection he had concluded the thing ought to be done without Kuhn, Loeb. The others then coincided very heartily and there was, as I wrote to Mr. Stillman, "enthusiastic shelving of the Kuhn, Loeb part of the program."

But I had only begun. "I am still in an unhappy frame of mind," I said, addressing myself to Mr. Morgan, Sr. "I feel that the City Bank by every right is entitled to keep its first position. Any plan evolved by itself, or its friends, that would make an institution larger than the City Bank—well, that would be unfortunate."

Victory for the National City

Breathing forth a blast of blue cigar smoke, Mr. Morgan said: "Absolutely, I agree with you!"

Never did a voice so gruff sound as sweet to me. I knew in that moment the full flavor of victory. Mr. Morgan was on my side! I grew to love him then and there. He was a great gentleman. What he thought was fair as between friends was the course you could know he would follow. Nevertheless, he was in his own soul, in his ego, a king; royalty. There were royal prerogatives, and he knew how to exercise them. I do not mean to suggest that he surrendered; it simply happened that when he found that something in which he had acquiesced was displeasing to friends, he changed his mind, and did it heartily.

It was left to Davison, Jack Morgan and myself to work out the details. In my letter reporting these happenings to Mr. Stillman I said, with complete accuracy: "Conditions were never more harmonious than they are at this moment between this institution and Morgan's and the First National." In the end the merger did not occur at all, and I became a member of the directorate of the Bank of Commerce, and of its executive committee.

On hot days, after a train ride from the city, from the Scarborough station I would walk, invariably, up the steep hill—not a short climb—to the lower fringe of the wide lawn. After further hill climbing, when I was in front of the house, beneath a tree as big as Charter Oak, I would be met by a man who used to be a London omnibus driver. For sixteen years after 1910 Saunders was our butler, and something more; to the children he was "Saundie," the to-be-wheeled keeper of the latchkeys. When he met me on those days he would have for me, in a tall and frosty glass, a fluid white and crinkly as lamb's wool. He called it a "Ramos Fizz," and he would assure me that for taking the curse off a stuffy day it was the finest drink that could be concocted. The juice of half a lime, I believe, was put in a glass with two teaspoons of powdered sugar and two ounces of cream. The glass was loaded with ice and squirted full of vichy. If there was concealed in it a jigger of gin, that was entirely the fault of Saunders; I swear I never said the word "gin" to him in all the years of our association.

Whenever Mr. Stillman was in the country for a visit, Beechwood was a likely place to look for him. He had kindly acted as my agent in the purchase of some old paintings, and he could enjoy the beauty of my Vandyke as he could not relish his own. He told me one time that when he looked at his own paintings, in spite of anything he might do, he would discover himself in the uncomfortable process of calculating their continuing cost to him; he could see in plain figures on the back of each canvas the annual interest figured up on the cost of the picture. Of course he smiled when he said that, but I am quite sure it was not entirely a whimsical invention.

Earthquake in Eldorado

We had in Mr. Stillman a most sensitive guest. Our car and chauffeur were at the disposal of Mr. Stillman. For a month one time our chauffeur knew what it feels like to grow rich; Mr. Stillman was tipping him with a lavish hand until he could not contain in his lungs all the air he wished to breathe. Then, probably through some household slip, the chauffeur received instructions to make an all-day trip somewhere to pick up some visiting member of the family. When he returned he discovered, to his intense chagrin, that because he had been deprived of the car Mr. Stillman's feelings had been hurt. Thereafter, when Mr. Stillman wished to go anywhere, even for a journey of less than a mile, he would telephone to the home of his daughter, Mrs. Percy Rockefeller, and ask for a car to be sent to him. For our chauffeur it was an earthquake in Eldorado.

Perhaps that is why, in later years, he enjoyed telling on the Rockefeller chauffeur. It seems that one day as Mr. Stillman stepped from his daughter's car at the station, he chided the chauffeur, saying:

"You did not brush the car cushions last night."

"Oh, yes, sir; I did, sir."

"No, you didn't," contradicted Mr. Stillman. "See here!" From the soft crevice between the seat and the side of the car he drew out a green bill. "I had put a present in there for you," he explained. But what shocked the servants for miles around, as the gossip traveled in our part of the world, was the fact that Mr. Stillman then tucked

the recovered bill back into the Stillman trousers.

Once I had Mr. Stillman and William Rockefeller come to Beechwood for luncheon on a Sunday, so that they could meet my highly entertaining house guest, Dr. Woodrow Wilson, of Princeton. The conversation was guided by me into a discussion of national affairs, because I was proud of my friend Wilson. I did not get a reaction from William Rockefeller, but Mr. Stillman, by what he heard, was profoundly disturbed. He held me by the sleeve as he said, close to my ear, "He is not a great man."

Woodrow Wilson as I Knew Him

During the long acquaintance that began in 1903, Wilson and I had many fine, stimulating talks. In our conversations he never challenged my viewpoint on the ground that I was a banker; on the contrary, I had the feeling he was quite willing to learn from me about the banking and currency problems. There were practical matters involved which could be solved only by banking minds. However, Mr. Wilson ceased to be a trustee of the Carnegie Foundation when he left Princeton to become governor of New Jersey, and so we saw less of each other; as he moved to the front in politics we had no contacts that I recall.

Once after he had been nominated for the presidency, he was on the same train as I was coming north from Florida. George Harvey came back to my private car, which was at the rear end of the train. "I want to bring Wilson back here, so you can talk over banking legislation," said Harvey, vibrant with enthusiasm.

"All right," I said, "I'll be glad to." Harvey left my car and went forward; he never came back.

During the 1912 campaign, William Gibbs McAdoo came to me a number of times to discuss one thing or another on behalf of Mr. Wilson. Chiefly, as I recall it, what was wanted was advice on banking and currency statements to be made by Mr. Wilson from the platform. These conversations had a *sub rosa* quality that, in view of my previous relations with Mr. Wilson, annoyed me. I told Mr. McAdoo I was unwilling to talk to Mr. Wilson through the kitchen door.

Very soon afterward I got a warm invitation from Mr. Wilson to meet him at McAdoo's house in Hastings-on-Hudson, not far from Scarborough. We had a long talk together, alone and quite in the warm tone of our old friendship. He gave me renewed assurances of his splendid feeling for me and of his belief in my understanding of the currency problem and kindred matters.

"But you don't understand politics," he said. "It does not make any difference what I think ought to be done; I've first got to be elected in order to do these things."

He repeatedly assured me of the confidence he had in me, but I have believed since that he was just smoothing my hair with one hand and keeping me at arm's length with the other. Now, I myself did not feel that it was a crime to be the president of the National City Bank, but Mr. Wilson seemed to feel that it would be a political crime if he were caught talking with me.

I don't like that; it seems to me to reflect a significant weakness in our type of civilization that the specialist—whether biologist or banker—is so often, because of mass prejudice, shut

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out of those conferences in which laws are made dealing with his specialty. Mr. Wilson, of course, was a man subject to violent prejudices and swift suspicions. When these were aroused, what happened was akin to that which occurs in the revolution-torn countries to the south of us when cavalry raiders ride into town. Then there is a great banging as merchants pull down steel curtains to cover the fronts of their shop windows. In the case of Mr. Wilson, the steel curtains were in his mind.

While Congress was shaping up what became the Federal Reserve Act, Harry Davison, Ben Strong and I were called to Washington to offer testimony

regarding the proposed legislation. When we arrived in Washington my friend Milton Ailes told us the hotels were all full and he had secured rooms for us at the Army and Navy Club. That seems unimportant, but it turned out to have some significance. On the stationery of the club I wrote a note to Mr. Wilson and sent it, by my secretary, Ned Currier, to the White House. President Wilson refused to see us. I had a note from him in which he said, "A conference such as you suggest would be of no advantage to any of us, or to the ends that Congress is now seeking to serve."

Just why Mr. Wilson felt this way was long a puzzle to me, but later I

learned that it was an illustration of his suspicious turn of mind. He had been having a great row with Senator O'Gorman. None of us were aware of that further than what we had possibly gleaned from newspaper headlines. We had no interest in it. Senator O'Gorman, however, was living at the Army and Navy Club, and when Mr. Wilson received a note from me written on Army and Navy Club stationery he jumped to the conclusion that we were in cahoots with Senator O'Gorman. At least, that is what I was later told by one of his closest advisers.

Editor's Note—This is the seventh of a series of articles by Mr. Vanderlip and Mr. Sparkes. The next will appear in an early issue.

SOME PREMISES OF THE NEW DEAL

(Continued from Page 23)

to Produce. The authors, in their concluding chapter, ask themselves: "Did the margin of unutilized plant capacity in the several branches of industry expand during the period 1900 to 1930?" And they answer: "To this question the answer from the fields of agriculture, mining (except for dislocations caused by the war), manufacturing, and electric power utilities is: No. . . . It seems that there was no general tendency to pile up capital equipment in continually growing excess above what could be commercially employed."

Robert R. Doane, a statistician of high reliability, published in the New Outlook part of his findings as a member of a board of national survey. He found that, taking the yearly food requirements per capita as set forth by the Department of Agriculture, the nation in 1929 had a surplus in only flour and cereals, potatoes, beans, peas, fats, bacon and lard, while in all the other staples there were great deficiencies in our productive ability as then developed. He further found that the nation's plant capacity in 1929 "was barely able to supply a fraction less than a single new suit of clothes for each male."

The Department of Commerce, in its survey of real property, found that 2 per cent, or more than half a million, of our homes were unfit for habitation, that millions more were in urgent need of repairs and that the country, instead of being overbuilt, was underbuilt.

Building on a False Premise

The Administration based its declaration of the need for national planning upon the false premise that production had been allowed to run wild. Since the facts do not sustain this premise, the whole argument for national planning to adjust production to consumption falls. But the dogma that restricting production was a way to salvation—which is only another way of saying that the less we have, the richer we shall be—found its way into the planning of farm production under the AAA and into the NRA codes, limiting production. The prohibitions in so many of the NRA codes against new equipment have been among several causes—all of which head back to the planning dogma—for the prostration of the industries making durable goods and the consequent unemployment of between five and six million men. Such has been the result of accepting, without any supporting facts, the premise

that the rugged individualists controlling production had never known what they were doing and needed attention from the planners.

Reversing its policy in part, the Administration, through the National Housing Act, is trying to promote the repair of existing homes and the building of more. It is also trying to force out credit to expand business. If the theory that we have too much of everything is sound, then each home and each business unit demolished ought to be as fine a step to recovery and reform as each pig killed or acre plowed under.

4. Is it true that the job is to get men back to work?

On this apparently sound premise, coupled with the dogma of a too-great productive machine, were based the Blue Eagle campaign, the labor-union movement for shorter hours, the public-works spending and part of the relief spending.

But is the premise more than half true? Is the real point to put men to work or to put men to venturing? Each of us gets his work only as another man ventures. Then we, in turn, venture, and that creates more work. And so on. The venture may be only a pair of shoes, or again it may be a great new industry.

If we spread a given amount of work among too many men, the work will not yield enough to support them, while if we raise the price of the finished product to a point where the wages could support the men, then the price of the finished product will be so high that none will buy, and there will be no work. Industry cannot exist to support men; it can only exist to produce goods and through their production support men. That is a truism.

The Cotton Textile Code gives a concrete example of the false premise that arbitrarily increasing the number of jobs and raising the wages in an industry benefits either the public or the workers in the industry. The code sought to remedy the many bad conditions that had grown up in an old and tradition-hampered industry. It eliminated child labor, shortened hours, raised hourly wages, forbade plant increases except on licenses, and, as Code No. 1, was presented as the ultimate in the new co-operation and social planning.

The results: Contrasting June, 1934, with June, 1933, before the code went into effect, gives these figures: Employment rose 4.6 per cent, average hours worked per week decreased 40.9

per cent, average weekly earnings increased 2.2 per cent, and average hourly earnings increased 69.3 per cent.

It is evident that a further cut in hours and a further rise in pay will only further reduce consumption and further promote unemployment. Taking the profits away from the owners will not help; they have already been taken away. In 1933 the industry as a whole made 3.4 per cent on its investment; for the first half of 1934 it made 5.8 per cent; the tentative figures for the subsequent months of the year show a loss of about two and a half cents on every pound of cotton made into cloth.

The Prodigal Way to Prosperity

What is true of the cotton industry is true of the nation's industry. Merely drafting men into jobs may for a little while decrease unemployment, but then begins the cycle of high prices, low consumption and lower real wages that ends in unemployment.

5. Is it true that we can spend our way to prosperity?

The premise here is that the industrial machine is somewhat like a pump that will not draw water until it is primed and that a large amount of spending by the Government—even though the money to spend must be raised by borrowing—will distribute the necessary purchasing power to prime the industrial machine. Other countries have tried such spending during this depression. There is no recorded instance of any nation having spent its way out of a depression. While the public work is in progress, the consumption of food and goods increases in the localities where the wages are being paid. When the spending in a locality stops, things are deadlier than they were before.

The reason for this is that there is no pump to prime. A boom is caused by things getting out of balance, and a depression is another kind of unbalanced condition in which great groups of producers cannot exchange their goods and services. A public-works program which is put through, not because the works are needed, but in order to employ men, is ineffective for the same reason that putting men to work as an end in itself is ineffective. But, in addition, there is no instance where great public spending in a depression does not accentuate the disparity between groups and thus actually postpone the achieving of a

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