OLD LIVERNOSE AND THE PLUNGERS
J. PIERPONT MORGAN AND T. BOONE PICKENS

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In his autobiography, T. Boone Pickens tells a story that says a lot about the managers of American big business. Some Pittsburgh corporate heavyweights invited the raider out for an expedition at the Rolling Rock hunt club, just outside of town. Now Boone doesn't much like shooting pen-raised birds, but he saw the outing as an anthropological study. The ducks, prepared with a lunch of salty grain, were released from an elevated platform over a lake. Mad with thirst, they flew straight for the water, offering the heavyweights an easy target. Boone wonders—this *is* free enterprise? No wonder these guys hop on the first plane to D.C. to lobby for protection at the slightest whiff of foreign competition. Their reflexes have been dulled by the rigged sport of shooting thirsty ducks. They're not risktakers and moneymakers, says Boone, they're just bureaucrats and caretakers. They got where they are by playing it safe, and they stay there by manipulating the government and bleeding their corporations.

Boone is one of the *comandantes* of what has been christened the shareholder rebellion. For years, management ran big business as it saw fit, undisturbed by the stockholders. Boards of directors just ratified the decisions of management. When the going got rough for American companies in the mid-'70s, this cozy relationship continued. As a result, profits dwindled and stock prices sagged below their intrinsic values—irresistible quarry for corporate raiders, who know how to shoot wild ducks.

To Boone, a public company should be run by and for its legal owners, the shareholders. The Business Roundtable, a club open only to the chief executives of the two hundred largest U.S. corporations, thinks differently.

> Andrew Sigler, CEO of Champion International and leading spokesman for the Roundtable, has said that stockholders do not own companies, "society" does. . . . Although they love to talk about the good of "society,"

> the Roundtable prefers to do things quietly, behind closed doors, and to use political influence in Washington to shape the laws to serve their interest. For years, the Business Roundtable wanted Congress to keep hands off all takeovers because the big companies were gobbling up the little ones. That was all just good fun. But now that some of the big ones have been brought down, the Business Roundtable wants Congress to step in and protect them. . . . I can't believe that Congress, the stockholders, and the people of this country will fall for this stupid argument, perpetrated by the most financially powerful people in America.

Boone has a point. CEOs love the access to the capital markets that public companies enjoy, but they don't like the idea that they are subject to the orders of anyone who buys up 51 percent of their stock. Boone never makes clear why the *rentier* class should allocate the resources the rest of us depend on, but his argument is rational in his own unexamined terms. Andrew Sigler, who is one of the lobbyists guiding Senate Banking Committee chairman William Proxmire's hand as he drafts anti-takeover legislation, would be hard pressed to refute him. Society's name isn't on a single stock certificate. Sigler claims that he is a custodian of society's resources, but I don't recall voting for him.

The ancestors of the Rolling Rock marksmen are the tycoons of the nineteenth century. In the words of Paul Baran and Paul Sweezy, the tycoons were the parents of the giant corporation and the organization man its child. The greatest of all these tycoons was J. Pierpont Morgan. At the peak of his power, Morgan and his partners held directorships in one hundred twelve of the country's largest corporations, and his bank dominated the business of new securities offerings. He assembled the world's first billion-dollar corporation, U.S. Steel, from a host of smaller companies, and he was the architect of numerous railroad and industrial combinations. In those innocent days of laissez faire, he was a one-man Federal Reserve, S.E.C., I.C.C. and World Bank: he arranged loans that saved the U.S. government from default in 1895, calmed the Wall Street Panic of 1907, imposed unprecedented accounting and disclosure requirements on U.S. Steel, organized railroad cartels to regulate competition and rates, and arranged and supervised loans to Argentina and Mexico.

Morgan denied he was building an empire; he simply thought that he and a handful of men like him were ordained to run the American economy and guard the interests of its creditors. He told a Congressional investigator that he saw what he did as "the thing to do"—and by all accounts he really believed this Yahweh-like tautology. To him, the age of competition was over. In the words of his father, Junius S. Morgan, it was time to quit the "absurd struggle for preeminence" and organize the enormous productive capacity of modern industry along a path of responsible and orderly development—the path prescribed by the authorities at 23 Wall Street, of course.

All this was an affront to many sacred American myths. Rural Midwesterners saw Morgan as the embodiment of all the threats to their world of small towns and a self-sufficient yeomanry. Entrepreneurs—scamps and plungers to the likes of Morgan—feared that a Morganized world threatened their own dreams of empire building. Populist politicians like William Jennings Bryan railed against the hard-money régime imposed by Morgan and his fellow bankers, equating his post-competitive world with the demise of the American republic.

But Morgan hasn't lacked for apologists over the years. The latest defender of the realm is Vincent P. Carosso, author of *The Morgans: Private International Bankers 1854–1913* (Harvard University Press). Carosso, professor of history at New York University, enjoyed access to family and business archives that were previously unopened or untapped. Carosso assures us that his is not an authorized study, but he reveals nothing to embarrass the great man's partisans. His book falls firmly within the hagiographic tradition founded by J.P.'s son-in-law and first biographer, Herbert L. Satterlee.

J. Pierpont Morgan is the star of the book, but supporting players abound. Carosso opens with the story of Pierpont's grandfather, Joseph, the first Morgan millionaire, who started with a café and ended as a founding investor of the Hartford and the Aetna insurance companies. Joseph set up his son in a mercantile career, but Junius was too ambitious to spend his life hawking dry goods. A few years after his father's death, Junius moved to London to join the merchant bank of Baltimore expatriate George Peabody.

British demand for cotton and wheat fed an American railroad boom, which offered Peabody & Co. lots of banking angles. There was traditional commodity trading and finance. But there were multiple opportunities in railroads—to peddle the bonds to British investors, who could take the proceeds and buy British rail iron—with the assistance of Peabody & Co., of course. When Peabody retired in 1859, Junius renamed the firm J. S. Morgan & Co., and plotted his rise to the top of the City's banking aristocracy.

Meanwhile, in New York, Junius's son was starting his own banking career. After an unpaid apprenticeship and some unsavory wartime speculations, Pierpont Morgan joined with Anthony Drexel of Philadelphia to form Drexel, Morgan & Co. in 1871. The rail boom was good to Drexel, Morgan, too. Despite several business crises and a punishing deflation, U.S. rail mileage tripled between 1870 and 1890. Railroads ate capital, so their builders were constantly approaching bankers, hat in hand. Many of these roads were built merely to sell bonds to enrich the bankers and railroad owners; lines were frequently built parallel to existing routes. Superfluous mileage led to fierce rate wars, and roads failed constantly. With the Panic of 1893, the long boom finally came to an end, with a quarter of the nation's rail mileage in receivership.

When railroads failed, Drexel, Morgan was there to pick up the pieces and paste them together into a solid railroad—to act as "undertaker and midwife," in Brandeis's phrase. The typical Morgan railroad reorganization, whether it was the consolidation of several weak lines or the resuscitation of a large road, meant imposing responsible management—Morganese for abandoning competition and needless construction, and finding a seat for a Morgan partner on the board. Short of formal recombination, Morgan frequently brought together the presidents of competing roads and tried to get them to agree to behave like gentlemen and cease the absurd struggle for preeminence. Men who spoke so harshly of competition built an empire out of its casualties.

After the deaths of his father and his partner in the early 1890s, Pierpont Morgan tried to apply the lessons he learned in railroad reorganizations to assembling industrial combinations. The results were mixed, to say the least. U.S. Steel, the world's first billion-dollar corporation, was the most successful, but it was years before the heavily watered stock could pay a dividend. His shipping combine, which owned the *Titanic*, was a failure.

Carosso turns Pierpont Morgan into a far duller man than he really was. He was a man of enormous appetite—for cigars, food and Château Latour, as well as railroads and European art. By all accounts he was rather hideous, largely because of a hereditary skin disorder, acne rosacea, that ravaged his nose. This "veined excrescence" or "strawberry-like obscenity," as it's been called, earned him the nickname "Old Livernose." Despite the nose, he was a notorious womanizer; despite his adulterous escapades, he was a prominent supporter of Anthony Comstock and his Society for the Suppression of Vice. He reportedly believed every word of the Bible.

But Carosso tells us little of this. Though his book wasn't written for poolside consumption, even a business history needs a little color to keep the reader awake and turning the pages. Yet the book fails even as a business history. Instead of illuminating how the Morgan enterprises fit into the evolution of the American economy, we are numbed by endless details—the fine structure of the Erie reorganization, the terms of the failed Chinese loans, how the partners divided the profits in 1877. It's not that Carosso misses the forest for the trees—he misses the trees for the leaves and root hairs.

The Latin American loans are a case in point. The Morgan banks—the New York and London houses cooperated extensively—were initially a conduit for the exports of British capital that financed the development of the United States. And the United States developed into a colossus. Later, the Morgans floated bonds on behalf of Argentina and Mexico—first in London, and later in New York, when the United States had generated enough capital to export some. (Any proper empire must export capital and import profits.) Early in this century, Argentina was one of the world's richest countries, but it soon began the slide into its present sorry state. Why didn't Argentina follow the U.S. path instead? Were the loans made to foreign corporations operating in Argentina that were merely interested in extracting wealth at the expense of the locals? Carosso only offers vague pap about "development" and "reform" and hints of "extravagance" that could have been lifted from a World Bank press release. Perhaps the truth would involve the word "imperialism," which wouldn't reflect so nicely on his heroes.

Everything about the Morgans is presented in the most flattering light. They weren't really interested in controlling the companies they reorganized—only in protecting the creditors through responsible management, and management was often grateful. We should measure the $25 million fee received for putting together U.S. Steel against the $1 billion value of the company, not the $50 million the bankers actually put up—presto, the fee becomes reasonable. War profiteering by young Pierpont? No—just brief dalliances, and not terribly profitable at that.

What did Morgan think he was doing? Did he have a plan, or did he move from deal to deal with an eye only on the main chance? Why did so many of the deals he made late in his life fail? Was the economy against him? Was he too old or was his acquisitiveness focused on collecting art? Carosso never asks these questions, let alone answer them. His book is less a biography or a history than a data base. Maybe it will be useful to someone writing a readable, analytic biography of Pierpont Morgan, but much of the detail seems too minute even for that.

Carosso says that the Morgans might have taken the motto of the London Stock Exchange as their own—*Dic-*

tum Meum Pactum, my word is my bond. This is true, but he asks few questions about just what it was they bound themselves to do. Their ideal was the clubbish atmosphere of London's private bankers, with their genteel mix of cooperation and competition. In this tony atmosphere of top hats and walking sticks, there remain no traces of the actual source of their wealth—the hellish worlds of the nineteenth-century factory and imperial plunder. Bankerly respectability mystifies the aggression that is at the root of fortune-building—to which Carosso's canonizing adds another layer of mystification.

By the way, despite the recent scandals, the City and Wall Street remain places where a multimillion-dollar deal can be closed with only a handshake or a phone call. But few words are exchanged on the floor of the London Stock Exchange now; since last year's deregulation of the City's stock market, known as the Big Bang, the stock exchange is deserted. Now computers do the trading. My byte is my bond.

Businessmen rarely stimulate the popular imagination unless they break the bonds of respectability. If they hail from colorful places like Texas, then so much the better. One of the convention-breakers has written his autobiography. *Boone*, by T. Boone Pickens, Jr., with the assistance of Jim Conway (Houghton Miflin Co.), is full of the homey wisdom and folksy metaphors you'd expect from a son of the rural Southwest: "The oil business was getting tougher than the back end of a shooting gallery by the mid-1950s." "Maybe this was one time the fireplug would piss on the dog." "You have to learn to sit on your own bottom." You might call this the wisdom of a Good Ol' Boy—but to Boone, the members of the Business Roundtable are the real G.O.B.s. And he startled a good number of these G.O.B.s out of their torpor.

Of course we don't get to this point without learning all about Boone's childhood, full of instructive incidents and sage advice from Ma, Pa, Grandma and the Coach. Then there's Boone's first job at Phillips Petroleum, where he learns enough about the mentality of the corporate bureaucrat to know that he wants out to start his own firm.

Relying mostly on other people's money, Boone drilled for oil in Texas, Canada and the North Sea, and built Mesa Petroleum into the largest independent oil company in the United States. But despite his success at finding oil the old-fashioned way—drilling for it—Pickens started thinking about acquisitions in 1963. "It would be like finding a giant oil field already developed." So he did his first hostile takeover, all with debt and paper. "Debt had never frightened me. . . . We were on our way." On the way to over twenty years of buying oil on the stock exchange.

The OPEC boom masked a serious rot in the oil industry, Boone argues. Most of the big oil companies weren't replacing their reserves—they were just liquidating them to sustain their parasitical bureaucracy. If a company's going to liquidate, it should shed the bureaucracy and just pass the uncut cash on to the shareholders. So with this higher good in mind, Pickens attacked Gulf et al. with the aim of forcing them to spin off their assets and leave exploration to independents like him. Big Oil would have none of it. Instead, they either sold out to white knights or paid off the shareholders, borrowing wads of money in both cases.

Every once in a while one of these raiders—Boone calls them takeover entrepreneurs—slips and ends up owning a company. Carl Icahn's inadvertent purchase of TWA is a notable example. Most of the time, though, they are just a catalyst—they find a weak or undervalued company, put it "in play," and wait for one of the big guys, with deep pockets and a long line of credit, to move in and complete the deal.

Ironically, Pickens's first banker was Morgan, Stanley, the investment banking heir of the House of Morgan, but because of pressure from their blue-chip clients, they backed out. Boone eventually found his way to junk bond kingpins Drexel (as in Anthony Drexel) Burnham Lambert.

Economist Joseph Schumpeter described the régime of capital as one of "creative destruction," a phrase its apologists love to quote without examining what is created and destroyed. In the nineteenth century, bankers floated lots of bonds to fund a fragmented system comprising thousands of miles of railroads, much of it superfluous, much of it looted by its owners. Through a series of crises, powerful bankers were given the opportunity to combine lines into larger systems, but sooner or later many of these would fail and be combined into larger units. Protected by the temporary certainty of regulated rates, lines failed to appreciate the competition from trucks and cars. (Morgan refused to finance GM because he thought it too speculative.) Government subsidies and partial nationalizations followed, and even more giant mergers. The profits of Burlington Northern, the descendant of one of Morgan's great recombinations, have fallen 82 percent over the last five years. (Pickens made a brief pass at it last year.) A wave of combinations may end in a truce in the corporate war of each against all—America in the 1950s and '60s experienced one of these peaceful interludes—but sooner or later the world must be redivided.

The postwar history of the oil business is similar. For a long while, a cartel organized by the seven major oil companies kept the oil business fairly stable. Then, a cartel of producing countries limited production and raised prices. High prices and shortages stimulated a frenzy of drilling. Meanwhile, Big Oil drifted into the complacency that comes with assured profits. Overinvestment bred competition and a collapse in prices. Rationality dictated that capital be withdrawn from the oil business and that the number of players be reduced. Pickens and his brethren were the engine of that—they were the well-paid catalyst of combinations. So the frequent criticism that all of Pickens's machinations didn't find a single drop of oil misses the point. Too many plungers had found too much oil. Like Morgan, Pickens built his fortune from the failures of competing optimists. This is creative destruction at work.

Others may curse Morgan, but not us, said a nameless socialist quoted by Carosso: "We grieve that he could not live longer, to further organize the productive forces of the world, because he proved in practice what we hold in theory, that competition is not essential to trade and development." But not even the mighty Pierpont could restrain the laws of capital. Competition breeds combination, not the human-scale world of populists, and it's hard to imagine where it all will end as long as these behemoths remain in private hands.