CRONYISM

Rise of the Corporatist State, 1849–1929

The Ludwig von Mises Institute dedicates this volume to all of its generous donors and wishes to thank these Patrons in particular:

Yousif Almoayyed and Budoor Kazim
Mr. William H. Anderson
Ms. Jean Angle
Mr. Larry W. Austin
Steven R. Berger
Mr. Bryan Lee Briggs
Dr. James G. Buss
Dr. Matthew Desmond
Dr. Christopher Detweiler
Mr. Paul J. Dietrich
Mr. and Mrs. James W. Dodds
Jerry T. Dowell
Mr. and Mrs. David Fusato
Ms. Rhonda Gillespie
Mr. R. Anderson Hord III
Mr. Jeffrey J. Jean
Dr. Antonio A. Lloréns-Rivera
Mr. Ralph Martins
Mr. George M. McGowan
Mr. Stephen W. Mixon
One Horizon Foundation
Mr. Paul F. Peppard
Daniel A. Rankin
Mr. Carlos Rossi
Dr. and Mrs. Murray Sabrin
Mr. John D. Schein
Mr. Roy H. Simmen, Jr.
Mr. Loyd J. Stegent
Mr. Gregory J. Tisdale
Mr. and Mrs. Aaron Tuttle
Mr. and Mrs. John E. Westerfield
Mr. Brendan Weishaar
Dr. and Mrs. Wayne G. Whitmore
Dominique Yarnell
Mr. David Young
Mr. Lee Zehrer

CRONYISM

Rise of the Corporatist State, 1849–1929

PATRICK NEWMAN

MisesInstitute
AUBURN, ALABAMA

THE MISES INSTITUTE is a non-profit organization that exists to promote teaching and research in the Austrian School of economics, individual freedom, honest history, and international peace, in the tradition of Ludwig von Mises and Murray N. Rothbard.

Non-political, non-partisan, and non-PC, we advocate a radical shift in the intellectual climate, away from statism and toward a private property order. We believe that our foundational ideas are of permanent value, and oppose all efforts at compromise, sellout, and amalgamation of these ideas with fashionable political, cultural, and social doctrines inimical to their spirit.

The Mises Institute is funded entirely by voluntary contributions from individuals, businesses, and foundations. We do not nor have we ever accepted any government money.

For more information, see mises.org, write us at contact@mises.org, or phone us at 1.800.OF.MISES.

Published 2026 by the Mises Institute

Mises Institute
518 W. Magnolia Ave.
Auburn, AL 36832
mises.org | contact@mises.org

ISBN: 978-1-61016-782-6

To

Lydia

the Indispensable Framework

There are two critical steps in the establishment and functioning of any cartel-like government regulation. . . . Step one is passing the bill and establishing the structure. The second step is selecting the proper personnel to run the structure. . . . conventional historians, not geared to power elite or ruling elite analysis, usually fall down on this crucial second task, of seeing precisely who the new rulers of the system would be.

MURRAY N. ROTHBARD, 1994

TABLE OF CONTENTS

ACKNOWLEDGMENTS

The second act in a three act play is often the most difficult to write—it is the bridge between the beginning and the end. In the case of American history, the period 1849 to 1929 connects the founding of the country to the modern America that the present generation and its parents and grandparents have lived in. There can be no doubt that the support group I have had while researching and writing this book has greatly improved my ability to build that bridge.

Any long-term research project requires many factors of production. Institutional support, of course, is paramount. I would like to thank Hunter Lewis of the Hunter Lewis Foundation for underwriting publication costs and continuing to encourage my research. The Mises Institute also played a crucial role in publishing and promoting this book. I thank it for believing that *Cronyism* will help advance the Austro-libertarian tradition in the field of economic history. I am especially indebted to Senior Fellow Thomas J. DiLorenzo and Academic Vice President Joseph T. Salerno.

Reviewers with a fresh set of eyes who provide insightful feedback are also necessary. Every piece of writing benefits from the peer review process. In alphabetical order, I would like to thank Chris Calton, E. Fred Carlisle, Tate Fegley, Vincent Geloso, Jule R. Herbert Jr., Jeffrey Rogers Hummel, Tyler Kubik, Karras Lambert, Jeremiah Ludwig, Matthew McCaffrey, Shubho Motad Sadi, Yingmei Nan, Alexander Stewart, and Patrick Tinsley for reading the manuscript. Each one critically evaluated the narrative and the facts in their own helpful way. Special thanks and appreciation go to those who turned the manuscript into a publishable book: Executive Director Judy Thommesen for her patience and stewardship, Senior Editor Daniella Bassi for her editing and critical review, and Christina Nichols for her meticulous copyediting, careful citation review, and friendly insights that improved the clarity, consistency, and scholarship of the book.

Last, but certainly not least, is the emotional support, the raison d'etre for *Cronyism*'s existence. It is no exaggeration to say that this book would not have been possible without my wife Lydia. Since the time we met in the summer of 2021, she has provided unflagging support and counsel at every stage of the production process, from encouraging me to write the book, supporting my decision to spend countless nights and weekends researching and writing it, reviewing manuscript after manuscript, and poring over the proof pages. She was *the* indispensable factor of production.

As for the rest, the usual disclaimer applies: any remaining errors or mistakes are my own—though not for want of trying to avoid them.

FOREWORD

By focusing on one phenomenon and intentionally ignoring others, physical scientists compress data, then detect patterns that they try to generalize. Outstanding historians of the United States, including Charles Beard, Forrest McDonald, Richard Hofstadter, Murray Rothbard, and now Patrick Newman with his *Cronyism: Liberty versus Power in Early America, 1607–1849* and *Cronyism: Rise of the Corporatist State, 1849–1929*, have also practiced data compression and pattern recognition. For whatever reasons, differences in temperament, or prejudices, their generalizations about main currents of US history differ in important ways, but they also have much in common. All focus on design and management of the state. Some of them interpret poor public policies as consequences of unintended mistakes that a more enlightened public administration would not make. Others view those policies as consequences of a government constituted with excessive powers that will inevitably be used to promote some private interests at the expense of others.

Charles Beard argued that their financial interests determined how the Founding Fathers designed the US Constitution. His *Economic Interpretation of the Constitution of the United States* (1913) marshaled evidence that bolstered his hypothesis that the Founding Fathers engineered the US Constitution to reward people like themselves—prosperous lawyers, merchants, farmers, and government creditors.

Forrest McDonald's larger data set convinced him to reject Beard's hypothesis. He gathered more data about the Founders' economic interests, personal holdings, and votes at the state ratifying conventions. In *We the People: The Economic Origins of the Constitution* (1958), McDonald showed that Constitutional Convention delegates' economic positions didn't necessarily align with their support of or opposition to the Constitution. So he looked elsewhere for their principal motivations. In *Novus Ordo Seclorum: The Intellectual Origins of the Constitution* (1985), McDonald described the delegates' education, reading, and experience as sources of their theories about laws, economics, and politics.

While Forrest McDonald thought of himself as a right-winger, Richard Hofstadter was well to the left. Nevertheless, Hofstadter's 1948 book *The American Political Tradition and the Men Who Made It*, which predated McDonald's work, shared McDonald's emphasis on the Founders' ideas and ideals. Like McDonald, Hofstadter described the Founders' pragmatism, acquired from their experience as lawyers, merchants, and politicians. He also noted the importance of the Founders' theories of history as inputs into their decisions about constitutional design.[1] Hofstadter's biographical essays about Jefferson, Jackson, Lincoln, Theodore Roosevelt, Woodrow Wilson, Herbert Hoover, and Franklin Roosevelt focus on common characteristics of their actions that transcended their professions of abstract principles. Those actions, he found, were directed at protecting and extending Americans' property and enterprises. Hofstadter's writings fostered a 1950s school of American history that emphasized a transcendent consensus among competing states that provided continuity and stability to US politics.

Parts of Murray Rothbard's *The Progressive Era* (2017) and of his *History of Money and Banking in the United States* (2002) remind me of Beard's hypothesis. Others remind me of Hofstadter's. In *America's Great Depression* (1963), Rothbard described how Herbert Hoover implemented versions of the same misdirected interventionist policies that would be important components of Franklin Roosevelt's New Deal. Hoover's and Roosevelt's pursuit of similar policies reflected their common belief in the interventionist policies pursued during World

---

[1] In the preface to the Hebrew edition of his book, Hofstadter wrote that his original title—more accurate, he thought, but vetoed by his publisher—was *Men and Ideas in American Politics*.

War I, when both men had been prominent members of the Wilson administration. Chapters of those three books by Murray Rothbard describe how that Progressive consensus about the proper relationship between the market and the state came about. More generally, Rothbard described numerous episodes and incidents in which prominent American statesmen used professions of devotion to the public interest as subterfuges to expand government powers that could be used to promote their private economic interests. Rothbard also documented countervailing coalitions that temporarily frustrated some of those efforts, most of which eventually failed to arrest the growth of central government powers. Rothbard presented US history as a struggle between advocates of a powerful central government with ample powers to tax, regulate, and allocate privileges, on the one hand, and proponents of a minimal state that would be confined to providing public safety and enforcing commercial contracts, on the other. Rothbard saw the US War of Independence as a temporary triumph of liberty over power. He saw the Articles of Confederation and the US Constitution as engineering counterrevolutionary expansions of the state at the expense of competitive markets. He interpreted US history after 1788 as recurrent exercises of excess central government powers to redistribute resources via taxes, regulations, military adventures, and social welfare programs.

In the tradition of Murray Rothbard's "Liberty versus Power" framework, Patrick Newman's *Cronyism: Liberty versus Power in Early America, 1607–1849* (2021) described consequences of the rampant cronyism integral to the US Constitution. Cronyism is a system of social relationships intermediated though federal and state governments' grants of special privileges (monopolies, subsidies, regulatory protection, bailouts, land grants, and contracts) to favored business and political interests.

Newman told how the Founders implemented mercantilist policies that distorted competitive market forces by restricting free entry into shipping and other industries and by authorizing local and national monopolies enforced by limited access to state and federal charters. Like Rothbard, Newman interpreted the Articles of Confederation and the Constitution as platforms for distribution of rents to favored clienteles, such as Robert Morris's Bank of North of America, Alexander Hamilton's Bank of the United States, and James Madison's Second Bank; protective tariffs; federal assumption of state debts that benefitted speculators in government bonds to the detriment of poorer tax payers; subsidies for favored industries; and military adventures to reward favored commercial interests and speculators in western lands. Newman helped us understand what Thomas Jefferson really meant when in his 1801 inaugural address he said, "We are all Federalists." Despite their protests against Federalist cronyism, Jefferson's and Madison's administrations practiced cronyism as well. Elections could change the beneficiaries of cronyism, for example, from shippers/merchants under the Federalists and National Republicans to land speculators and state banks under Jackson's Democrats. Betrayals of promised reforms, first by the Jefferson and Madison administrations and then during the Jackson and Van Buren presidencies, were consequences of a system of adverse incentives that our Founders built into our system. These and other outcomes of cronyism that Newman described so well seemed to generate a version of the "consensus" that Hofstadter praised for sustaining a stable US political system.

Newman's *Cronyism: Rise of the Corporatist State, 1849–1929* continues telling how ideas and networks of private interests influenced outcomes. It describes how the inauguration of Abraham Lincoln in 1861 and the consequent secession of eleven states allowed the Republican Party to implement longstanding, big-government Whig-Republican proposals that Democratic presidents and Congresses had blocked—a national banking system, federal subsidies for building a transcontinental railroad, and tariffs. He describes and interprets late nineteenth-century changes in industrial structures as responses to new technologies, other countries' trade and monetary policies, and US policies to restrict competition. Newman extends Murray Rothbard's interpretation of some government regulations as arrangements to enforce cartels. Private cartels' own members cheated too often, and their monopoly profits attracted new entrants, so industry associations induced the government to set up cartels disguised as government regulatory commissions. Newman extends Rothbard's and other scholars' accounts of "regulatory capture" in the late nineteenth and early twentieth centuries.[2]

Of special interest to a macroeconomist like me is Newman's account of the founding and early operating decisions of the Federal Reserve System, as well as his account of the Fed's role in financing World War I. In the 1920s, the Fed helped the Bank of England establish a "gold exchange" standard, a sort of "limping" gold standard propped up by convertible paper notes that supported price levels in the US and Western Europe that were substantially higher than pre-1914 levels. That paper money system was vulnerable to the bank runs that accompanied the Great Depression that began in 1929. Newman's decision to end *Cronyism: Rise of the Corporatist State, 1849–1929*, on the eve of the Great Depression sets the stage for what I hope will be a third volume that starts by analyzing unintended consequences of the corporatist policies that Herbert Hoover and Franklin Roosevelt deployed in misdirected efforts to restore US prosperity.

That US statesmen mostly adhered to a no-inflation policy from 1790 to 1914 but after 1929 did not indicates a significant break in a pattern of outcomes that must somehow reflect a new political consensus about how to manage monetary and fiscal policies. I would like to understand the sources of that broken pattern and how much of the change came from shifts in ideas and political compromises among representatives of competing financial interests.

Meanwhile, under both political parties, cronyism continues and even grows in the US, so that pattern endures. Newman's work helps us understand why it will be difficult to disrupt it. Doing that would require changing both a constitution and a civic culture, defined as a system of beliefs about what we can expect from other citizens. Another admirer of Ludwig von Mises and Rothbard, Argentina's President Javier Milei, seems to be trying to do that. Milei wants to unleash market forces by dismantling a system that fostered the rampant cronyism, industrial policies, and trade barriers that have done so much long-term damage

[2] Milton Friedman's Columbia PhD thesis assembled statistical evidence that he used to estimate the excess returns to being a doctor that the American Medical Association and government regulators gathered for US physicians.

to Argentina's economic well-being. Meanwhile, more and more leaders of both US political parties advocate those failed Argentine policies.

Thomas J. Sargent
July 11, 2025

INTRODUCTION

This book is about the birth of the corporatist state in America. It did not occur instantaneously or even within a couple of years; it spanned the eight decades from the collapse of the Jacksonian Democrats in 1849 to the pervasive dominance of Wall Street and big business before the Great Depression. The evolution of the government into a powerful cartelizer of the economy—finance, transportation, manufacturing, labor, food, and drugs—required multiple stages of myriad special interests persistently lobbying to reduce competitive market pressures. It required cronyism: government intervention that benefits special interests at the expense of the public interest.

American history books often mention how federal and state governments provided favors for businesses. In most cases, the literature justifies the granting of special privileges as benefiting the public and asserts that the politicians and interest groups were motivated to promote the public welfare. Some histories do identify these policies as examples of cronyism. However, they usually focus on specific cases. While this episodic approach is useful, the systematic and pervasive tendencies of cronyism and its effects remain hidden. Therefore, a general and integrated review of cronyism that ties specific actions to broader trends can help uncover the self-interested motivations of the actors who push for government privileges and the harmful consequences of their actions upon others.

In *Cronyism: Liberty versus Power in Early America, 1607–1849*, I used Murray Rothbard's "Liberty versus Power" theory to analyze constitutions, central banking, tariffs, territorial expansion, and other special privileges in the years between the founding of Jamestown and the election of 1848. In that era there were multiple political movements and party organizations fighting for liberty and free-market policies against the forces of government power and favoritism.[1] After 1849, the Liberty versus Power conditions no longer held. Since then, political parties have differentiated themselves only by which special interests and elites they reward with privileges. In the next era of American history, then, understanding the theory of special-interest-group politics becomes paramount.

Special-interest policies are embedded in government. The free market of consensual exchanges tends to result in mutually beneficial outcomes that grow the economic pie. The competitive profit-and-loss mechanism incentivizes individuals to allocate scarce resources toward producing goods that consumers value. Profits signal to businesses that consumers value the goods they purchase more than alternative goods that could have been produced; losses signal the opposite. However, activity by the government, the legitimated monopoly on force, does not benefit both producers and consumers; it creates winners and losers by redistributing and shrinking the economic pie. Political edicts, grounded in coercion, interfere with exchanges by taking goods away from certain individuals and giving them to others or declaring that only certain individuals may produce a good while others cannot. Government fiat, moreover, cannot allocate according to profit and loss because it is financed with taxation, and when the government possesses a monopoly on producing certain goods or services it does not face competition. Therefore, government intervention tends to harm the public while privileging select individuals and groups with favors that provide monetary or psychic gains. Potential beneficiaries have a vested interest in making sure that they and their allies reap their desired cronyism.

[1] Patrick Newman, *Cronyism: Liberty versus Power in Early America, 1607–1849* (Auburn, AL: Mises Institute, 2021); Murray N. Rothbard, *Conceived in Liberty*, vols. 1–4 (Auburn, AL: Mises Institute, 2019); and Murray N. Rothbard, *Conceived in Liberty*, vol. 5, *The New Republic, 1784–1791*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2019).

Rather than create things people desire on the unhampered market, a special interest or coalition of interests can lobby those who control the government machinery, the politicians up for reelection and insulated bureaucrats, for favors. Lobbying tactics include paying out bribes, hiring relatives, providing campaign contributions, holding closed-door meetings with officials, writing letters and other material, spreading public propaganda, and so on. When politicians and bureaucrats are convinced by lobbying, they introduce new bills, amend existing rules, or appoint new personnel to favorably administer the law. Interest groups' main goal is to "capture" government policies by making sure officials help them and hurt their rivals. They accomplish this by offensively lobbying for their desired cronyism and defensively lobbying against policies proposed by contenders. It is a battle of money and influence, and to the victor belong the spoils. With special interests lining up at the government trough, cronyism never fails to increase, except when competing special interests produce political gridlock.

Some of the most economically destructive special-interest policies are those that hamper the competitive profit-and-loss mechanism by encouraging cartels and monopolies. On the free market, the ability of sellers to collude, or one seller acting alone, to restrict supply and raise prices is limited because participants can secretly break ranks and new sellers can enter the market. Cartels and monopolies are successful only when government-granted special privileges reduce the number of sellers, prohibit price cuts, or both. This cronyism can take the form of a direct intervention, such as a license, which blocks out certain producers in favor of the license holders. Or it can be indirect, such as through a reporting regulation or quality control that saddles compliance costs onto smaller firms with lower budgets and encourages them to exit the industry. In either case, thanks to the forced decrease in competitive pressure, the remaining sellers or seller can form a cartel or a monopoly. Unburdened by market competition, the privileged will cease innovating, lower quality, curtail supply, and hike prices. As the special privilege makes it harder for sellers to enter new lines of production and cut prices, the market's ability to flexibly adjust to changing economic conditions diminishes. The losers are the competitors prevented from producing and the public who suffer from regimented production, deteriorating quality, fewer choices, and more expensive products.

Applying the theory of special-interest-group politics, my thesis is as follows: from 1849 to 1929 the general trend of cronyism was to establish government-sponsored cartels and monopolies. Contemporaries defined this system as corporatism and the government that administered it as the corporatist state. As the corporatist state developed, it restricted competition most prominently through regulatory commissions that raised barriers to entry, increased market share of select groups, reduced quality innovation, or mitigated price competition. The most influential special interests advocating the clamping down on competitive pressures were the nation's big businesses—Wall Street banks, industry, railroads, and food and drug processors—who lobbied for their goal by allying with intellectuals eager for prestige and influence. However, due to the lobbying influence of rival bankers, smaller businesses, unions, merchants, and other groups, politicians enacted compromise regulatory commissions and other policies. It was only after the legislative process that big business captured the compromise policies by securing the appointment of personnel to interpret the legislative mandates in its favor. Due to changing personnel, laws, and rules, the corporatist state went through alternating periods of capture between various special interests until big business successfully established its desired network of mandated cartels and monopolies.

To prove my thesis, I describe the history of cronyism largely through business and economic history. My narrative focuses on these histories for two reasons: first, to show that big business and competing special-interest groups (e.g., smaller firms and labor organizations) were motivated to lobby for policies to benefit themselves; and second, to show that the special privileges they advocated were economically damaging to the public at large. Combined, the historical record demonstrates that government actions during this time were essentially a long train of privileged grants and forced redistributions.

Cronyism: Rise of the Corporatist State, 1849–1929 starts with the Compromise of 1850 and ends on the eve of the Great Depression. It comprises three parts.

The book opens with "Part I: The Plundering Generation, 1849–1861." The possibility of the corporatist state emerged in the late 1840s after the collapse of the Jacksonian Democrats, the group so successful in dismantling the consolidating American System and its favoritism. The demise of the Jacksonians, the country's last mass movement dedicated to libertarian reform, meant that it was only a matter of time before the disbursement of special-interest policies became the norm.

The Democrats could have prevented any corporatist state from arising; however, the divisive issue of expanding slavery into the western territories irrevocably wrecked their party. By the 1850s both the Whigs and Democrats favored their own special-interest land grants for a transcontinental railroad to the West Coast. But railroad promoters failed to acquire new land subsidies and other favors from either party because the slavery controversy created political gridlock. This contentious issue destroyed the political organizations and led to a new Republican Party that favored confining slavery to the South, granting land and monetary subsidies to northern transcontinental railroads, and shielding manufacturers with protective tariffs. The perceived threat from the Republicans after the election of 1860 convinced southern Democrats to secede, and the ensuing Civil War broke the political gridlock.

As explained in "Part II: The Great Barbecue, 1861–1897," the foundations of the corporatist state could then be laid during the Civil War, when the one-party Republican rule implemented a neo–American System of transportation subsidies and monopolistic land grants, protective tariffs, and a centralized banking system. None of these laws enhanced public welfare or made the average person better off. Instead, they misallocated resources, raised prices, and limited consumer choice. Economic growth came in spite of, not because of, government intervention. The people who did gain were railroad promoters like the Big Four of California, producers in the National Association of Wool Manufacturers and the American Iron and Steel Association, and Jay Cooke & Co. and Wall Street bankers. They fed rapaciously at the government trough, the result of their handiwork.

The good times for emerging big businesses did not last. The subsidies dried up; the restrictions failed to prevent emerging forms of competition; and new railroads, shippers, smaller firms, unions, Chicago bankers, and others appeared on the scene to lobby for their own cronyism or co-opt the existing set of special privileges. New monopolization and cartelization attempts failed, including in the Interstate Commerce Commission (ICC), a regulatory agency proposed by the railroads to raise rates and mitigate competition in freight shipments.

By the 1890s, then, big business, led by the powerful Wall Street bank J. P. Morgan & Co., realized that it needed to change the plan. The government's piecemeal erection of barriers to entry no longer worked; something far more grandiose was needed. That, of course, was for the government to enact corporatist policies that more explicitly and intensely controlled markets, to do what the ICC was supposed to do for the railroads and to do it better. To accomplish this goal, industrialists needed new regulatory commissions and executive departments, and especially the appointment of pro-big-business commissioners to run the agencies. Big businesses, like shippers, small firms, unions, and other rivals, began to forge partnerships with economists and other intellectuals, particularly those affiliated with the American Economic Association. It was a simple arrangement: convince the public that the commissions and departments were forward-looking, progressive reforms that helped people when the opposite was true, and in return enjoy positions of power as the official gatekeepers for the government and affiliated special interests.

If the Civil War led to the foundation of the corporatist state, the election of William McKinley in 1896 commenced the official construction. This building process is detailed in "Part III: The Corporatist Era, 1897–1929." Each big-business group—Wall Street, corporations, railroads, and established food and drug interests—initiated lobbying efforts to convince government officials to devise regulatory agencies that carved up markets and restricted competition. By the close of the 1920s the groups had erected the corporatist state. J. P. Morgan & Co. and Kuhn, Loeb & Co. established the Federal Reserve System; US Steel and the National Civic Federation controlled the Department of Commerce and the Federal Trade Commission (FTC); the Association of Railway Executives enhanced the powers of the ICC in the Transportation Act of 1920; the Beef Trust obtained the Meat Inspection Act of 1906; and sugar, whiskey, and other food and drug producers strengthened the Bureau of Chemistry's bureaucracy through the Pure Food and Drug Act of 1906. Affiliated economists, lawyers, and other members of the intellectual class obtained prestigious positions in government, in elite universities, or in big business–financed institutions like the Council on Foreign Relations and the National Bureau of Economic Research. In almost all cases Wall Street was not far behind, either as direct lobbyists or as financiers of the relevant concerns.

Paralleling industry's cartelizing policies, unions strove to erect formidable barriers to kick lower-priced workers out of labor markets. The American Federation of Labor, the Big Four railroad unions, and other labor groups established a place for themselves in the corporatist state, lobbying for immigration restrictions and arbitration boards to move wage determination away from market forces. Several professions sought similar impediments through licensing boards, American Medical Association doctors standing out as the most prominent. In each economic sector, therefore, using the government to limit supply and raise prices was the name of the game.

Elites' capture of the corporatist state was not automatically assured. For every big business advocating privileges there existed hostile smaller-sized firms, unions, politicians, or activists. This meant that whatever legislation Congress passed usually reflected a compromise among the different interests and only vaguely stated what the newly created agency or law was supposed to do. Thus, the potential for big businesses to capture the regulation still existed because they made sure to influence the personnel who executed and enforced the new rules. This followed the old strategy of the railroads, who in the 1880s had secured the favorable appointments of Thomas Cooley and other commissioners to the ICC.

Personnel indeed was policy, and big business secured favorable commissioners who enforced their favored corporatist regulations in the preferred manner. Most notably, Wall Street nominated Benjamin Strong to run the Federal Reserve Bank of New York. Strong used his position to turn the New York Fed into the most dominant of the regional central banks. He practiced expansionary monetary policy to promote foreign dollar reserves in a pseudo-gold standard and reverse Wall Street's slipping grip on the balances of other banks. Thanks to Strong's fourteen-year tenure, Wall Street exercised unparalleled dominance at the new central bank. This came at an enormous cost: the pro–New York monetary policy led to structural imbalances in real estate, high-tech sectors, and financial markets, laying the shaky foundations that caused the Great Depression.

Other big businesses were not far behind, though their capture of the relevant regulatory agencies fluctuated because their preferred commissioners did not rule for as long as, or as expertly as, Strong. This is seen clearly in industry. During the Taft presidency the Bureau of Corporations in the Department of Commerce and Labor ceased the preferential treatment that the Theodore Roosevelt administration had bestowed upon US Steel and other Morgan giants. After they successfully lobbied for a regulatory board, the Morgan corporations welcomed Edward Hurley to the FTC in early 1915. He established a liaison with big businesses over antitrust and other government interventions, promoted accounting standards that raised costs and reduced price competition, and supported American export cartels.

Optimism over the FTC quickly turned into disappointment once Hurley retired in early 1917 and the new commissioners favored inquisitive investigations, price controls, and antitrust lawsuits against large corporations. It was only in the 1920s that new appointments caused the FTC and the Department of Commerce to return to being dispensers of special privileges for large corporations. FTC commissioner William Humphrey proudly announced his pro-big-business dispensation and enforced monopolizing arrangements in domestic and foreign markets. Secretary of Commerce Herbert Hoover augmented his department's network of subsidies and regulations, including new price information research, labor-management relations, and patent grants that businesses, like General Electric, exploited. Highly important side effects of this corporatism were the encouragement of small firms to consolidate into larger companies and making prices and wages less flexible. These consequences rigidified markets because they reduced competitive market forces and caused firms to be less responsive to changes in supply and demand.

Similar situations occurred in the railroad and meatpacking industries, though regulatory capture for them depended less on the specific personnel. The Pennsylvania Railroad lobbied for the Elkins Anti-Rebating Act of 1903 and the Hepburn Act of 1906 to reduce rate competition, but it and other railroads lost control of the ICC through the new Mann-Elkins Act of 1910 and commissioner appointments. To their horror, the ICC moved away from ending rate cuts to preventing rate increases, a disaster for railroad cartelists. Railroads and affiliated New York City banks recaptured the ICC after World War I, not so much because of favorable commissioner appointments (which did occur) but because the ICC bureaucracy caused it to enforce all the provisions of the Transportation Act ineffectively. The Chicago-based Beef Trust feasted on the Meat Inspection Act's taxpayer-subsidized inspection and onerous compliance costs that disproportionately burdened smaller meatpackers until the Depression of 1920–1921 and technological change sharply eroded their gains and bankers took over Armour & Co.

The continual back and forth of the lobbying process, legislative revisions to existing laws, commissioner appointments, and so on rotated the winning and losing special interests. Yet in the end, big business won out and captured the commanding heights of the corporatist state. It was not a straightforward or linear path, but by the end of the 1920s business elites accomplished the cronyism they had aimed for since the 1890s: getting the government to thoroughly cartelize the economy for their gain.

The corporatist system was alive and kicking.

PART I

THE PLUNDERING GENERATION, 1849–1861

CHAPTER 1

THE REPUBLICAN ASCENDANCY

The Corruption of Land

Strong ideological support for free markets and decentralization held back groups fighting for special privileges throughout most of early American history. Against the forces of government spoils who championed central banking, protectionism, consolidating infrastructure projects, federal supremacy, and foreign bellicosity, the libertarian contingent fought for hard money, free trade, privatized transportation, homesteading, states' rights, and a noninterventionist foreign policy. But, disastrously, whenever the liberty-minded reformers ousted the favor seekers from office the levers of power incentivized the reformers to support their own cronyism. The proximate cause was always the same: land. In the words of one expansionist, "Land is the footstool of our power; land is the throne of our empire."[1]

The fate of the nation initially hinged on the battle between free-market Jeffersonian Republicans and interventionist Hamiltonian Federalists. After Thomas Jefferson won the presidency in 1800 and rolled back the judicial bureaucracy, taxes, and military expenditures, his desire to establish a limited confederation

---

[1] Caleb Cushing, "Address to the Essex Agricultural Society," September 26, 1850, quoted in John M. Belohlavek, *Broken Glass: Caleb Cushing and the Shattering of the Union* (Kent, OH: Kent State University Press, 2005), 81.

Books of this scope typically provide only a bibliography and citations for direct quotations. To provide greater clarity, references are cited for each paragraph or, when closely related, after every few paragraphs. Unless otherwise noted, all percentages are rounded.

ran aground on the tantalizing opportunity to purchase France's Louisiana Territory. Jefferson, though recognizing that the acquisition conflicted with his constitutional scruples, could not refuse five hundred million acres. He then embarked upon his own brand of favoritism to keep the swollen empire from breaking apart, including payments to land speculators, centralization of internal improvements, tariffs and mercantile protection, and plans to conquer Canada and Florida. By the War of 1812, Jefferson's Republicans were indistinguishable from the Federalists they previously fought.[2]

An "Era of Corruption" ensued in the following decade as the new National Republicans devised an American System of central banking, protectionism, public-works largesse, federal abrogation of settlers' rights, and foreign aggression.[3] By 1825 the situation had gotten so deplorable that Secretary of State John Quincy Adams and Speaker of the House Henry Clay bribed congressmen in an overtime House election to steal the presidency from the frontrunner, Senator Andrew Jackson, and give it to Adams. In the face of such flagrant corruption, Jackson allied with the politico Martin Van Buren to create a new Democratic Party devoted to restoring the old Jeffersonian laissez-faire ideology to counter the National Republicans' growing cronyism.

Using executive vetoes, new free-market writings, and a partnership with British reformers, the Jacksonian presidents of the 1830s and 1840s triumphed over Clay's interventionist Whig Party and dismantled the American System. Jacksonians eliminated the Second Bank of the United States, established the hard-money Independent Treasury, lowered protective tariffs, restrained federal government spending, and paid off the national debt. At the state level, the Democrats instituted various forms of free banking and enacted new state constitutions and general incorporation laws to weaken states' ability to borrow, invest in public works, and grant restrictive corporate charters. According to Robert Kelley, by 1846 the Jacksonians, "shaped by the ideas of

---

[2] Patrick Newman, *Cronyism: Liberty versus Power in Early America, 1607–1849* (Auburn, AL: Mises Institute, 2021), 121–201.

[3] Robert Remini, *Andrew Jackson, vol. 2, The Course of American Freedom, 1822–1832* (New York: History Book Club, 1998), 15.

the Scotsman Adam Smith," had achieved a "reasonably complete separation between government and business."[4]

The Jacksonian Democrats' free-market reforms reduced government barriers to entry and other economic interventions. This enabled businesses to better allocate the country's domestic pool of workers, new waves of immigrants, abundant natural resources, and growing levels of savings toward producing goods that consumers valued. Relatively freer competition in banking led to safer and more efficient banks compared to federal- and state-chartered monopolies. The move toward free trade allowed businesses to import less-expensive inputs, such as iron rails for the burgeoning railroad industry, and consumers to purchase lower-priced goods. Restraining the spending and debts of governments freed resources for private use, and private funds provided 75 percent of the investment for railroad infrastructure. Easier entry into railroading encouraged competition and innovation.[5]

The institutional groundwork for a new Industrial Revolution had been laid. Businesses moved away from the water loom to the steam engine and produced in urban factories instead of artisanal shops. Railroads facilitated more of the nation's com-

---

[4] Robert Kelley, *The Cultural Pattern in American Politics: The First Century* (New York: University Press of America, 1979), 158. Newman, *Cronyism*, 203–302.

[5] Christopher J. Calton, "Monstrous Monopolies and Vicious Competition: The General Incorporation Movement in Nineteenth-Century America" (PhD diss., University of Florida, 2023), 189–212, 243; Albert Fishlow, "Internal Transportation in the Nineteenth and Early Twentieth Centuries," in *The Cambridge History of the United States*, ed. Stanley L. Engerman and Robert E. Gallman (New York: Cambridge University Press, 2000), 2:574, 576–77, 579–80; Douglas A. Irwin, *Clashing over Commerce: A History of US Trade Policy* (Chicago: University of Chicago Press, 2017), 193–202; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 1, *Population* (New York: Cambridge University Press, 2006), 524–25; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 3, *Economic Structure and Performance* (New York: Cambridge University Press, 2006), 291–92; John Joseph Wallis, "Constitutions, Corporations, and Corruption: American States and Constitutional Change, 1842 to 1852," *Journal of Economic History* 65, no. 1 (March 2005): 244–47; and Eugene N. White, "To Establish a More Effective Supervision of Banking: How the Birth of the Fed Altered Bank Supervision," in *The Origins, History, and Future of the Federal Reserve*, ed. Michael Bordo and William Roberds (New York: Cambridge University Press, 2013), 30.

merce. The country's manufacturing sector increased from 17 percent of commodity output in 1839 to 32 percent in 1859. Real gross domestic product per person, after rising 1 percent per year from 1820 to 1840 (the heyday of the American System), grew 1.7 percent each year over the next two decades. Real wages for common laborers similarly increased, from 1.7 percent per year in the earlier period to 2 percent per year from 1840 to 1860.[6]

But right as the growth takeoff began, the political coalition that could maintain it fragmented. The old siren song of land returned, this time in the form of the independent Republic of Texas and Mexico's possessions in the Southwest, especially California. Various special interests had long desired the two regions. Holders of Texas debt interested in a bailout, land speculators looking to monopolize the world's cotton production, and plantation owners eager to make it harder for slaves to escape all wanted the Gulf of Mexico for the United States. Internationalist merchants and manufacturers, especially the Boston Associates in New England, sought ports on the Pacific Ocean to facilitate naval expansion and force trade into Asia. They reasoned that a government-sponsored transcontinental railroad would attach California to the American economy.

Land once again proved to be the reformers' undoing when Jackson, who favored the expansion of slavery, and Van Buren, who opposed it, split on the question of Texas annexation in 1844. That split, writes Murray Rothbard, "symbolized the wider sectional rift within the Democratic Party," and the rising issue of the western expansion of slavery "wreck[ed] the party and

---

[6] Jeremy Atack and Peter Passel, *A New Economic View of American History*, 2nd ed. (New York: W. W. Norton, 1994), 191–200; Louis Johnston and Samuel H. Williamson, "What Was the U.S. GDP Then?," MeasuringWorth (accessed October 7, 2024), https://www.measuringworth.com/datasets/usgdp12/; David R. Meyer, *The Roots of American Industrialization* (Baltimore: Johns Hopkins University Press, 2003), 126–35; Lawrence H. Officer and Samuel H. Williamson, "Annual Wages in the United States, Unskilled Labor and Manufacturing Workers, 1774–Present," MeasuringWorth (accessed October 7, 2024), https://www.measuringworth.com/datasets/uswage/; Sutch and Carter, *Historical*, 3:158; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States,* vol. 4, *Economic Sectors* (New York: Cambridge University Press, 2006), 916.

its libertarianism completely."[7] The Democratic Party now succumbed to the allure of territorial expansion, and Democratic president James K. Polk invaded Mexico in 1846 to capture western ports. During the land grab, the Democrats partnered with transcontinental railroad promoters, steamship magnates, and land speculators to bind together the extremities of the rapidly growing country. To assist with the financing costs, the party enlisted investment bankers eager to profit from selling the exploding federal debt. The reform coalition never recovered.[8]

By the election of 1848, the Democratic Party had transformed into a proslavery organization dedicated to a vast program of internal improvements and aggressive naval expansion into Asia and the Caribbean. Van Buren lamented "the horrible corruption" that now existed, while another Democrat bemoaned the lack of "purity, [and] high devotion to principle."[9] With Whigs still itching to reestablish some revised version of the American System, no significant political party remained to fight special privileges. There were now only vying factions interested in their own forms of cronyism. The "decline of the Jacksonian party system and the slackened commitment to the issues on which it was formed," writes Mark Summers, led to an environment ripe for capture by the multiplying groups of special interests.[10]

Distributing the Conquests

The 1850s opened with enormous cronyism. Railroads demanded land grants, speculators lobbied for bailouts, investment bankers controlled the purse strings, and politicians of all parties stood ready to loot the taxpayer. Vying groups set aside

---

[7] Murray N. Rothbard, *For a New Liberty: The Libertarian Manifesto*, 2nd ed. (Auburn, AL: Ludwig von Mises Institute, 2006), 9–10.

[8] Newman, *Cronyism*, 303–330.

[9] Van Buren to Francis Blair, July 15, 1851, quoted in Mark Wahlgren Summers, *The Plundering Generation: Corruption and the Crisis of the Union, 1849–1861* (New York: Oxford University Press, 1987), 186; and David Wilmot to E. O. Goodrich, 1851, quoted in Charles Buxton Going, *David Wilmot, Free Soiler: A Biography of the Great Advocate of the Wilmot Proviso* (New York: Appleton, 1924), 434.

[10] Summers, *Plundering*, 16.

their differences to join together in an immense defalcation of the public. Truly did the ruling caste constitute the "plundering generation."[11]

One issue loomed that had largely been absent in political debates until the annexation of Texas: the controversy around the expansion of slavery into the western territories. Disagreement, of course, threatened to delay any parceling out of the new conquests. The southern planter class grew increasingly worried that there were not enough government privileges to protect their peculiar institution: they thought Congress needed to strengthen fugitive slave regulations and make slavery permissible from coast to coast. Northerners had fought the extension of slavery in order to keep blacks out of the new territories and reserve the land for whites. Confining slavery to the South also facilitated the enactment of protective tariffs, which the free-trade South abhorred. Congress had resolved the matter in the Missouri Compromise of 1820, drawing a line through the middle of the country to determine where slavery would be sanctioned. The Mexican War, however, called into question how far west that line extended. After the conflict, when California petitioned to be admitted into the Union as a free state in 1849, plantation owners in the South feared that the handwriting was on the wall. They threatened secession.[12]

Given the political climate, the issue would be resolved in only one way: not by forbidding slavery in the West or breaking the swollen empire up, but by Democrats and Whigs granting more privileges to slave owners along with other crony legislation to placate various competing groups. In the Compromise of 1850, Congress admitted California as a free state, providing solace to northern promoters of a transcontinental railroad. Congress also organized Utah and New Mexico into territories with the potential for slavery if settlers wanted it. While slave owners in the South worried about this so-called popular sovereignty and disapproved the compromise's outlawing of the slave trade in the nation's capital, Washington, DC, they received a prized desire: a

---

[11] Summers, *Plundering*, 1.

[12] Jeffrey Rogers Hummel, *Emancipating Slaves, Enslaving Free Men: A History of the American Civil War* (Chicago: Open Court, 2002), 53–55, 91; Kelley, *Cultural*, 221; and Newman, *Cronyism*, 124–25, 237–43, 307–10.

new fugitive slave law. This regulation enormously strengthened slavery by creating a new class of federal court officers who possessed the power to conscript northerners into helping capture runaways. Fugitive slaves lacked the right to testify or receive a jury trial, and the law incentivized the new officers to rule against fugitives because they received $10 for deciding that a black person was a slave but only $5 for deciding the person was free.[13]

The egregious protection of slavery, necessary for keeping southern plantation owners from seceding, was not the only cronyism in the compromise. Southerners won over a couple of Pennsylvania congressmen by agreeing to support some protective tariffs, while the Pennsylvania legislature responded by strengthening its enforcement of capturing fugitive slaves. New York did its part by voting for the compromise in the hope that Congress would increase appropriations for steamship subsidies to benefit local merchants.[14]

Crucially, Texas and Illinois fought hard for monetary subsidies and land grants in the compromise: Texas received $10 million in taxpayer funds, and Illinois acquired a 2.5-million-acre land grant to build a railroad from Chicago to the Mississippi River. Of course, the actual beneficiaries were not the states' citizens but rather speculators in Texas debt and railroad lobbyists in Illinois. Soon enough, Texas securities speculators received $7.75 million (78 cents on the dollar) from the US taxpayer, a windfall to those who bought bonds at just 12 cents. The federal government had picked winners and losers, diverting scarce funds from the public that could have been spent on private enterprise or consumption and redistributing them to political favorites who held Texas debt of dubious value.[15]

The railroad interests received the bigger prize in the compromise: Illinois chartered the Illinois Central Railroad Company in 1851 to connect Chicago to the southern boundary of the state. Illinois, like many other states, had experienced disastrous

---

[13] Hummel, *Emancipating*, 91–94; and Sandra K. Lueckenhoff, "A. Lincoln, a Corporate Attorney and the Illinois Central Railroad," *Missouri Law Review* 61, no. 2 (Spring 1996): 410.

[14] Summers, *Plundering*, 222–23.

[15] Hummel, *Emancipating*, 93; and Summers, *Plundering*, 203–4.

consequences from its reckless debt-financed and monopoly-chartered infrastructure projects in the 1830s. For this reason, in 1848 Illinois adopted a new constitution that limited government investment and made it easier to open private corporations. The Illinois Central changed that: though the state did not directly invest in the railroad, it gave the company the entire federal land grant. This was an immense subsidy because the railroad did not have to homestead the land and could simply sell it to land speculators and settlers at high prices. Furthermore, the state granted the railroad a perpetual charter and agreed not to create a competitive railroad for fifty years, granting it a de facto monopoly. Once again, the government decided that it could do better than market forces. The good times lasted for a couple of years until the Panic of 1857 severely impacted the company, which had borrowed heavily from bankers, and almost drove it into bankruptcy.

The Illinois Central resembled the East Coast trunk lines—the large railroads being built and combined from smaller railroads to facilitate long-distance traffic to and from the Midwest. The Illinois Central and the trunk lines were the first truly big businesses in America. First, they were corporations owned by numerous stockholders. Second, they dwarfed other businesses: in the 1850s ten railroad corporations were capitalized at over $10 million, while the biggest textile and metal firms were capitalized at only $1 million. Third, railroads received funds from Wall Street, unlike manufacturing companies, which were much smaller and usually organized as partnerships and proprietorships that financed themselves internally. Fourth, the railroads exercised enormous political influence. They bribed politicians with free passes for transportation services and allied with members of the legal profession, who served as lobbyists and defended the companies in court. The Illinois Central, for example, established relationships with Senator Stephen Douglas of Illinois, a land speculator, and corporate lawyer Abraham Lincoln. The railroad behemoths would soon flex their economic and political muscles to acquire new political favors far greater than what was provided in the Compromise of 1850.[16]

[16] Philip H. Burch Jr., *Elites in American History*, vol. 1, *The Federalist Years to the Civil War* (New York: Holmes and Meier, 1981), 215, 217, 226; Philip H. Burch

There was one mastermind behind the compromise who corralled all the contending plunderers. He was the Democrat W. W. Corcoran of Corcoran & Riggs, an investment bank in Washington, DC, that financed government and business projects. Corcoran, who earned $100,000 a year, seemed to benefit from every aspect of the compromise. When California later spent over $800,000 fighting Indian wars, Corcoran bought up the debt and then lobbied Congress to assume it, earning a 40 percent profit. A land speculator in the South, he wanted subsidies for slavery to protect the value of slave plantations. A heavy investor in Edward Collins's subsidized steamships, Corcoran desired continued taxpayer assistance that encouraged the creation of large and inefficient vessels. Having purchased $140,000 of depreciated Texas securities, Corcoran bribed the United States secretary of the Treasury Thomas Corwin and former attorney general Reverdy Johnson to push the federal government to assume the debt at face value. Lastly, Corcoran invested in Illinois land purchases, and the Illinois Central asked him to help with financing. No wonder critics lamented: "What is the national legislature against Corcoran & Riggs' office?"[17]

Indeed, Corcoran was just getting started. Though he retired from his bank in 1854, his investments in government bonds, railroads, and land encouraged him to stay active in politics. Corcoran, his biographer notes, "relished the authority, the pres-

---

Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 16–17; Calton, "Monstrous," 189–212, 243; Henry Cohen, *Business and Politics in America from the Age of Jackson to the Civil War: The Career Biography of W. W. Corcoran* (Westport, CT: Greenwood, 1971), 166; Lueckenhoff, "Lincoln," 410–14; Newman, *Cronyism*, 298–99; Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 92–93; Aaron M. Sakolski, *The Great American Land Bubble: The Amazing Story of Land-Grabbing, Speculations, and Booms from Colonial Days to the Present Time* (New York: Harper and Brothers, 1932), 278, 280–84; John F. Stover, "Illinois Central Railroad," in *Encyclopedia of American Business History and Biography: Railroads in the Nineteenth Century*, ed. Robert L. Frey (New York: Facts on File, 1988), 193–94; Summers, *Plundering*, 101; and Wallis, "Constitutions," 214–17, 219, 249–52.

[17] "Postscript," *New York Evening Post*, Sept. 7, 1850, 3. Burch, *Elites*, 1:199, 226–27; Cohen, *Business*, 94–96, 99, 115–17, 121, 140–44; Mark L. Goldstein, *Before the Gilded Age: W. W. Corcoran and the Rise of American Capital and Culture* (Washington, DC: Georgetown University Press, 2023), 49–50, 55–62, 91–96; and Summers, *Plundering*, 91, 104–6, 186–87, 220–21.

tige, and above all the sense of being at the center of things."[18] Corcoran's omnipresence marked a new age in Democratic politics, one of special-interest dominance.

In the election of 1852, Corcoran supported the Democratic lawyer Franklin Pierce of New Hampshire and made sure he would continue doling out spoils after he won: before the election Corcoran bought California debt for the presidential candidate and his secretary. Other special interests joined in. August Belmont, Corcoran's occasional business partner and the Rothschilds' investment banker in America, led New York City bankers and merchants to vote for Pierce. Amos Lawrence, brother of the prominent textile oligarch and Boston Associate Abbott Lawrence, maintained very close relations with Pierce. For the secretary of war position, Pierce chose a man reliable to the slave interests: Mississippi's Jefferson Davis, the brother of one of the richest plantation owners in the South. With the Compromise of 1850 seemingly settling the slavery question, these groups looked forward to further rewards in the Pierce administration.[19]

Transcontinental Peculations

Merchant and railroad interests desired military protection to assist worldwide American commerce and more land-grant munificence. They wanted naval and steamship appropriations to increase commercial trade overseas and transcontinental railroad subsidies to connect the country with the Pacific Ocean. Ruling elites hoped that these imperial interventions would increase their financial strength and enhance the United States' power abroad. To their dismay, the slavery issue rose once more and this time prevented any further disbursement of special privileges.

August Belmont, who had become Pierce's ambassador to the Netherlands, embraced all the special-interest policies. Bel-

[18] Cohen, *Business*, 99.

[19] David Black, *The King of Fifth Avenue: The Fortunes of August Belmont* (New York: Dial Press, 1981), 52, 238; Burch, *Elites*, 1:202–4; Cohen, *Business*, 64, 143, 209, 361; Yonatan Eyal, *The Young America Movement and the Transformation of the Democratic Party, 1828–1861* (New York: Cambridge University Press, 2007), 36, 225; and Goldstein, *Gilded*, 96–97.

mont favored a powerful steam navy to protect American international commerce, a desire accomplished with the 57 percent increase in naval expenditures from 1852 to 1856. He waxed poetic about how his father-in-law, Commodore Matthew Perry, had been given "the greatest fleet which was ever appointed in peace times" to intimidate Japan into establishing trade relations with the United States.[20] When it came to the coveted Caribbean trade, Belmont proposed a policy of financial pressure and military threats to strong-arm Spain into selling Cuba.

Belmont considered a transcontinental railroad the cornerstone of the United States' economic policy. He wanted Congress and the private sector to join forces to establish American hegemony because "any nation which can secure to itself the trade of the East is sure to command the trade of the world."[21] Such a western transcontinental line, because it would be built far ahead of settler and business demand, would require a mountain of government assistance. Washington was eager to oblige. In March 1853, Congress authorized Secretary of War Jefferson Davis to survey potential railroad routes to the West Coast. Davis's report established the feasibility of a northern route to the Puget Sound, a central line to San Francisco, and a track to southern California. The Pierce administration, eager to please southern expansionists, had already commissioned James Gadsden, a South Carolina railroad builder currently serving as the US Minister to Mexico, to purchase a strip of land from Mexico for $10 million so a railroad could be built from Texas to California.[22]

---

[20] August Belmont to Simon Belmont, January 1852, quoted in Black, *King*, 83.

[21] August Belmont to Merchants of New York, August 12, 1853, quoted in *Letters, Speeches, and Addresses of August Belmont* (Privately Printed, 1890), 6.

[22] Black, *King*, 91, 132–33; Dee Brown, *Hear That Lonesome Whistle Blow: The Epic Story of the Transcontinental Railroads* (New York: First Owl Books, 2001), 34; Eyal, *Young*, 36–40, 138, 169; Robert L. Frey, Introduction to Frey, *Encyclopedia*, xix; Irving Katz, *August Belmont: A Political Biography* (New York: Columbia University Press, 1968), 23–24, 44; Walter Nugent, *Habits of Empire: A History of American Expansion* (New York: Vintage Books, 2008), 218; John H. Schroeder, *Shaping a Maritime Empire: The Commercial and Diplomatic Role of the American Navy, 1829–61* (Westport, CT: Greenwood Press, 1985), 121–33; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 5, *Governance and International Relations* (New York: Cambridge University Press, 2006), 92; and Richard White, *Railroaded: The Transconti-*

Promoters of other transcontinental routes recognized what was going on: if the Pierce administration favored the southern route they could get left out in the cold. Senator Douglas, Belmont's friend and chairman of the Senate Committee on Territories, held this view. An affiliate of the Illinois Central, Douglas heavily speculated in Chicago real estate and spent $11,000 to acquire lucrative lakefront property and thousands of acres near the railroad. Unsurprisingly, he openly advocated land grants "for commerce, and for the enhancement of the value of the lands."[23] Douglas wanted Congress to subsidize a transcontinental railroad along the proposed central route and make the eastern terminus near Chicago and the Illinois Central. But an enormous problem stood in the way—the unorganized territory to the west of Iowa and Missouri. If Douglas wanted to further enhance the value of his Chicago real estate with an east-to-west transcontinental railroad, he needed Congress to organize this land into territories. This would furnish land-grant lobbyists and territorial representatives favorable to his cause. Douglas demanded new territories fast, and he was willing to pay, whatever the cost.

When Douglas introduced into Congress in January 1854 a bill to organize the territories of Kansas and Nebraska, his avarice for a transcontinental railroad caused him to quickly acquiesce to southern demands to allow slavery in the territories if the settlers wanted it. In contrast to their position on the Compromise of 1850, slave owners now supported popular sovereignty because it could overthrow the Missouri Compromise's dividing line. But Douglas's momentous decision to sanction slavery in the proposed Kansas and Nebraska territories caused a seismic shift in the political landscape. The antislavery Democrats and Whigs bitterly complained about this latest appeasement to the slave interests, while the proslavery politicians proclaimed they would do battle until the end. Recognizing that his political strength lay in the South, Pierce threatened to withhold patronage from northern Democrats who opposed the measure, and he advocated a government contract to a New York steamship promoter

---

nentals and the Making of Modern America (New York: W. W. Norton, 2011), xxiv–xxvii, 17.

[23] *Congressional Globe,* 33rd Congress, 1st Session, May 3, 1854, 1067.

as a sweetener for northern congressmen. When Pierce signed the Kansas-Nebraska Act into law in May, the South relished its victory.[24]

It was a pyrrhic victory for Belmont, Douglas, and the Pacific railroad interests. Fierce fighting erupted in Kansas between proslavery and antislavery settlers, and the Pierce administration lost crucial northern support by siding with the South. The slavery issue once again threw into jeopardy all proposals for a transcontinental railroad and imperial visions, including Belmont's machinations for Cuba. The controversy over slavery put global plans on hold indefinitely.

The nation's political parties groaned and cracked under the pressure. The Whigs imploded. Southern Whigs, largely wealthy plantation owners eager for government aid, increasingly joined the proslavery Democrats while in the North, the Boston Associates and other procotton Whigs watched helplessly as antislavery Whigs left the party en masse. These antislavery Whigs and the northern Democrats opposed to slavery's expansion created a new Republican Party dedicated to one unifying goal: stop the westward expansion of slavery and keep slaves in the South. The formation of the Republicans, named in honor of Jefferson's party, was extremely significant: it was the last nail in the old political system's coffin.[25]

This turmoil did not yet rise to the level of presidential fervor. It was business as usual in the election of 1856. The Republican candidate, John Frémont, a transcontinental railroad promoter, lost handily to a longtime ally of Corcoran and Belmont, the Democrat James Buchanan. Corcoran even served as the president's financial advisor, and Buchanan regularly visited his mansion across from the White House. The Buchanan administration, labeled the "Buchaneers" by its critics, promised to dole out

---

[24] Burch, *Elites*, 1:205–6, 229–30; Cohen, *Business*, 172; Eyal, *Young*, 13, 51, 70–71, 77, 221–22; Katz, *Belmont*, 56; and Summers, *Plundering*, 207–12.

[25] Robert F. Dalzell Jr., *Enterprising Elite: The Boston Associates and the World They Made* (Cambridge, MA: Harvard University Press, 1987), 216–19; Hummel, *Emancipating*, 107–11, 117; Katz, *Belmont*, 44; Kelley, *Cultural*, 179–81, 196, 212, 240; Rothbard, *Progressive*, 113; Summers, *Plundering*, 211–14; and Sean Wilentz, *The Rise of American Democracy: Jefferson to Lincoln* (New York: W. W. Norton, 2005), 679.

plunder to its preferred railroad interests.[26] This required sweeping the slavery issue under the rug.[27]

The judicial branch came to the president's rescue. Two days after Buchanan assumed office in March the Supreme Court ruled on an extremely relevant case. Infamously, the Supreme Court decided that the slave Dred Scott did not simply become a free person by his mere traveling to the free state of Illinois and free territory. In effect, the decision ruled the Missouri Compromise unconstitutional, stating that Congress lacked the power to prohibit slavery in any territory and implied that states did not possess the power to prohibit slavery within their borders. This apparent legalization of slavery nationwide enormously strengthened the institution. With the controversy over slavery seemingly settled by the high court, the door was open for Congress to finally grant transcontinental railroad subsidies.

There is evidence that individuals associated with the Illinois Central Railroad encouraged the *Dred Scott* decision in order to remove the slavery roadblock that had been preventing further federal largesse. The defendant was John F. A. Sanford, a prominent director of the Illinois Central and speculator in nearby land.[28] Sanford was also the son-in-law of Pierre Chouteau Jr., a wealthy businessman who replaced Sanford on the Illinois Central's board of directors. Corcoran was close with the Chouteau family and had engaged in business transactions with Pierre and his father. In addition, Corcoran, who was very sympathetic to the South's peculiar institution, maintained close connections with one of the judges ruling in the majority, James Wayne of Georgia. "In light of these connections," Philip Burch concludes, "it appears that Sanford could easily have been acting in the *Dred Scott* affair as the representative of various Northern business interests" that were eager to end concerns about the western

---

[26] "What is the Difference?" *Indiana Herald*, June 30, 1858, 2.

[27] Cohen, *Business*, 142, 204–5; Janet L. Coryell, "W. W. Corcoran," in *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, ed. Larry Schweikart (New York: Facts on File, 1990), 149; James L. Huston, *The Panic of 1857 and the Coming of the Civil War* (Baton Rouge: Louisiana State University Press, 1987), 12–13; Katz, *Belmont*, 50–57; Newman, *Cronyism*, 327; Summers, *Plundering*, 239–42; and Wilentz, *Rise*, 693–702.

[28] Sanford's name was misspelled as "Sandford" in the court case.

expansion of slavery so they could get subsidies for a central transcontinental railroad.[29]

If Sanford was doing the bidding of the northern business interests, they woefully miscalculated. The *Dred Scott* decision ignited the slavery controversy into a complete conflagration. It sabotaged plans for transcontinental largesse and territorial expansion in the Caribbean, infuriating Corcoran, Belmont, and Douglas. The case also accelerated the growth of the Republican Party. Unlike the Jeffersonian Republicans and Jacksonian Democrats, the new political organization did not serve as an effective reform coalition dedicated to removing special privileges. Although some old-line Democrats in favor of laissez-faire and other genuine antislavery activists joined the party, interests eager to facilitate pronorthern favoritism soon assumed control. Old forms of cronyism loomed on the horizon.[30]

Return of the American System

The rise of the Republican Party portended an aggressive policy of coercive centralization and the reemergence of unified government in favor of a federal program of public works, aid to manufacturers, and monetary intervention. Henry Clay's American System, the imperial program the Jacksonians had worked so hard to defeat, now reappeared with a vengeance. Without sufficient political opposition, nothing could stop it.

The Panic of 1857 transformed the Republicans from a party rallying against slavery's extension to a supercharged Federalist-Whig coalition. The panic stemmed from commercial banks—deposit-taking and note-issuing institutions—increasing the

---

[29] Burch, *Elites*, 1:214. Burch, *Elites*, 1:213–14, 233–34; Cohen, *Business*, 113, 121, 136, 156; Goldstein, *Gilded*, 90; Hummel, *Emancipating*, 112–14; Huston, *Panic*, 12–13; and Arthur M. Johnson and Barry E. Supple, *Boston Capitalists and Western Railroads: A Study in the Nineteenth-Century Railroad Investment Process* (Cambridge, MA: Harvard University Press, 1967), 130, 132, 134, 149–51.

[30] Kelley, *Cultural*, 198, 202, 212–13; and Murray N. Rothbard, "Report on George B. DeHuszar and Thomas Hulbert Stevenson, *A History of the American Republic*, 2 vols.," in *Strictly Confidential: The Private Volker Fund Memos of Murray N. Rothbard*, ed. David Gordon (Auburn, AL: Ludwig von Mises Institute, 2010), 126–27.

money supply through fractional-reserve banking. Fractional-reserve banking is the practice of having more notes and deposits than what can be redeemed with gold, or specie, reserves. When banks make loans, they issue new notes or create new deposits for the borrower, even though the amount of reserves backing them has not gone up. This loan-making process, also known as credit expansion, increases the overall amount of notes and deposits in the economy and thereby increases the money supply.

In the late 1840s bank reserves began to increase sharply, ushering in a new burst of credit expansion. Gold flowed into the banking system after prospectors discovered new sources in California and the Treasury Department began to purchase government debt from banks with gold. Banks then expanded credit in concert because of a crucial regulatory flaw that existed in the free-banking systems: state-level prohibitions on opening branches across state lines that restricted where they could do business. Purely free competition among fractional-reserve banks incentivizes each bank to redeem other institutions' notes and deposits for reserves, keeping credit expansions in check. The interstate branching prohibitions encouraged smaller banks to keep their reserves as balances in interest-bearing deposits at Wall Street banks as a way of diversifying their assets. The result was that Wall Street and interior banks both expanded on the same reserves rather than restraining each other's credit expansion. Economists defined the resultant increase in the money supply as inflation, and the hard-money advocate Charles Holt Carroll wrote that "gold . . . [was] used as the basis of the greatest possible inflation by the banks."[31] Between 1848 and 1856 the money supply inflated 129 percent (11 percent per annum).[32]

---

[31] Charles Holt Carroll, "Organization of Debt into Currency," August 1858, in *Organization of Debt into Currency and Other Papers* (New York: Arno Press, 1972; repr., Auburn, AL: Ludwig von Mises Institute, 2007), 91.

[32] Michael F. Bryan, "On the Origin and Evolution of the Word *Inflation*," Federal Reserve Bank of Cleveland *Economic Commentary*, October 15, 1997, 2; Huston, *Panic*, 13; Patrick Newman, "The Origins of the National Banking System: The Chase-Cooke Connection and the New York City Banks," *Independent Review* 22, no. 3 (Winter 2018): 394; Joseph T. Salerno, "Money and Gold in the 1920s and 1930s: An Austrian View," in *Money, Sound and Unsound* (Auburn, AL: Ludwig von Mises Institute, 2010), 422–25; Sutch and Carter, *Historical*,

The credit expansion lowered the interest rates banks charged on loans and encouraged a boom in long-term production beyond the supply of available savings. Consequently, businesses borrowed to expand railroad construction, western land development, iron and coal production, manufacturing facilities, steamboat development, and even slave trading for plantation growth. But the inflation that propped up such unwise investments was not guaranteed to continue because the banking system was very unstable. If customers wanted to redeem deposits for notes, a customary practice during the fall harvesting season, the banking system had trouble meeting the demand. This was because of another defect in the extant free-banking systems: states' requiring banks to insure the value of their notes with state government bonds in case they failed. This did not make banks safer and in fact hampered their ability to convert deposits into notes because in order to issue more notes they needed to purchase additional bonds. They paid out gold reserves instead. The declining confidence in banks' specie reserves made them susceptible to bank runs.

When the Ohio Life Insurance and Trust Company, stuffed with unprofitable railroad investments, closed its doors in August 1857, the financial system imploded. Panic spread as customers ran to redeem notes and deposits for scarce gold reserves. Banks responded by suspending the payment of specie, despite being required to honor their contractual obligations. The credit crunch led to a business downturn that elevated unemployment, which contemporaries called a depression. Far from being an unmitigated evil, the depression phase of the business cycle was the necessary readjustment process: credit contraction spurred businesses to reallocate inputs away from the malinvestments and into production processes that the public's supply of savings made feasible. Prices of factors of production that were bid too high during the boom, especially the wage rates of laborers, needed to be cut so the market could reemploy the resources. Thanks to the government practicing the same hands-off policy

---

3:601; and Richard H. Timberlake, *Monetary Policy in the United States: An Intellectual and Institutional History* (Chicago: University of Chicago Press, 1993), 77–82.

that it used during the Panics of 1819 and 1837, the depression readjustment barely affected economic growth.[33]

According to the remaining Whigs, however, the solution was not to practice laissez-faire and let the market readjust on its own, but rather to reestablish "a National Bank and a Protective Tariff."[34] In other words, they advocated more credit expansion to create another unstable boom and the taxation of foreign competition to resuscitate overexpanded manufacturing businesses. Such policies would have hurt consumers and firms by causing another business cycle and making them pay higher prices for foreign goods. Initially, Republicans eschewed the American System's central-banking plank because many hard-money ex-Jacksonians filled their ranks, including the *New York Evening Post* editor William Cullen Bryant and the Massachusetts economist and politician Amasa Walker. Cracks started to appear, however, when Governor Salmon P. Chase, a former Jacksonian Democrat turned Republican over the slavery issue, asked the Ohio legislature to reform its banking system and make banks back their notes with federal and not state bonds. While Ohioans shot down the proposal, Chase's actions foreshadowed Republicans' future monetary interventions.[35]

---

[33] Charles W. Calomiris and Larry Schweikart, "The Panic of 1857: Origins, Transmission, and Containment," *Journal of Economic History* 51, no. 4 (December 1991): 809–24; Olivier Darné, Amélie Charles, and Claude Diebolt, "A Revision of the US Business-Cycles Chronology 1790–1928," *Economics Bulletin* 34, no. 1 (2014): 238; Huston, *Panic*, 13–14, 23, 29, 32, 39, 54; Johnston and Williamson, "GDP"; Stanley Lebergott, "Changes in Unemployment, 1800–1960," in *The Reinterpretation of American Economic History*, ed. Robert W. Fogel and Stanley L. Engerman (New York: Harper and Row, 1971), 79; Newman, "Origins," 399; Sutch and Carter, *Historical*, 3:601; Mark Thornton and Robert B. Ekelund Jr., *Tariffs, Blockades, and Inflation: The Economics of the Civil War* (Wilmington, DE: Scholarly Resources, 2004), 109; and Paul B. Trescott, *Financing American Enterprise: The Story of Commercial Banking* (New York: Harper and Row, 1963), 37.

[34] "A National Bank and a Protective Tariff," *Daily National Intelligencer*, October 31, 1857, 2.

[35] Frederick J. Blue, *Salmon P. Chase: A Life in Politics* (Kent, OH: Kent State University Press, 1987), 116; Huston, *Panic*, 43–45, 71; Newman, *Cronyism*, 293; Newman, "Origins," 385; Lindsay Schakenbach Regele, *Manufacturing Advantage: War, the State, and the Origins of American Industry, 1776–1848* (Baltimore: Johns Hopkins University Press, 2019), 144–45; Murray N. Rothbard, *An Austrian Perspective on the History of Economic Thought*, vol. 2, *Classical Eco-*

The American System's tariff privileges for manufacturers were more politically enticing for Republicans because of the crucial state of Pennsylvania. Tariff debates had become dormant at the federal level due to the free-trade Walker Tariff of 1846 and the desire of many businesses, who recognized that foreigners could more easily purchase American exports if they sold goods to United States customers, to expand into overseas markets. The political economist Henry Carey, however, saw an opening. Henry was the son of the ardent proponent of the American System Mathew Carey, and—like father, like son—served as the nation's leading protectionist intellectual. Henry Carey shrewdly argued that it was the prevailing low tariff that caused the panic because it produced an outflow of specie reserves from banks. He desired the "reinauguration of protection as a part of the political platform"—that is, the granting of political privileges to firms that produced for the domestic market.[36] Consequently, Carey organized the Home Protective Union in Philadelphia and helped Republicans win the ironmongering state in the 1858 midterm elections. Soon enough, manufacturers sent petitions to Congress, and the Republicans planned to use tariffs as a campaign pillar during the upcoming presidential election.[37]

Nothing could stymie the protectionists. By 1860, ardent proslavery interests had finally destroyed the Democratic Party. When Senator Jefferson Davis pressed for a national slave code to protect the institution in the western territories, many northern Democrats decided they had had enough. At the party's nominating convention in Charleston, northerners and southerners split and decided to run two separate tickets. Stephen Douglas, aided by the party's new chairman, August Belmont, championed popular sovereignty, while Buchanan's vice president, John Breckinridge of Kentucky, supported a federal slave code. Either

---

nomics (Auburn, AL: Ludwig von Mises Institute, 2006), 466–67; and William G. Shade, *Banks or No Banks: The Money Issue in Western Politics, 1832–1865* (Detroit: Wayne State University Press, 1972), 216–17.

[36] Henry Carey to John McLean, June 26, 1858, quoted in George Winston Smith, *Henry C. Carey and American Sectional Conflict* (Albuquerque: University of New Mexico Press, 1951), 73.

[37] Huston, *Panic*, 77–78, 135–36, 142–44; and Daniel Peart, *Lobbyists and the Making of US Tariff Policy, 1816–1861* (Baltimore: Johns Hopkins University Press, 2018), 182–89.

way, the Democrats promised to strengthen slavery laws. Conditions were ripe for a Republican takeover.[38]

All eyes turned toward the Republicans' nominating convention in Chicago. The frontrunner was Senator William Seward of New York. But Republican politicos realized that a Seward-led ticket suffered from several weaknesses. First, Seward's noted abolitionism hurt him in the moderate midwestern states of Illinois and Indiana, which had long discriminated against free blacks and wanted to stop only slavery's westward expansion. Second, Seward favored immigration. The entry of foreigners had surged from 1845 to 1855, and many manufacturing workers were angry about the competition. Third, Seward was openly corrupt. The strong proponent of subsidies remained close to former Whig politico Thurlow Weed, the "King of the Lobby," who helped the Third Avenue Railroad pay off New York City legislators for monopoly privileges.[39] Seward's liabilities left an opening.

Enter a relatively unknown man whom historians have turned into a demigod immune to any serious criticism: Abraham Lincoln. A failed contender for Douglas's senate seat in 1858, Lincoln had relatively little political experience aside from serving as an Illinois state representative in the 1830s and a one-term congressman the following decade. In the 1850s, Lincoln was a tremendously successful attorney for the Illinois Central Railroad and other business concerns such as the Bank of Illinois and the Columbia Machine Manufacturing Company. Lincoln and the Illinois Central went hand in hand: he had served as a lobbyist for one of the factions wrangling for a railroad charter and frequently defended the company in legal disputes. In one case he billed the Illinois Central $5,000—an amount more than three times the governor's salary. A Lincoln ticket had many advantages: Lincoln was a moderate on slavery and immigration,

[38] Burch, *Elites*, 2:50; Hummel, *Emancipating*, 129–30; Huston, *Panic*, 235–36; Kirk Porter and Donald Johnson, *National Party Platforms: 1840–1960* (Urbana: University of Illinois Press, 1961), 30–31; and Summers, *Plundering*, 273–74.

[39] "Thurlow Weed Going to Georgia," *New York Daily Herald*, May 17, 1857, 4.

and the moniker "Honest Abe" helped cover up his questionable dealings and provided a useful contrast with other politicians.[40]

Proponents of the American System's third plank—transcontinental railroad subsidies—backed Lincoln. Railroads favored less expensive British-made iron, but they knew the protectionist was their best shot for federal subsidies. Norman Judd, an attorney for and director of the Chicago & Rock Island Railroad, engineered Lincoln's campaign. Judd asked Grenville Dodge, an Iowa political leader and the assistant surveyor of the Chicago & Rock Island, to swing his state's delegation to Lincoln. David Davis, a judge financially connected to the Illinois Central, provided crucial assistance by issuing a thousand counterfeit tickets to pack the Chicago convention with a Lincoln cheering section. Davis also shored up the Indiana and Pennsylvania delegations by promising Caleb Smith, the former president of the Cincinnati & Chicago Railroad, and Simon Cameron, a political boss associated with the Pennsylvania Railroad, cabinet positions.[41]

With protectionists and many railroad interests firmly in the Lincoln camp, the Republicans injected the American System's cronyism into its political platform. Specifically, the Republicans now championed a moderately protective tariff to shield domestic industry and a subsidized transcontinental railroad to integrate the home market. This suited Lincoln, a professed "old Henry Clay tariff Whig," who had advocated railroad subsidies while serving in Congress.[42] Against a divided Democratic Party,

---

[40] "The Nominations," *Chicago Tribune*, May 23, 1860, 2. Bruce Bueno de Mesquita and Alastair Smith, *The Spoils of War: Greed, Power, and the Conflicts That Made Our Greatest Presidents* (New York: Public Affairs, 2016), 103–7, 112–13; Burch, *Elites*, 2:50; Huston, *Panic*, 8–9; Kathryn Allamong Jacob, *King of the Lobby: The Life and Times of Sam Ward, Man-about-Washington in the Gilded Age* (Baltimore: Johns Hopkins University Press, 2010), 16–17; Lueckenhoff, "Lincoln," 394–95, 399–400, 409–11, 413–14, 419–26; Newman, *Cronyism*, 238, 308; Summers, *Plundering*, 148, 230–31, 266–73; and Sutch and Carter, *Historical*, 3:524–25.

[41] Brown, *Hear*, 6, 49; Bueno de Mesquita and Smith, *Spoils*, 113; Burch, *Elites*, 2:19, 23, 43–44, 48, 51; Charles Fairman, "Mr. Justice Bradley's Appointment to the Supreme Court and the Legal Tender Cases," *Harvard Law Review* 54, no. 6 (April 1941): 987; and Summers, *Plundering*, 271.

[42] Abraham Lincoln to Edward Wallace, October 11, 1859, in *The Collected Works of Abraham Lincoln,* ed. Roy Basler, vol. 3, *1858–1860* (New Brunswick, NJ: Rutgers University Press, 1953), 487.

Lincoln swept the North while the southern Democrats won the Deep South. With the smallest popular vote percentage since the election of 1824 (less than 40 percent), and with only 2 percent of the votes in the South, the American System's presidential candidate secured victory.[43]

The Republican victory worried southern slave owners. Despite Lincoln professing a moderate stance on slavery and pledging to respect it in the South, slave owners refused to trust him. They believed that the South was now irrelevant in presidential elections and that through control of the postal service, military, and judicial patronage the Republicans could weaken the crony regulations protecting slavery's foothold in the West and even the South. Slave owners especially fretted that slave insurrections would increase and runaways would be more successful with relaxed enforcement of the Fugitive Slave Act of 1850. In December, after the election, a state convention in slave-heavy South Carolina voted to secede from the Union, claiming that the "Slaveholding States will no longer have the power of self-government, or self-protection, and the Federal Government will have become their enemy."[44] Six other Deep South states (Mississippi, Florida, Alabama, Georgia, Louisiana, and Texas) followed suit. As Murray Rothbard underscores, this "secession was only 'preventive,' as Lincoln had given no indication of moving to repress slavery in the South."[45]

In February 1861, before Lincoln's inauguration, delegates from the seceding states devised a constitution for the Confederate States of America. It replicated the US Constitution, save for more explicit protections of slavery and some limitations on government power which "turned out to be little more than

---

[43] Bueno de Mesquita and Smith, *Spoils*, 96; Eyal, *Young*, 50; Michael F. Holt, *The Election of 1860: A Campaign Fraught with Consequences* (Lawrence: University Press of Kansas, 2017), 194–95; Hummel, *Emancipating*, 130–31; Huston, *Panic*, 238, 244, 256; Phillip W. Magness, "Morrill and the Missing Industries: Strategic Lobbying Behavior and the Tariff, 1858–1861," *Journal of the Early Republic* 29, no. 2 (Summer 2009): 320–21; Peart, *Lobbyists*, 188–89; and Porter and Johnson, *Platforms*, 33.

[44] "Declaration of Causes Which Induced the Secession of South Carolina," December 24, 1860, quoted in Hummel, *Emancipating*, 131.

[45] Rothbard, "Report," 127.

cosmetic adornments."[46] Former US secretary of war Jefferson Davis became president, assisted by a cabinet and Confederate Congress that contained many former Whigs.[47]

Far from strengthening slavery, the Confederacy's mere existence considerably weakened it. Davis, along with many in the Confederate cabinet, had actually opposed secession for a simple reason: in the words of Davis's future vice president, Alexander Stephens, "Slavery [is] much more secure in the Union than out of it."[48] They knew that the federal fugitive slave law immensely strengthened the institution by giving it national reach even into free states and making it much harder for slaves to escape to freedom. Crony state laws in the South that socialized the costs of owning slaves through mandatory tax-funded slave patrols and other restrictions could only go so far; nationalism provided the greatest protection to slavery. For this reason, William Lloyd Garrison and other northern abolitionists had long argued for *northern* secession.[49]

In a profound sense, therefore, Lincoln should have let the South go if he wanted a peaceful and expedient end to slavery. But if there was one plank in the American System that the president-elect adored, it was the overriding commitment to aggres-

---

[46] Richard Franklin Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859–1877* (New York: Cambridge University Press, 2003), 100.

[47] Thomas J. DiLorenzo, *The Real Lincoln: A New Look at Abraham Lincoln, His Agenda, and an Unnecessary War* (New York: Three Rivers Press, 2003), 90, 123–24; Hummel, *Emancipating*, 105, 131–37, 151; Kelley, *Cultural*, 242–43; and John Majewski, *Modernizing a Slave Economy: The Economic Vision of the Confederate Nation* (Chapel Hill: University of North Carolina Press, 2009), 147.

[48] Alexander Stephens to J. Smith, July 10, 1860, quoted in Hummel, *Emancipating*, 353.

[49] Bensel, *Yankee*, 63; Bueno de Mesquita and Smith, *Spoils*, 110, 133; DiLorenzo, *Real*, 294–300; Hummel, *Emancipating*, 131–35, 353–54; Phillip W. Magness, "A Paradox of Secessionism: The Political Economy of Slave Enforcement and the Union," in *Public Choice Analyses of American Economic History*, ed. Joshua Hall and Marcus Witcher (Cham, Switz.: Springer, 2018), 1:53–68; Jim Powell, *Greatest Emancipations: How the West Abolished Slavery* (New York: Palgrave Macmillan, 2008), 135, 237–45; Sheldon Richman, "The Anti-war Abolitionists: The Peace Movement's Split over the Civil War," *Journal of Libertarian Studies* 5, no. 3 (Summer 1981): 328; Rothbard, "Report," 127; and Thornton and Ekelund, *Tariffs*, 106–9.

sive nationalism befitting a transcontinental American empire. Since the days of the Revolutionary War special interests had long tried to consolidate the United States and weaken states' sovereignty, and for good reason—states nullifying federal laws or choosing to exit a polity provides the ultimate bulwark against cronyism. Interstate and intercountry competition weakens taxes, subsidies, and discriminatory regulations. For example, northern manufacturers and shippers would lose the benefit of protectionist tariffs and navigation acts if southern states set their own tariffs and tonnage fees. Likewise, slave owners would forfeit valuable assistance in capturing runaway slaves if northern states refused to pass fugitive slave laws.

The American System depended on a unified domain, and Lincoln was determined to keep it that way. He even supported a constitutional amendment, the Corwin amendment, that prohibited federal interference with slavery. But the Confederacy still did not trust the Republican Party on the slavery question and desired a peaceful secession. When Lincoln assumed office in March, Davis offered to purchase Union forts, such as South Carolina's Fort Sumter, and assume the South's portion of the national debt.[50]

Lincoln would have none of it. He decided to surreptitiously send armed relief to Fort Sumter, going against the advice of his military advisors, who thought Lincoln should abandon the post. But for Lincoln, such reprovisioning could goad the South into firing the first shot and thereby commence hostilities. When this occurred in April, Union propagandists were quick to present the Confederacy's bombardment of the fort as an unprovoked attack, and many in the Mid-Atlantic sympathetic to secession turned against the South. Lincoln's subsequent call for troops infuriated the remaining southern states: Virginia, Arkansas, North Carolina, and Tennessee seceded, along with slave-owning Indians in modern-day Oklahoma. Maryland, Missouri, Kentucky, and

[50] Bueno de Mesquita and Smith, *Spoils*, 133–34; Daniel W. Crofts, *Lincoln and the Politics of Slavery: The Other Thirteenth Amendment and the Struggle to Save the Union* (Chapel Hill: University of North Carolina Press, 2016); Phillip W. Magness, review of *Lincoln and the Politics of Slavery: The Other Thirteenth Amendment and the Struggle to Save the Union*, by Daniel W. Crofts, *Reviews in History*, no. 2063 (February 2017); and Newman, *Cronyism*, 55–56, 64–65, 124–30, 237.

the Arizona territory might have seceded as well had Lincoln not occupied them with federal troops. However, the ardent opponent of self-determination was calculating enough to allow western Virginia to secede from Virginia and the Confederacy and join the Union as a new state because it contained part of the crucial Baltimore & Ohio Railroad.[51]

With Lincoln applying the American System's aggressive nationalism against states that wanted to peacefully secede, the die had been cast. The unpopular Civil War was extremely costly—it cut short more than seven hundred thousand lives, or over 2 percent of the total population of the North and South. At least five years of wealth accumulation were erased. The 1860s posted weak private-sector economic growth, and real income per capita fell by 3 percent during the decade. The South was politically and economically devastated. These harmful consequences exacerbated whites' hostility toward blacks in both the North and the South.[52]

As Lincoln's campaign to conquer southern states dragged on, more and more northerners turned against him: midwesterners threatened secession while immigrants rioted against draft laws in New York City and other urban areas. Lincoln would likely have lost reelection in 1864 against the pro-negotiated-peace platform of the Democratic Party if his armies had not fortuitously sacked Atlanta in early September, thereby delivering a military victory that rapidly improved popular opinion of the president. It is true that the Republicans dealt a devastating blow to cronyism after the war by prohibiting slavery via the Thirteenth Amendment in 1865. But this could have been indirectly accomplished at a

---

[51] Bueno de Mesquita and Smith, *Spoils*, 134; John V. Denson, "Lincoln and the First Shot: A Study of Deceit and Deception," in *Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom*, ed. John V. Denson (Auburn, AL: Mises Institute, 2001), 231–88; David Detzer, *Allegiance: Fort Sumter, Charleston, and the Beginning of the Civil War* (New York: Harcourt, 2001), 210–53; DiLorenzo, *Real*, 101–10, 139; Ivan Eland, *Recarving Rushmore: Ranking the Presidents on Peace, Prosperity, and Liberty* (Oakland, CA: Independent Institute, 2009), 117–19; and Hummel, *Emancipating*, 137–47, 153, 155, 176.

[52] Bueno de Mesquita and Smith, *Spoils*, 94; Thomas C. Cochran, "Did the Civil War Retard Industrialization?," in *The Economic Impact of the American Civil War*, ed. Ralph Andreano (Cambridge, MA: Schenkman, 1962); Hummel, *Emancipating*, 234–35, 322; and Powell, *Emancipations*, 222–35.

much lower cost by letting the Confederacy secede and repealing the Union's proslavery regulations. The Confederacy would have hemorrhaged runaway slaves to the free North, which would no longer have to enforce fugitive slave laws. Slavery would have increasingly disappeared in the United States, as it was in the rest of the world where governments did not protect it.[53]

Far from reducing cronyism during the Civil War, the Republicans ramped it up. Without the representation of southern Democrats in Congress, the northern Republicans now possessed enough power to force through the domestic planks of the American System: transcontinental land grants, protectionist tariffs, and quasi-central-banking regulations. These special favors were the building blocks for a government structure of widespread restrictions and subsidies, and they were up for sale to the interest groups willing to fight for them. Upon leaving for the presidency, Lincoln had told his law partner, William Herndon, that "the election of a President makes no change in the firm of Lincoln and Herndon."[54] There were many businesses on the sidelines looking for spoils and Lincoln did not disappoint.

[53] Bueno de Mesquita and Smith, *Spoils*, 111; Hummel, *Emancipating*, 253–54, 291–92, 352–53; Lueckenhoff, "Lincoln," 397–98; Powell, *Emancipations*, 237–45; and Jennifer L. Weber, *Copperheads: The Rise and Fall of Lincoln's Opponents in the North* (New York: Oxford University Press, 2006), 27–28, 35–36, 79–81, 101–13, 157–58, 176–80.

[54] Abraham Lincoln, quoted in John Duff, *A. Lincoln: Prairie Lawyer* (New York: Bramhall House, 1960), 104. Brian Dirck, *Lincoln the Lawyer* (Chicago: University of Illinois Press, 2009), 151; and Lueckenhoff, "Lincoln," 398.

PART II

THE GREAT BARBECUE, 1861–1897

CHAPTER 2

RAILROADING THE NATION

"We have drawn the elephant. Now let us see if we can harness him up."[1] Thus telegrammed the lobbyist of the Central Pacific Railroad to his associates after President Lincoln signed the 1862 Pacific Railway Act. It distills the spoils-driven mentality of special interests during the Republican implementation of the American System. Contending railroads, manufacturers, and bankers fought intensely over who would receive the lucrative rewards, who would be left out in the cold, and who would face hostile regulation. Historians have described the eat-or-be-eaten environment during the Civil War and following decades as the "Great Barbecue."[2] During this free-for-all, the transcontinental railroads—the nation's preeminent big businesses—fought for lavish land grants and monetary subsidies that caused them to be poorly managed and less disciplined by profit and loss. As time passed their lobbying battles for largesse turned into intense struggles because of public backlash and countervailing farmer and merchant groups' advocacy for rate regulations. By the 1880s the subsidized transcontinental railroads stumbled along, suffering from banking panics and more-efficient privately built railroad competition.

---

[1] Theodore Judah, quoted in John F. Stover, *American Railroads*, 2nd ed. (Chicago: University of Chicago Press, 1997), 67.

[2] Vernon Louis Parrington, *Main Currents in American Thought: An Interpretation of American Literature from the Beginnings to 1920*, vol. 3, *The Beginnings of Critical Realism in America, 1860–1920* (New York: Harcourt, Brace, 1927), 23.

Granting the Public Domain

At the outbreak of the Civil War a transcontinental railroad linking the Midwest to the Pacific Ocean was still unprofitable because of the lack of settlers, farmers, and merchants. In the words of one critic, "There is no travel from the Pacific Coast to justify it. Here are 1800 miles of railroad through an uninhabited country."[3] The market deemed useful the allocation of land, workers, and equipment only to the gradual development of regional lines on the Pacific coast and in the Midwest, with settlement extending these systems farther over time. But the appeal of a massive railroad increased if Congress provided monetary subsidies and free land. Fortunately for railroad promoters, there were many sympathetic Republicans in Congress who believed that the government could be a wise steward of economic development and that a transcontinental railroad was militarily needed to keep the Union intact.[4]

News of the war caused Californians to contemplate secession. This was not a minor threat: California refused to accept legal tender greenbacks in payments, a striking repudiation of the Union's new currency. Southern Californians even envisioned an alliance with the Confederacy and a potential transcontinental route to San Diego. Republicans wanted to keep California in the Union and partnered with northern Californians who sought a transcontinental railroad from San Francisco to the interior.

Four Sacramento merchants recognized the lucrative political situation: Leland Stanford, Collis P. Huntington, Mark Hopkins, and Charles Crocker—the Big Four. The politician of the group (and later founder of the university bearing his son's name), Stanford, had lobbied for a railroad plank

---

[3] F. A. Pike, *Congressional Globe*, Part II, 2nd Session, 37th Congress, April 17, 1862, 1707.

[4] Arthur M. Johnson and Barry E. Supple, B*oston Capitalists and Western Railroads: A Study in the Nineteenth-Century Railroad Investment Process* (Cambridge, MA: Harvard University Press, 1967), 197; and Richard White, *Railroaded: The Transcontinentals and the Making of Modern America* (New York: W. W. Norton, 2011), xxiv–xxvii, 17, 460–61.

at the 1860 Republican convention. After Lincoln secured the presidency, the Big Four incorporated the Central Pacific Railroad of California in June 1861. Huntington became the railroad's vice president, Hopkins its treasurer, and Crocker its head of construction. Stanford simultaneously served as governor of California and president of the Central Pacific in 1862 and 1863. After receiving the charter, the Big Four quickly dispatched their chief engineer, Theodore Judah, to lobby in Washington. As clerk of both the House's and Senate's Pacific Railroad Committees Judah distributed $66,000 of Central Pacific stock to pliable "Railroad Congressmen" to secure their political support.[5]

Thanks to Judah's efforts it became clear that the Central Pacific would build the transcontinental rails from the West Coast to somewhere in the interior, but Congress still fought over whether the Central Pacific would link up with a new company or an existing line. The frontrunner for existing companies was the Kansas-chartered Leavenworth, Pawnee, & Western Railroad (later known as the Kansas Pacific). It doled out an astronomical $4 million in stock to politicians and managed to elevate lobbyist John Usher to be assistant secretary of the interior. But sometimes money can't buy everything. The Kansas Pacific failed to receive Congress's blessing because the projected route remained too close to the Confederate border and raids could handicap construction.[6]

---

[5] Quoted in Dennis Drabelle, *The Great American Railroad War: How Ambrose Bierce and Frank Norris Took on the Notorious Central Pacific Railroad* (New York: St. Martin's Press, 2012), 19.

[6] Dee Brown, *Hear That Lonesome Whistle Blow: The Epic Story of the Transcontinental Railroads* (New York: First Owl Books, 2001), 45–48, 62, 78; Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 23–24; Dan Butler, "Leland Stanford," in *Encyclopedia of American Business History and Biography: Railroads in the Nineteenth Century*, ed. Robert L. Frey (New York: Facts on File, 1988), 377–78; Dan Butler, "Theodore Judah," in Frey, *Encyclopedia*, 214; Drabelle, *Great*, 18–19; Richard Kreitner, *Break It Up: Secession, Division, and the Secret History of America's Imperfect Union* (New York: Little, Brown, 2020), 251–60; David Lavender, *The Great Persuader: The Biography of Collis P. Huntington* (New York: Doubleday, 1970), 98–100, 107; Robert B. Mitchell, *Congress and*

Recognizing that the Kansas Pacific was falling out of favor, other railroad interests pressed ahead for the federal loot. Notably, the financier Thomas Durant stepped up to the plate in the spring of 1862. Durant lobbied for a mountain of financial assistance to a newly chartered railroad. He teamed up with Huntington, who soon supplanted Judah as the Central Pacific's Washington lobbyist. Described by his contemporaries as "a shark in voracity for plunder," over the years Huntington was known to lobby using any means necessary, including seductive female "lobbyesses."[7]

Durant and Huntington's efforts resulted in the Pacific Railway Act of 1862, "a majestic booty, an elephantine plunder" that Lincoln signed into law in July.[8] It chartered the Union Pacific, the first federal corporation since the Second Bank of the United States in 1816. Capitalized at $100 million, the Union Pacific would construct the railroad westward from a terminus to be decided by the president and connect somewhere with the eastward-building Central Pacific. As a sop to the owners of the Kansas Pacific, that railroad could also build westward from its own terminus and link up with the Union Pacific. For every mile of track the railroads received alternating sections of land for ten miles on each side (6,400 acres). Like the Illinois Central in the 1850s, the transcontinentals received free land they could sell to land speculators. To fur-

---

the King of Frauds: Corruption and the Credit Mobilier Scandal at the Dawn of the Gilded Age (Roseville, MN: Edinborough Press, 2019), 12; Heather Cox Richardson, *The Greatest Nation on Earth: Republican Economic Policies during the Civil War* (Cambridge, MA: Harvard University Press, 1997), 176, 178, 194–95, 198; Murray N. Rothbard, "A History of Money and Banking in the United States before the Twentieth Century," in *A History of Money and Banking in the United States: The Colonial Era to World War II*, ed. Joseph T. Salerno (Auburn, AL: Ludwig von Mises Institute, 2005), 127–29; Don Snoddy, "Union Pacific Railroad," in Frey, *Encyclopedia*, 396; and White, *Railroaded*, 17–18.

[7] Emily Briggs, "The Dragons of the Lobby," February 1869, in *The Olivia Letters* (New York: Neale, 1906), 93; and quoted in Kathryn Allamong Jacob, *King of the Lobby: The Life and Times of Sam Ward, Man-about-Washington in the Gilded Age* (Baltimore: Johns Hopkins University Press, 2010), 108.

[8] Matthew Josephson, *The Robber Barons* (New York: Harcourt, Brace, 1962), 79.

ther subsidize construction, the federal government issued bonds that the railroads could sell to investors to raise money, in effect taxpayer-backed loans which the railroads promised to repay to the government at a later date. They received $16,000 worth of bonds per mile over plains, $48,000 per mile over the Rocky Mountains and the Sierra Nevada, and $32,000 per mile between the ranges. This generous assistance was the price Republicans needed to pay for California's "continued loyalty to the Union."[9]

The Union Pacific and the Central Pacific soon discovered that subsidies often came with strings attached. Notably, Congressman Thaddeus Stevens, who owned the Caledonia Iron Works in Pennsylvania, inserted a clause in the Pacific Railway Act requiring the transcontinentals to use only American iron. This stipulation from the manufacturing lobby was the opening shot in the railroads' battles with other special-interest groups. The act also mandated that the railroads carry government mail and troops at a substantial discount and required congressional approval to build branches, thereby reducing their ability to profitably transport the cargo consumers wanted. Furthermore, the Union Pacific's federal charter required that each individual investor could acquire no more than $200,000 of stock, which hindered fundraising because the federal charter also mandated that it needed to sell $2 million in stock before commencing construction. Lastly, the Union Pacific needed President Lincoln to choose the eastern terminus.[10]

---

[9] Kreitner, *Break*, 452. Brown, *Hear*, 47–48; Burch, *Elites*, 2:16; Drabelle, *Great*, 20–21; Mark L. Goldstein, *Before the Gilded Age: W. W. Corcoran and the Rise of American Capital and Culture* (Washington, DC: Georgetown University Press, 2023), 80; Johnson and Supple, *Boston*, 198–99; Alec Kirby, "Thomas C. Durant," in Frey, *Encyclopedia*, 111–13; Maury Klein, *Union Pacific*, vol. 1, *1862–1893* (Minneapolis: University of Minnesota Press, 2006), 148; Richardson, *Greatest*, 177–78, 184–87; Aaron M. Sakolski, *The Great American Land Bubble: The Amazing Story of Land-Grabbing, Speculations, and Booms from Colonial Days to the Present Time* (New York: Harper and Brothers, 1932), 284–93; and Snoddy, "Union," 394.

[10] Brown, *Hear*, 48–49, 51–52; Burch, *Elites*, 2:57–58; Burton W. Folsom Jr. and Anita Folsom, *Uncle Sam Can't Count: A History of Failed Government In-*

In the face of such restrictions, the railroads devoted their energies to acquiring more taxpayer assistance. The Central Pacific led the drive, starting construction in January 1863, before the Union Pacific. Railroad president Stanford used his governorship to jawbone California into providing $10,000 for every mile the Central Pacific built in California and persuaded Placer County, Sacramento, and San Francisco to cough up over $1 million combined. Infamously, when the people of San Francisco voted on the subsidy, Stanford ordered his brother Philip to bribe voters. Thanks to the Stanford brothers, San Francisco voted to provide $600,000—though the city would not see the railroad for nearly a decade.

The Big Four also knew how to maximize federal subsidies. They decided not to purchase the Sacramento Valley Railroad for $285,000 but to build a parallel track, since $150,000 in federal subsidies meant that construction would cost only $250,000. At the same time, Stanford convinced President Lincoln and federal surveyors that the Sierra Nevada started twenty miles closer to Sacramento than previously thought, which increased the federal subsidies by nearly $800,000 over using the state supreme court's definition of where the mountains began.[11]

The Union Pacific experienced tougher sledding because Congress's restrictions on fundraising delayed construction, although Durant did manage to circumvent the individual investor restriction and acquire majority control through proxies. With that control, he appointed himself vice president of the railroad (its president was a front man). But Lincoln had still not chosen the terminus. Fortunately, Durant

---

vestments, from Beaver Pelts to Green Energy (New York: Harper Collins, 2014), 89–90; and Klein, *Union*, 1:23.

[11] Brown, *Hear*, 49–51; Stuart Daggett, *Chapters on the History of the Southern Pacific* (New York: Ronald Press, 1922), 43; Drabelle, *Great*, 26–27; Roland De Wolk, *American Disruptor: The Scandalous Life of Leland Stanford* (Oakland: University of California Press, 2019), 81–83; Lavender, *Great*, 130–33, 136–37; and Richard Rayner, *The Associates: Four Capitalists Who Created California* (New York: W. W. Norton, 2008), 49–50.

knew someone who could help: Grenville Dodge, a man soon to become the Union Pacific's chief engineer. Lincoln had met Dodge in 1859 while inspecting real estate he acquired in Council Bluffs, Iowa; Dodge recommended the location as a good start for a transcontinental railroad. In November 1863, after asking Dodge again and receiving the same answer, Lincoln designated the eastern terminus to be around the twin cities of Omaha, Nebraska, and Council Bluffs. Predictably, the decision boosted the value of the president's real estate holding. With financing procured and a terminus decided, the Union Pacific formally began construction in December.[12]

Having primed the congressional pump, Durant and the Big Four noticed that if they did not get more subsidies then potential rivals would. During 1863, Cyrus Holliday, president of the Kansas-chartered Atchison, Topeka & Santa Fe Railroad, successfully lobbied for a three-million-acre grant to build a southwestern transcontinental. The state's politicians expected repayment in kind: a year later, Holliday stepped down as the railroad's president so the sponsor of the bill, Senator S. C. Pomeroy of Kansas, could take the helm—while remaining a US senator. In addition, Congress gave away another three million acres, which the "Railroad King" James Joy and his Chicago, Burlington & Quincy Railroad scooped up.[13] Joy built westward with feverish rapidity and used his connections with the Department of the Interior to steal eight hundred thousand acres of settler and Cherokee land. The Union Pacific and the Central Pacific faced the threat of subsidized competition.

---

[12] Brown, *Hear*, 52–54; Thomas J. DiLorenzo, *Lincoln Unmasked: What You're Not Supposed to Know about Dishonest Abe* (New York: Crown Forum, 2006), 110–11; Gary Ecelbarger, *The Great Comeback: How Abraham Lincoln Beat the Odds to Win the 1860 Republican Nomination* (New York: St. Martin's Press, 2008), 47–49; Folsom and Folsom, *Uncle*, 75; Kirby, "Durant," 112–13; Klein, *Union*, 1:20–21, 23–27; Richardson, *Greatest*, 187–93; and Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 59.

[13] Paul W. Gates, "The Homestead Law in an Incongruous Land System," *American Historical Review* 44, no. 4 (July 1936): 673.

Durant and Huntington worked hard bribing Congress. With an army of lawyers Durant spent $437,000 of Union Pacific funds—including $18,000 to entertain congressmen at the extravagant Willard's Hotel. For his part, Huntington gave away bonds to "friends of influence."[14] Both groups found an ally in Massachusetts Congressman Oakes Ames. This millionaire "King of Spades" knew how to join politics with business: he served on the House Pacific Railroad Committee and owned Oliver Ames & Sons, a prominent shovel company crucial to the railroad industry.[15] With the backing of President Lincoln, Ames turned into a major force in the Union Pacific, and the shovel maker's brother even became company president.[16]

The Pacific Railway Act of 1864 was signature legislation in the Great Barbecue feast. The government gave the Union Pacific and the Central Pacific twice as much land as in the 1862 act (12,800 acres per mile of track versus 6,400 acres), along with all the iron and coal on the land. The railroads' bonds now totaled $24,000 per mile on plains, $64,000 per mile between the mountains, and $96,000 per mile on the Sierra Nevada and Rocky Mountains. The new amounts were monumental boodle for big businesses: during construction the Union Pacific gobbled up $27 million in loans and twelve million acres (roughly the size of New Hampshire and New Jersey combined), while the Central Pacific received $26 million and nine million acres (equivalent to Maryland).[17]

---

[14] Mark Hopkins to Collis P. Huntington, February 16, 1864, quoted in White, *Railroaded*, 22.

[15] Quoted in Mitchell, *Congress*, 14.

[16] Brown, *Hear*, 52–54, 58; Folsom and Folsom, *Uncle*, 76; William S. Greever, "Atchison, Topeka and Santa Fe Railway," in Frey, *Encyclopedia*, 15; William S. Greever, "Cyrus K. Holliday," in Frey, *Encyclopedia*, 182–83; James Hipp, "Oakes Ames," in Frey, *Encyclopedia*, 12–13; Jacob, *King*, 10–11, 105–6; Johnson and Supple, *Boston*, 204, 224–25; John Lauritz Larson, "James Frederick Joy," in Frey, *Encyclopedia*, 209–10; Mitchell, *Congress*, 13; Rothbard, *Progressive*, 42; and White, *Railroaded*, 32, 60–61.

[17] Brown, *Hear*, 58; Klein, *Union*, 1:30; Lavender, *Great*, 154–56; Rayner, *Associates*, 60; Richardson, *Greatest*, 202; Rothbard, *Progressive*, 43–44; and White,

Durant, Ames, and the Big Four were now eager to purloin public funds. Their racket was simple: they would siphon away the taxpayer assistance by secretly owning construction companies that expensively built the transcontinental railroads. Union Pacific insiders set up Crédit Mobilier, while the Big Four established the Contract & Finance Company. These two construction firms overcharged the transcontinentals (i.e., the government and hapless investors) for building expenses. Thus, while taxpayer assistance flowed into the railroads, profits flowed out of the construction companies and into the pockets of the elites. It was the epitome of cronyism. Crédit Mobilier was particularly egregious in its bilking. The company overcharged the Union Pacific so much that it paid stockholders annual dividends between 50 and 100 percent and generated a whopping 480–610 percent profit for the promoters from 1864 to 1869. According to even the most conservative of estimates, Crédit Mobilier's expensive construction increased profits by 49 percent during this time, from $11.1 million to $16.5 million.[18]

During their lobbying Durant and Huntington encountered adverse legislation: a proposal to construct the Northern Pacific Railroad, a rival transcontinental close to the Canadian border. Introduced by Congressman Stevens, the proposed route had the backing of Oregon and Minnesota congressmen. Despite the efforts of the Union Pacific and the Central Pacific to stop the bill, Lincoln signed it in 1864. While Congress granted the Northern Pacific an immense forty-seven million acres (approximately the landmass of New England), Durant and Huntington managed to deprive the railroad of monetary subsidies. In other words, they lobbied to deny their

---

Railroaded, 24–26.

[18] Brown, *Hear*, 58; Christopher J. Calton, "Monstrous Monopolies and Vicious Competition: The General Incorporation Movement in Nineteenth-Century America" (PhD diss., University of Florida, 2023), 213–16; Lavender, *Great*, 411; Richardson, *Greatest*, 207; Rothbard, *Progressive*, 43–45; and White, *Railroaded*, 26–35.

competitor the same privileges they worked so hard to acquire for themselves.

Soon enough, best friends became foes, and the Union Pacific and the Central Pacific turned against each other. As Dennis Drabelle explains, "Each side regarded the other not as a proud partner in carrying out a noble endeavor . . . but as a rival for grabbing subsidies from Uncle Sam."[19] It was all about the money, and too much was at stake: the constructors realized that in their race to the country's interior every track laid on government land by one railroad meant the loss of a land and bond giveaway for the other.[20]

In the scramble the Union Pacific suffered the first blow. In 1866, Congress was in another giveaway mood, dispensing a combined twenty-eight million acres to the new Atlantic & Pacific and the Southern Pacific Railroads to build southern transcontinentals. Recognizing the lucrative environment, the Central Pacific and the Kansas Pacific closed in on the Union Pacific. Senator William Stewart of the new state of Nevada—the Big Four's muscle on the Pacific Railroad Committee—demanded that Congress give the Central Pacific authority to build further east into Nevada and the Utah Territory. At the same time, the Kansas Pacific bribed congressmen with stocks and bonds so it could grab additional subsidies and build westward into Colorado. Both actions threatened the Union Pacific.

Congressman Ames realized he needed to enlist politicians "to prevent any legislation that will injure us."[21] He sold some of them Crédit Mobilier stock, with the astounding dividends paying off the purchase. "We want more friends in this Congress," said Ames, for congressmen bribed with Crédit Mobilier stock will understand "we should not be interfered

---

[19] Drabelle, *Great*, 52.

[20] Brown, *Hear*, 211; Lavender, *Great*, 154; Richardson, *Greatest*, 202; Rothbard, *Progressive*, 46; and White, *Railroaded*, 24.

[21] Oakes Ames to Oliver Ames, December 8, 1867, quoted in Klein, *Union*, 1:143.

with."[22] Known purchasers included congressman and future president James Garfield of Ohio and Speaker of the House and future vice president Schuyler Colfax of Indiana. Ames's corruption paid off. The House Pacific Railroad Committee buried a proposal to regulate railroad rates on the Union Pacific and the Central Pacific, and the House decided not to establish a regulatory committee over the transcontinentals.[23]

With the construction companies running and politicians paid off, the race to build accelerated. The infusion of taxpayer funds weakened the railroads' profit-and-loss accountability, and the subsidies encouraged them to build unnecessarily winding and mountainous routes that entitled them to additional assistance to funnel through their construction rackets. In their haste to collect, land surveyors graded land quickly while construction crews recklessly threw track on uncleared snow, failed to properly level the roadbed, built unaligned rails with weak burnettized cottonwood, and dug narrow tunnels. Replicating the success of Crédit Mobilier, Union Pacific officials siphoned off government funds through the Wyoming Coal and Mining Company, a new front that overcharged the railroad $3.50 per ton of coal compared to a $2 market price. The Union Pacific even enlisted the military to hastily clear out Indians, further socializing construction costs on the taxpayers' dime. It bought off the man in charge of the Indian removal, General William Tecumseh Sherman, brother of Ohio senator John Sherman, by selling him choice land near Council Bluffs at a below-market price. As Crédit Mobilier and the Contract & Finance Company prospered, the Union Pacific and the Central Pacific stumbled along, digging deeper

---

[22] House Report 77, "Credit Mobilier," 42nd Congress, 3rd Session, February 18, 1873, 7, quoted in Mark Wahlgren Summers, *The Era of Good Stealings* (New York: Oxford University Press, 1993), 51–52.

[23] Brown, *Hear*, 58, 66, 76, 187–88; Thomas Donaldson, *The Public Domain: Its History, with Statistics* (Washington, DC, 1880), 271; Johnson and Supple, *Boston*, 216; Klein, *Union*, 1:80, 144–45, 168; Lavender, *Great*, 170–74, 194, 211, 220–21; Mitchell, *Congress*, 26–27, 29–31, 35–36; Summers, *Era*, 50–52; and White, *Railroaded*, 35.

into debt with the government while taking out risky loans from banks.[24]

By April 1869, the Union Pacific and the Central Pacific had actually built duplicate tracks in the Utah Territory to scoop up more subsidies and extend past each other. When President Ulysses S. Grant demanded that the railroads choose a meeting point, Huntington met with Ames, Dodge, and Durant in the nation's capital. The Central Pacific maintained the upper hand because Huntington had called on Senator Stewart to publicly criticize the Union Pacific and Crédit Mobilier. Distracted with this threat, the Union Pacific begrudgingly agreed to join tracks at Promontory Point in Utah, a location favorable to the Central Pacific. In return for his services, Stewart received fifty thousand acres of lucrative California land from Huntington.

In May, the lines met, completing the long-awaited transcontinental railroad to the Pacific Ocean. In truth, it was just the rough draft: while the government exulted over its massive public works boondoggle and insisted that it constituted a wise investment in the public interest, the real situation was quite different. Isaac Morris, one of the few honest government examiners, reported that the hastily built Iowa-to-California track remained only two-thirds complete due to needed rebuilding and repairs. It was the worst railroad he had ever traveled on: "There is a vast difference between getting rails down so that cars can pass over them and finishing a road," he wrote.[25] The government subsidies and incentives did not

---

[24] Brown, *Hear*, 61–65, 91–96, 110, 183–85; Thomas J. DiLorenzo, "The Culture of Violence in the American West: Myth versus Reality," *Independent Review* 15, no. 2 (Fall 2010): 229–36; Drabelle, *Great*, 37, 46, 49, 55; Burton W. Folsom Jr., *The Myth of the Robber Barons: A New Look at the Rise of Big Business in America* (Herndon, VA: Young America's Foundation, 2007), 18, 20–21; Julius Grodinsky, *Transcontinental Railway Strategy, 1869–1893: A Study of Businessmen* (Philadelphia: University of Pennsylvania Press, 1962), 1–3, 10, 21; Klein, *Union*, 1:32, 329; and Lavender, *Great*, 199.

[25] Isaac Morris, *Condition of the Union Pacific Railroad* (US Congress, 44th, 1st session, *House of Representatives Executive* Document 180; Washington 1876), 9–11, quoted in Brown, *Hear*, 185.

produce a high-quality railroad, only a poorly built one. Unfortunately, congressmen, flush with pride, buried the report. Legislators were not interested in having the public know that they had allocated the people's resources poorly.[26]

The promoters thought they could ride the coattails of their shoddily built railroad by obtaining a transcontinental monopoly, but competition lurked in the background. Barely a week after the lines met in Promontory Point, Jay Cooke of Jay Cooke & Co. in Philadelphia made a contract with the Northern Pacific to finance construction. Cooke was the nation's premier banking crony. He had lobbied for the 1863 and 1864 National Banking Acts that created a quasi-central-banking system of national banks, the National Banking System. The laws increased the pyramiding of bank reserves in New York City and benefited national banks on Wall Street—especially those associated with Cooke. Cooke diversified his empire by agreeing to build the Northern Pacific and tightened his grip in January 1870 with a monopoly on its bond sales. Cooke was eager to build the railroad, having purchased nineteen thousand acres near the projected eastern terminus in Minnesota. He developed great visions for the congressional land grants, especially since his brother Henry, a friend of President Grant, believed Congress would eventually add monetary assistance.[27]

By 1870 it appeared as if Cooke, the other transcontinental railroad promoters, and railroads in general controlled all facets of the US government. Northern states provided generous assistance to their local lines, such as the $3 million Massachusetts gave to the Boston, Hartford & Erie Railroad. In

---

[26] Brown, *Hear*, 101–25, 184–85; Lavender, *Great*, 199, 240–42; and Rayner, *Associates*, 84, 100–103.

[27] Brown, *Hear*, 211; Henrietta M. Larson, *Jay Cooke, Private Banker* (Cambridge, MA: Harvard University Press, 1936), 200–202, 248, 260, 273–74; Patrick Newman, "The Origins of the National Banking System: The Chase-Cooke Connection and the New York City Banks," *Independent Review* 22, no. 3 (Winter 2018): 383–401; and Joseph Rishel, "Jay Cooke," in *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, ed. Larry Schweikart (New York: Facts on File, 1990), 141.

the Reconstruction South, corrupt Republican-controlled governments jacked up taxes and poured the money into fraudulent railroad boondoggles. Contemporaries across the country watched helplessly, noting how "the galleries and lobbies of every Legislature . . . are thronged with [railroad] men seeking to procure an advantage."[28] Railroad dominance seemed unstoppable.[29]

Defending the Spoils

Railroads looked to continue their supremacy in the years ahead. But not all was well, for the 1870s brought the land-grant mania to an end. During the rest of the Great Barbecue the tide shifted: railroad infighting ramped up, and lines increasingly had to protect their spoils from those who paid them to ship goods and from avaricious politicians. The subsidized railroads, previously feasting at the Great Barbecue's dinner table, suddenly appeared on the menu. Plagued by mismanagement, insatiable capital needs, constant repairs, incessant competition, and customers with their own crony interests, railroads sought government protection for themselves and from others. On the other hand, a privately built transcontinental, disciplined by market forces and without taxpayer guarantees, found longer-lasting success.

The 1870s opened with continued optimism among crony transcontinental railroad interests. Jay Cooke, financier of the Civil War, firmly believed he could induce President Grant and Congress to provide loans to facilitate the Northern Pacific's construction. With plenty of experience under their belt, Jay and Henry knew how Washington worked: pay the power brokers. The list was endless.

After Jay financed 10 percent of Grant's 1868 presidential campaign, Henry provided prominent politicians, including

[28] Shelby Cullom, *Congressional Globe*, 40th Congress, 3rd Session, January 27, 1869, 652.

[29] Eric Foner, *Reconstruction: America's Unfinished Revolution, 1863–1877* (New York: Harper and Row, 1988), and Summers, *Era*, 95, 154–55, 157–58.

Speaker of the House James Blaine of Maine, low-interest loans from the First National Bank of Washington, DC, along with fancy wine and cigars. Henry played cards with the president, an activity that only increased after Grant appointed him the first governor of the District of Columbia. Jay even gave Grant's brother Orvil a no-show job at the Northern Pacific. For good measure, Cooke shored up Ohio's support by selling its governor, Rutherford B. Hayes, choice land in Minnesota at "a great bargain."[30]

Cooke partnered with others coveting subsidies, particularly the Kansas Pacific and a proposed transcontinental that would stretch from Louisiana through Texas to California. Thomas Scott, vice president of the Pennsylvania Railroad—the nation's largest corporation—soon controlled this sop to the war-torn South. Scott envisioned the Texas & Pacific Railway as an integral part of a railroad system that would connect Pennsylvania to the West Coast. Significantly, the "Pennsylvania Napoleon" allied with Cooke, as Jay Cooke & Co. helped market his railroad's debt.[31]

To Cooke's dismay, however, Henry reported that other factions had opened the spigots and bought their own politicians: "We have interests ramifying in many directions, and hosts of enemies to hit us a blow."[32] The Union Pacific and the

---

[30] Rutherford B. Hayes, February 20, 1870, quoted in Charles Richard Williams ed., *Diary and Letters of Rutherford Birchard Hayes*, vol. 3, *1865–1881* (Ohio State Archaeological and Historical Society, 1924), 89.

[31] *New York Daily Herald*, March 11, 1872, 6. Burch, *Elites*, 2:59; Albert J. Churella, *The Pennsylvania Railroad*, vol. 1, *Building an Empire, 1846–1917* (Philadelphia: University of Pennsylvania Press, 2013), 382, 419–20; Foner, *Reconstruction*, 467; Jeremiah D. Lambert and Geoffrey S. Stewart, *The Anointed: New York's White-Shoe Law Firms* (Guilford, CT: Lyons Press, 2021), 25; Larson, *Cooke*, 274–75; Lavender, *Great*, 282–85; M. John Lubetkin, *Jay Cooke's Gamble: The Northern Pacific Railroad, the Sioux, and the Panic of 1873* (Norman: University of Oklahoma Press, 2006), xvii, 235; Ellis Paxson Oberholtzer, *Jay Cooke: Financier of the Civil War* (Philadelphia: George W. Jacobs, 1907), 2:168; Summers, *Era*, 48–50, 55, 110–12, 138, 181–82; and George Thayer, *Who Shakes the Money Tree? American Campaign Finance Practices from 1789 to the Present* (New York: Simon and Schuster, 1973), 35.

[32] Henry Cooke to Jay Cooke, February 3, 1872, quoted in Summers, *Era*, 54–55.

Central Pacific once again lobbied against monetary subsidies to the Northern Pacific. Because the government was now expecting interest payments on the loans given to them, the railroads especially wanted their competitor to receive zero taxpayer funds. Furthermore, the investment bankers J. P. Morgan and Anthony Drexel of the soon-to-be-formed Drexel, Morgan & Co. (1871) in New York opposed the Northern Pacific's subsidy program. They instructed the *Philadelphia Public Ledger*, a paper co-owned by Drexel, to attack the Northern Pacific. The Texas & Pacific also faced resistance because the Big Four had recently acquired the Southern Pacific and did not want a competitor in Arizona.

Cooke fought back. One of his lobbyists countered the Union Pacific and the Central Pacific by threatening a resolution that placed them under direct government oversight if they defaulted on interest payments. Cooke handled his investment banking rivals by bribing the *Philadelphia Evening Bulletin* and the *Washington Chronicle* for good publicity. Still, resistance was too deep: Cooke failed to receive any monetary subsidies and only acquired a middling land grant in the Washington Territory in May 1870. The Texas & Pacific fared better in March 1871 because of southerners' support, but the House Pacific Railroad Committee cut the proposed twenty-six million acres in half and denied the railroad monetary assistance.[33]

This grant to the Texas & Pacific was the last of Congress's giveaways to the transcontinental railroads in the Great Barbecue. In many ways it marked the turning point of their political strength because of a striking reversal of fortune in the 1870s. Policy grew more hostile as railroad infighting accelerated

---

[33] Vincent P. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, MA: Harvard University Press, 1987), 137, 140–41, 146; Churella, *Pennsylvania*, 1:419–20; Klein, *Union*, 1:274–76; Larson, *Cooke*, 275, 288–95; Scott Reynolds Nelson, *A Nation of Deadbeats: An Uncommon History of America's Financial Disasters* (New York: Alfred A. Knopf, 2012), 165–66; Oberholtzer, *Cooke*, 2:181; Summers, *Era*, 59; and Mark Wahlgren Summers, *Railroads, Reconstruction, and the Gospel of Prosperity: Aid under the Radical Republicans, 1865–1877* (Princeton, NJ: Princeton University Press, 1984), 170–72.

while other special-interest groups gained influence and politicians demanded a bigger cut. Instead of lobbying for new privileges, the transcontinentals now had to lobby to defend their old ones. Hopkins summed it up to Huntington, reminiscing about how "when we commenced, eleven years ago, Congress and Legislation were gentle steeds. Bless me how they rear and tear now."[34]

The catalyst for the railroads' decline in standing was the Crédit Mobilier scandal of 1872, when newspapers exposed the construction racket and how "Hoax" Ames bribed fellow congressmen with stock.[35] The public fumed after learning that the scandal implicated Vice President Colfax, vice president elect Henry Wilson, House Speaker Blaine, and other Republican leaders. But they exploded in wrath when Congress penalized Ames with just a censure, a slap on the wrist. The Big Four fanned the flames by torching the Contract & Finance Company's books to shield the Central Pacific from investigation. Cooke had planned to lobby for additional subsidies but stopped when Henry informed him how Crédit Mobilier had led to a "demoralization of Congress."[36]

The Crédit Mobilier fire quickly turned into the Panic of 1873 inferno. Thanks to subsidies and renewed credit expansion under the National Banking System, the booming railroad industry borrowed from banks to more than double its mileage between 1865 and 1873. But no more, as the panic, though mild for the overall economy, ushered in hardship for the railroad malinvestments. It was a stunning illustration of how the railroads had overexpanded beyond the public's supply of savings and misallocated scarce factors of production. The proximate cause was Jay Cooke and the Northern Pacific. Blocked from selling bonds in Europe because of J. P. Morgan's British connections, Cooke recklessly borrowed from his

---

[34] Mark Hopkins to Collis P. Huntington, February 4, 1873, quoted in Margaret Susan Thompson, *The "Spider Web": Congress and Lobbying in the Age of Grant* (Ithaca, NY: Cornell University Press, 1985), 266.

[35] "Justice to Hoax Ames," *New York Daily Herald*, January 24, 1873, 6.

[36] Henry Cooke to Jay Cooke, February 11, 1873, quoted in Summers, *Era*, 237.

bank to finance his hastily built and poorly constructed railroad. In August 1872 the Northern Pacific owed $1.5 million to Jay Cooke & Co.; the following August the debt reached $7 million. In September, the New York branch of Jay Cooke & Co. failed. The unexpected downfall of the Cooke empire sank railroad stocks. Cooke, Scott, Huntington, and other indebted railroad magnates unsuccessfully lobbied Congress to issue greenbacks to bail out their overextended companies.[37]

The Panic of 1873 ignited a minor political revolution after the long-exiled Democratic Party captured the House in the 1874 midterms and made Michael Kerr of Indiana, a free-market Bourbon Democrat, Speaker of the House. With the slavery question settled, northern Democrats returned to some semblance of their anticrony heritage. But it was a halfhearted return, for many Democratic farmers in the West and South joined regional Republicans in demanding the regulation of rates railroads charged to ship their goods between locations. These agrarian shippers formed the Grangers, the preeminent organization for American farmers. Grangers understandably compared many privileged railroad owners to medieval "robber barons" and "money sharks."[38] However, Grangers sought to combat them by granting new forms of cronyism. Their regulatory campaigns were orchestrated by powerful merchants and large landowners who were upset that they paid higher transportation rates than rivals who produced in more convenient geographical locations. In other words, the Granger regulations were designed to force railroads to charge the same price for all shippers, regardless of where they produced, to benefit their own businesses. As farming and mercantile shippers formed

[37] Brown, *Hear*, 187–89, 213, 215; Lavender, *Great*, 292–93; Lubetkin, *Gamble*, 62–64, 74–75, 164, 167–69, 235, 269–72; Patrick Newman, "The Depression of 1873–1879: An Austrian Perspective," *Quarterly Journal of Austrian Economics* 17, no. 4 (Winter 2014): 484–97; Rothbard, *Progressive*, 47–49; Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, 1865–1879* (Princeton, NJ: Princeton University Press, 1964), 221–22; and White, *Railroaded*, 50, 63–65, 73, 81–84.

[38] Charles Francis Adams Jr., *Railroads: Their Origin and Problems* (New York: G. P. Putnam's Sons, 1886), 145, quoted in Brown, *Hear*, 276.

new influential constituencies in the Democratic and Republican parties, their calls for rate regulations threatened the revenue streams and hence the profitability of the transcontinentals.[39]

In this new environment the once mighty Union Pacific and Central Pacific suffered blow after blow. The Union Pacific barely survived bankruptcy as its stock price sank from $100 to $14, while the Central Pacific faced rate-control threats in California. The politicians bought by the railroads either lost reelection or broke with them. As the Union Pacific's control passed to the railroad baron Jay Gould, the Big Four managed to keep control of the Central Pacific. Still, not all was well for the Big Four. Even though the rival Northern Pacific remained moribund, Scott's Texas & Pacific resumed lobbying efforts, and this was a problem, for a subsidized Texas & Pacific would jeopardize the Big Four's Southern Pacific.

The great subsidy battle between Scott and Huntington in the mid-1870s illustrates the brutal nature of the Great Barbecue: special interests must incessantly kill rivals or risk being killed by them. Scott wanted monetary aid to finance construction, and Huntington would be damned if that happened. The battle to buy politicians in 1874 alone was rumored to cost $4 million—no wonder Huntington complained that the year's congressmen were "the hungriest set of men ever got together."[40] With the firm backing of disgruntled southern Democrats looking for their own subsidized transcontinental, Scott maintained the advantage. He boasted around two hundred lobbyists, many of them former politicians, to dole out free passes and other goodies to congressmen. Still, in

---

[39] Lee Benson, *Merchants, Farmers, and Railroads: Railroad Regulation and New York Politics, 1850–1887* (Cambridge, MA: Harvard University Press, 1955), 24–25, 59–60, 256–57; Mitchell, *Congress*, 161–62, 166; Thompson, *Congress*, 180–203; White, *Railroaded*, 110–11; and C. Vann Woodward, *Reunion and Reaction: The Compromise of 1877 and the End of Reconstruction* (New York: Oxford University Press, 1991), 61, 128.

[40] Collis P. Huntington to David Colton, November 20, 1874, quoted in Lavender, *Great*, 305.

the post–Crédit Mobilier world, the Pennsylvania Napoleon couldn't get what he desired.[41]

Scott found an opening in the contested 1876 presidential election between Samuel Tilden, a prominent Bourbon Democrat and railroad lawyer, and the Republican Hayes. The election ended in electoral gridlock, and Congress established a special board to decide the outcome right before the inauguration. Scott delivered a radical proposal: enough southern Democrats would swing to Hayes and give him the presidency if he subsequently pushed Congress to grant monetary assistance to the Texas & Pacific. Scott's plan formed one component of the so-called Compromise of 1877 that ended the Reconstruction South, and Hayes's close supporters offered their assurances to Scott and his men. Scott pulled out all the stops to woo Hayes—he let the president-elect travel to the inauguration on his private railroad car.

The partnership between Scott and Hayes worried Huntington. In May, he learned from his lobbyists "*confidentially* that President Hayes will favor subsidizing a Southern Pacific Rail Road" and that "the fight promises to be active again."[42] To thwart his nemesis, Huntington—without government authorization—began constructing the Southern Pacific deep into Arizona to block off the Texas & Pacific. Scott counterattacked by having Secretary of War George McCrary order Huntington to cease construction. Huntington responded by personally visiting Hayes and promising the new president that he could build a southern transcontinental without additional subsidies. Hayes agreed and allowed the Southern Pacific to continue. The Scott-Hayes bargain was no more: in January 1878 Congress voted against subsidizing the Texas & Pacific.

---

[41] Brown, *Hear*, 190–92; Churella, *Pennsylvania*, 1:422–23; Jacob, *King*, 101; Klein, *Union*, 1:370–71; Lavender, *Great*, 301–2, 329–30; and White, *Railroaded*, 82, 85–86, 107, 117–19, 127.

[42] B. Holladay to Collis P. Huntington, May 2, 1877, and H. D. Morey to Collis P. Huntington, May 5, 1877, quoted in Samuel DeCanio, *Democracy and the Origins of the American Regulatory State* (New Haven, CT: Yale University Press, 2015), 159.

Poor Scott was devastated by this double cross—the only subsidy he could wrangle from the Hayes administration was getting McCrary's troops to quell striking workers on the Pennsylvania Railroad in the summer of 1877. But if the Great Barbecue was going to kill Scott, he would make sure it also killed Huntington. In 1878, Scott and the Chicago, Burlington & Quincy, an opponent of the Union Pacific, lobbied for the Thurman bill. This proposed legislation ordered the Union Pacific and the Central Pacific to divert 25 percent of their net earnings into a fund for the government loans they tried so hard to avoid paying. Huntington complained that Scott sought to "derive advantage from an undesired collision" between the government and the Central Pacific Railroad, but his and Gould's lobbying efforts failed to stop the Thurman Act.[43]

Scott's revenge enormously burdened the two companies because they now had to give to the government money that was needed to build branch lines and improve efficiencies to compete against other railroads. Thus, the monetary subsidies ended up injuring the transcontinentals twofold in the long run—first by encouraging them to construct inefficiently and then by siphoning away revenues into government coffers. The Central Pacific lessened the blow by diverting traffic to the Southern Pacific, and the latter soon became the main company that owned the former. The damage to the Union Pacific was irreparable, however, and Charles Francis Adams Jr., who became its president in 1884, "soon discovered that its position in Washington had changed radically."[44]

[43] Collis P. Huntington to J. Garfield, April 12, 1878, quoted in DeCanio, *Democracy*, 166. Brown, *Hear*, 199–202; Burch, *Elites*, 2:73–74, 77, 79–80, 115; Churella, *Pennsylvania*, 1:423–26; DeCanio, *Democracy*, 157–63; Foner, *Reconstruction*, 583–84; Robert Kelley, *The Transatlantic Persuasion: The Liberal-Democratic Mind in the Age of Gladstone* (New York: Alfred A. Knopf, 1969), 238–92; Klein, *Union*, 1:381–84, 457, 465–68; Lavender, *Great*, 315, 326, 329–30; Horace Samuel Merrill, *Bourbon Leader: Grover Cleveland and the Democratic Party* (Boston: Little, Brown, 1957), 44–47; White, *Railroaded*, 107, 117, 119, 127, 132; and Woodward, *Reunion*, 232–37.

[44] Klein, *Union*, 1:384.

New government agencies, particularly the Bureau of Railroad Accounts, hit the two railroads hard, subjecting them to withering testimonials and mountains of bureaucratic paperwork. The Union Pacific's lobbying power over the Pacific Railroad Committees in Congress wilted. The politicians that represented Granger farmers and shippers in the West and South in the 1880s, known as the Populists a decade later, posed additional problems. They hounded the railroads to repay their loans and threatened harsh rate regulation or nationalization. Republican senator Preston Plumb of Kansas also shook the Union Pacific down, demanding that it pay "money,—and 'big money'" if it wanted to survive in Congress.[45] As Burton and Anita Folsom perceptively write, "The power to subsidize, Adams discovered, was the power to destroy."[46] When another credit-induced railroad boom ended in the Panic of 1893, the Union Pacific declared bankruptcy.[47]

During this time, the other major transcontinental—the Northern Pacific—stumbled along. Ironically, Cooke's old adversary, J. P. Morgan of Drexel, Morgan & Co., became the railroad's banker. Morgan also joined the board of directors in 1883, the same year construction to the West Coast was finished. But Morgan's victory with the Northern Pacific was short-lived, for the railroad started to face intense competition from James J. Hill's Great Northern Railway. Contrary to the belief that transcontinentals could only be completed with government loans and land grants, the Great Northern demonstrated how free enterprise can build internal improvements more efficiently than the government- and taxpayer-subsidized businesses.

In 1878, Hill raised $5 million to purchase the subsidized St. Paul & Pacific Railroad in Minnesota, which had received a 2.5-million-acre land grant before promoters mismanaged

---

[45] Preston Plumb, quoted in Klein, *Union*, 1:543.

[46] Folsom and Folsom, *Uncle*, 80.

[47] Folsom, *Myth*, 21–22; Klein, *Union*, 1:375–76, 382, 465–68, 533–34, 537–46; Lavender, *Great*, 353; and White, *Railroaded*, 331–33, 347–55, 370–72, 393–98.

it into bankruptcy. The market value of the land then became capitalized into the price Hill paid for it. Hill envisioned the St. Paul & Pacific forming the basis of a private transcontinental, which critics considered impractical. The profit motive and the lack of taxpayer assistance drove Hill to construct and operate a railroad that became far more successful than the Northern Pacific. He bought land incrementally instead of feverishly building with free land. He used quality steel rails to minimize repair costs. He paid settlers to farm nearby land to ensure long-run demand. Instead of building a scenic route like the Northern Pacific, Hill strove for efficiency and built a shorter route over the Rocky Mountains. While the government-backed Northern Pacific, which was not as conscientious of its bottom line, declared bankruptcy during the 1893 panic, the market-oriented Great Northern, which finished construction to the Pacific coast that year, did not.

However, the nature of cronyism is that everyone must contend with the political hustle—if not to curry favor, to avoid legislative threats and remove roadblocks. Hill was no exception, donating to Democrats to lower Republican tariffs on rails. Most notably, he lobbied Congress in 1886 to open twenty million acres in the Dakota and Montana territories to the Great Northern and its settlers. The land was legally occupied by Blackfeet and other Indian tribes in government reservations but was settled only sparsely by the tribes, meaning that Hill should have been able to move in and privately develop his railroad. In fact, the Indians did not oppose giving the Great Northern the right to develop the land. But the Northern Pacific and the Union Pacific, covetous of their nearby monopoly on rail services to silver and copper mines, lobbied to block Hill's entrance. Democratic president Grover Cleveland vetoed the access measure, deeply angering Hill. The Great Northern counterattacked, lobbying the administration again and getting the measure passed months later. Hill returned the favor by donating $10,000 to Cleveland's unsuccessful 1888 reelection bid.[48]

---

[48] Brown, *Hear*, 265–68; Carosso, *Morgans*, 249–54; Thomas J. DiLorenzo,

Comparing the construction and operation of the Great Northern with the Northern Pacific, Union Pacific, and Central Pacific illustrates how government spending tends to produce less efficient outcomes than free enterprise. With the subsidized railroads, the promoters exploited taxpayer giveaways to hastily build shoddy railroads that collected the government's cash and land. Much of this assistance was surreptitiously diverted to construction companies and then into the coffers of promoters and politicians. Government officials failed to realize that by giving away free money and resources to "play investor," they distorted the incentive structure of businessmen and encouraged them to try and grab as much assistance as possible rather than effectively manage their companies. Government edict cannot not match the profit-and-loss signals of the market, which incentivize businesses to operate transportation companies that are long lasting and provide benefits to consumers and investors, because they are on the hook if their enterprises fail. Hill, who had to rely on private funds, produced such a transcontinental.

Some economic historians argue that even if the government subsidies produced poorly managed railroads, they still spurred economic development by increasing the value of nearby land and budding farms, towns, and cities.[49] While the transcontinentals did stimulate growth along these lines, the analysis ignores the opportunity cost. Market investors

---

How Capitalism Saved America: The Untold History of Our Country, from the Pilgrims to the Present (New York: Crown Forum, 2004), 112–21; Folsom, *Myth*, 22–32, Michael P. Malone, *James J. Hill: Empire Builder of the Northwest* (Norman: University of Oklahoma Press, 1997), 31–33, 113, 119–22; Albro Martin, *James J. Hill and the Opening of the Northwest* (Minneapolis: Minnesota Historical Society Press, 1991), 298–99, 307–8, 338–39, 396; and W. Thomas White, "A Gilded Age Businessman in Politics: James J. Hill, the Northwest, and the American Presidency, 1884–1912," *Pacific Historical Review* 57, no. 4 (November 1988): 441–42.

[49] Dave Donaldson and Richard Hornbeck, "Railroads and American Economic Growth: A 'Market Access' Approach," *Quarterly Journal of Economics* 131, no. 2 (May 2016): 799–858; and Robert W. Fogel, "The Union Pacific Railroad," in *The Reinterpretation of American Economic History*, ed. Robert W. Fogel and Stanley L. Engerman (New York: Harper and Row, 1971), 417–25.

did not deem a transcontinental profitable around the time of the Civil War, estimating that it was a better use of scarce funds to produce alternative forms of transportation that consumers would spend enough money on to make feasible, such as regional railroads and steamships. In other words, the economic development in the middle of the country that the transcontinentals encouraged was premature, and the taxpayer assistance directed resources away from promoting other land and water routes. When market actors did deem a transcontinental profitable without government money, as Hill did in the late 1870s and early 1880s, they built one of far higher quality and at lower cost.[50]

Government subsidies may have come and gone by the 1890s, but railroad cronyism survived by changing forms. When the Northern Pacific declared bankruptcy in 1893, Hill moved to acquire it. He worked with Morgan to combine the railroads, with their 1896 agreement focusing on "avoiding competition and aggressive policy."[51] Morgan, the preeminent railroad banker, schemed to reduce railroad competition over routes and rates, and leading railroads increasingly desired government restrictions to control markets. It was the next stage in the evolution of railroad cronyism.[52]

---

[50] Folsom, *Myth*, 30–31; and White, *Railroaded*, 17, 20–21, 47–58, 206–7, 211, 460–86, 491, 515–17.

[51] "Memorandum of a Conference Held in London on the 2nd of April 1896," quoted in Carosso, *Morgans*, 385.

[52] Carosso, *Morgans*, 383–86.

CHAPTER 3

CARTELIZING THE RAILROADS

In 1884, Union Pacific president Charles Francis Adams Jr. explained to a congressman that an "efficient Board of Commissioners . . . depends upon the men, who, so to speak, are inside of it, and who are to make it work."[1] Adams was referring to how railroads could capture a government commission that regulated prices and output by getting the commissioners to raise rates and restrict the shipment of freight. The times were changing: the railroads, first favoring land grants and monetary subsidies, slowly but surely shifted their lobbying efforts to a new and highly important form of cronyism: regulatory commissions that promoted railroad collusion by weakening competitive pressures and blocking rate regulations proposed by rival shipper interests. Adams's perspective, writes Gabriel Kolko, "suggested the whole course of subsequent big business attitudes towards federal regulation" and marked a significant step in the creation of the corporatist state.[2] As Adams predicted, the railroads successfully lobbied for a regulatory commission and then lobbied its commissioners to interpret the mandate in their favor. They achieved short-term success in raising rates and restricting shipments.

[1] Charles Francis Adams Jr. to John Long, March 1, 1884, quoted in Gabriel Kolko, *Railroads and Regulation, 1877–1916* (Princeton, NJ: Princeton University Press, 1965), 37.

[2] Kolko, *Railroads*, 37.

Crippling Competition

Starting in the 1850s, the New York Central, Erie, and Pennsylvania Railroads—called the trunk lines because they connected the Midwest with the East Coast—competed with one another. The consequence of such market competition and desire for greater profits was lower rates, increased traffic, and improved service quality. However, frustrated by the constant rivalry, they wanted to mitigate competitive pressures by forming cartels—that is, by working together to reduce supply, raise prices, and increase profits. Railroads colluded through pools—agreements that fixed rates and allocated shares of rail traffic. Common law considered pools legal, but like the free market it did not provide government coercion to prevent members from revising or breaking their agreements. Without coercive force, pools tended to fail because one railroad would inevitably break ranks and provide secret price cuts to its shipper clients to gain a greater market share. One common secret price-cutting tool was discounting the list prices for the shipment of goods, also known as rebating. Rebates, in turn, led to retaliatory price cuts from other pool members, and rate wars ensued. In addition, new transportation companies entered the market and undercut the usefulness of pooling agreements. The resulting situation was highly unsatisfactory from the perspective of the New York Central, Pennsylvania, and Erie but beneficial for the public: consumers and businesses enjoyed lower rates and greater transportation options.

The Civil War dramatically strengthened the viability of the trunk lines' pools. Lincoln needed railroads to transport troops and war materiel to the front. Desiring government-determined rates that fattened profits and reduced competitive pressures, railroads happily complied. They also understood the value of having the right personnel in charge. Lincoln's first secretary of war, Simon Cameron, and his assistant Thomas Scott closely allied with the Pennsylvania Railroad. Scott, who would later become the "Pennsylvania Napoleon," was vice president of the Pennsylvania at the time.[3] He issued the government's rate

---

[3] David Lavender, *The Great Persuader: The Biography of Collis P. Huntington* (New York: Doubleday, 1970), 299.

schedule and charged the military a 40 percent premium for his railroad's services over what he charged other shippers. The Illinois Central Railroad maintained even better connections: its officials contacted President Lincoln directly and got him to waive the stipulation in the Compromise of 1850 that required the free delivery of military shipments.

Although higher prices caused by monetary expansion reduced railroads' real profits during the war, the lack of rate wars inspired railroad cartelists, particularly Albert Fink of the Louisville & Nashville Railroad, to envision a system where the government sanctioned and enforced pool agreements. But the idea was premature for the postwar years. Railroads formed new pools, but market pressure and overbuilding from subsidies and credit expansion led to their downfall.[4]

In the east, the trunk lines increasingly competed for refined oil shipments in western Pennsylvania and Ohio, especially after John D. Rockefeller established the Standard Oil Company of Ohio in 1870. Through Rockefeller's entrepreneurial innovations in managerial accounting, mass production, cost cutting, and technological improvements, Standard Oil's market share surged from 4 percent to 90 percent between 1870 and 1879. As a large shipper it earned substantial discounts for bulk deliveries. Standard Oil's lower transportation costs from rebates increased the supply of kerosene products, resulting in lower consumer prices of fuel for lighting. Though consumers benefited from the 70 percent decline in refined oil prices during the

---

[4] Stuart D. Brandes, *Warhogs: A History of War Profits in America* (Lexington: University of Kentucky Press, 1997), 75–77; Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 22, 53, 55; Kurt A. Carlson, "Backing the Boys in the Civil War: Chicago's Home Front Supports the Troops—and Grows in the Process," *Journal of the Illinois State Historical Society* 104, no. 1–2 (Spring–Summer 2011): 151–53; Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA: Harvard University Press, 1977), 134–36; Albert J. Churella, *The Pennsylvania Railroad*, vol. 1, *Building an Empire, 1846–1917* (Philadelphia: University of Pennsylvania Press, 2013), 189, 202–4, 286, 288, 290, 292, 301; Edward C. Kirkland, *Industry Comes of Age: Business, Labor, and Public Policy, 1860–1897* (New York: Holt, Rinehart and Winston, 1961), 77; Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 52–53, 79; and Richard White, *Railroaded: The Transcontinentals and the Making of Modern America* (New York: W. W. Norton, 2011), 3–8, 161, 175–76.

decade, small oil shippers and the Pennsylvania Railroad grumbled under Standard's competitive pressure.[5]

To make matters worse, the trunk lines failed to cartelize traffic between Chicago and the East Coast. Instead, the three railroads fiercely competed for shipments from Chicago meatpackers and grain deliveries from the interior. The Panic of 1873 and the arrival of a new trunk line in Chicago the following year—the Baltimore & Ohio (B&O)—further increased competitive conditions. After a rate war caused an 85 percent fall in prices for eastbound freight traffic to New York City in 1876 and 1877, the four trunk lines organized a new pool, the Trunk Line Association, in 1877. The Joint Executive Committee was organized a year later to oversee it and other arrangements. Fink supervised both agreements. Notably, J. P. Morgan—a director of the New York Central, marketer of the Pennsylvania's securities, and major stockholder and creditor of the B&O—played an increasingly prominent role in the trunk lines' pooling attempts. But secret price cuts, new competition by yet another trunk line—the Grand Trunk Railway that traveled from Chicago to Boston through Canada—and the Panic of 1884 wrecked Morgan-engineered agreements. From 1880 to 1886 the price of shipping grain from Chicago to New York City declined 40 percent.[6]

The situation was similar in the West. In 1870 the Chicago, Burlington & Quincy formed the Iowa Pool with other midwestern railroads to control traffic from Chicago to the Union Pacific

---

[5] Churella, *Pennsylvania*, 1:301, 361–62, 461; Samuel DeCanio, *Democracy and the Origins of the American Regulatory State* (New Haven, CT: Yale University Press, 2015), 156–57, 163–65; Thomas J. DiLorenzo, *How Capitalism Saved America: The Untold History of Our Country, from the Pilgrims to the Present* (New York: Crown Forum, 2004), 121–30; Elizabeth Granitz and Benjamin Klein, "Monopolization by 'Raising Rivals' Costs': The Standard Oil Case," *Journal of Law and Economics* 39, no. 1 (April 1996): 1–2, 4–9, 30; and Charles R. Morris, *The Tycoons: How Andrew Carnegie, John D. Rockefeller, Jay Gould, and J. P. Morgan Invented the American Supereconomy* (New York: Henry Holt, 2005), 345, 359.

[6] Vincent P. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, MA: Harvard University Press, 1987), 248, 254, 257; Churella, *Pennsylvania*, 1:463; Robert H. Porter, "A Study of Cartel Stability: The Joint Executive Committee, 1880–1886," *Bell Journal of Economics* 14, no. 2 (Autumn 1983): 311; Rothbard, *Progressive*, 55–56, 61–66; and Jean Strouse, *Morgan: American Financier* (New York: Harper Perennial, 2000), 246–49.

terminus in Omaha and Council Bluffs. But internal cheating remained a pervasive problem, and the Pacific Mail Steamship Company competed on the seas by increasing its shipments between the coasts. Transcontinental monopolies also failed, thanks to new competition. In 1881 the Union Pacific and the Central Pacific route was the only one to the Pacific, but by the mid-1880s, the Northern Pacific; Southern Pacific; Atlantic & Pacific; Atchison, Topeka & Santa Fe; and Canadian Pacific had weakened its monopoly. The early 1890s witnessed further competition for West Coast traffic from the Great Northern.[7]

In the face of such pervasive rate slashing and railroad building, Fink concluded that whether "cooperation can be secured by voluntary action of the transportation companies is doubtful."[8] It was time, then, for the railroads to turn to state-level regulatory commissions to reduce price-cutting. The goal of government intervention would be to restrict transportation services to below the market-determined output and raise rates above market levels. While the railroads would profit, the public would suffer from costlier and less optimal rail service.

Enter Charles Francis Adams Jr. After the Civil War this grandson of President John Quincy Adams was a railroad economist and leader in the American Social Science Association. Adams made exceptions to his overall laissez-faire outlook by advocating a civil-service bureaucracy and railroad regulation. Fittingly, in 1869 he drafted the bill for the Massachusetts Board of Railroad Commissioners, the first modern regulatory agency. Eager to put his law into practice, Adams served as one of the board's three commissioners. On Adams's regulatory board, the commissioners possessed discretionary powers in interpreting the legislative mandate. In particular, the commissioners could require railroads to provide rates and other information about their business practices "at all times on demand," which they could publicize if a railroad was secretly cheating on agreements

---

[7] Albro Martin, *James J. Hill and the Opening of the Northwest* (Minneapolis: Minnesota Historical Society Press, 1991), 396; Rothbard, *Progressive*, 59–61; and White, *Railroaded*, 203–4.

[8] Albert Fink to Joseph Nimmo Jr., May 1, 1876, quoted in D. T. Gilchrist, "Albert Fink and the Pooling System," *Business History Review* 34, no. 1 (Spring 1960): 32–33.

by cutting rates.[9] This publicity would make it harder for railroads to compete, thereby facilitating cartelization. Though lacking enforcement power, the commissioners could also make rate recommendations, which railroads followed to avoid harsher regulations.

By the end of Adams's tenure in 1879, he concluded that "a properly regulated combination of railroad companies, for the avowed purpose of controlling competition, might prove a most useful public agency." Criticizing the notion that "so far as transportation is concerned, prosperity is to be secured through a succession of temporary local advantages,—an unending cutting of rates," Adams bemoaned the "present competitive chaos."[10] Adams personified what came to be known as the revolving door between bureaucrats and businesses: his next job was to work with Fink at the Trunk Line Association before becoming president of the Union Pacific in 1884.[11]

While Adams supported commissions to strengthen pools, shippers wanted commissions to artificially lower rates. With each passing year mercantile, agrarian, and industrial shippers grew more numerous and politically influential. The Grangers complained that railroads' rate cutting often led to proportionately lower rates for long-distance shipping (e.g., New York City to Chicago) than for shorter distances (e.g., New York City to Buffalo). They conveniently overlooked how this price discrimination resulted from businesses shipping in bulk or operating

---

[9] *Massachusetts Acts and Resolves*, Chap. 408 (1869), 699–703, quoted in Thomas K. McCraw, *Prophets of Regulation* (Cambridge, MA: Harvard University Press, 1984), 19.

[10] Charles Francis Adams Jr., "The Railroad Problem (1879)," in *The Transformation of American Society, 1870–1890*, ed. John Garraty (Columbia: University of South Carolina Press, 1968), 71–72.

[11] An Act to Establish a Board of Railroad Commissioners, 1869 Mass. Acts 699; DeCanio, *Democracy*, 187; Joseph Dorfman, *The Economic Mind in American Civilization*, vol. 3, *1865–1918* (New York: Augustus M. Kelley, 1969), 23–26, 90–91; McCraw, *Prophets*, 1, 7, 17–35, 49–52; Marc-William Palen, *The "Conspiracy" of Free Trade: The Anglo-American Struggle over Empire and Economic Globalization, 1846–1896* (New York: Cambridge University Press, 2016), 139; Rothbard, *Progressive*, 68–69; Edward T. Silva and Sheila A. Slaughter, *Serving Power: The Making of the Academic Social Science Expert* (Westport, CT: Greenwood Press, 1984), 49–51, 54–57; and White, *Railroaded*, 175.

in cities with intense railroad competition and how these economic conditions translated into lower prices for consumers. Railroads, for their part, also complained about the lower rates on long hauls, but they wanted to equalize rates not by lowering rates for short hauls but by raising the rates charged for longer distances.

Most prominently, Illinois merchants in the Chicago Board of Trade lobbied for a state railroad commission in the early 1870s. The legislature armed it with the power to lower short-haul rates to equalize them with long hauls, much to the dismay of the Illinois Central. When railroads challenged the commission's legality in *Munn v. Illinois* (1877) the Supreme Court upheld states' abilities to regulate rates.

However, the Grangers' commissions failed to satisfy merchants and farmers because railroads often responded to the equal-rate provisions not by lowering short-haul rates but by raising long-haul rates. In some cases they simply stopped short-haul service to small towns altogether. The consequence of both responses was higher prices of goods or no goods shipped at all, both of which ultimately hurt the public.[12]

By the late 1870s, the stage was set for shippers and railroads to push for federal regulation. Par for the course in the Great Barbecue, the fight between the different interests promised to be filled with intense offensive and defensive lobbying. In 1876, Democratic congressman James Hopkins of Pennsylvania introduced a bill in the House Interstate Commerce Committee to outlaw rebates. Purportedly written by the attorney for the anti–Standard Oil Philadelphia & Reading Railroad, the bill would assist small shippers and the trunk lines against Standard's growing market share. But Standard Oil lobbied the committee to kill it.

Two years later, Democratic Congressman John Reagan of Texas—the former postmaster general of the Confederacy, an ally of Scott and his Pennsylvania Railroad and Texas & Pacific

[12] Lee Benson, *Merchants, Farmers, and Railroads: Railroad Regulation and New York Politics, 1850–1887* (Cambridge, MA: Harvard University Press, 1955), 25–27; Churella, *Pennsylvania*, 1:543; Morris, *Tycoons*, 116; James W. Neilson, *Shelby M. Cullom: Prairie State Republican* (Urbana: University of Illinois Press, 1962), 61–64; and Rothbard, *Progressive*, 49–56.

Railway, and the new chair of the committee—introduced a different bill. Reagan's bill prohibited rebates, publicized rate schedules to eliminate cheating, made pooling agreements illegal, and forbade short-haul discrimination. Since the Reagan bill prohibited rebates in interstate commerce, it favored the Pennsylvania Railroad at the expense of the New York Central and the Erie: the Pennsylvania's route did not have to travel across state lines when carrying Standard Oil shipments to Pittsburgh or Philadelphia. George Blanchard, vice president of the Erie, complained that the Pennsylvania would be "exempt from the operations of this law."[13] Although the New York Central, the Erie, and Standard Oil opposed the Reagan bill, antipooling shippers lobbied hard to get it passed in the House.

Railroads possessed greater strength in the Senate, which quickly defeated the Reagan bill. In testimony, Fink made it clear that while railroads favored publicizing rates and prohibiting rebates, they wanted government-backed pools. Adams embodied their demands by writing the Henderson bill, which proposed a regulatory commission. Adams's commission would secure crony privileges to railroads in the form of government-enforced pooling agreements while denying the Reagan bill's privileges to shippers. In the words of Blanchard, "A national railway commission" would aid railroads by providing "conservative protection against radical assaults; and their co-operative traffic federations."[14] Reagan, on the other hand, favored enforcement by the courts because he feared that with a commission "the railroad interests [would] combine their power to control the appointment of commissioners in their own interest."[15] Railroad critics pointed to the prorailroad men that Grover Cleveland, recently elected governor

[13] George Blanchard, *Argument before the Committee on Commerce of the Senate of the United States, Tuesday, February 11, 1879* (New York: Martin B. Brown, Printer and Stationer, 1879), 13, quoted in DeCanio, *Democracy*, 168.

[14] George Blanchard, *Traffic Unity, Popularly Called "Railway Pools"* (New York, 1884), 30, 34, quoted in Kolko, *Railroads*, 38.

[15] 17th Congressional Record 7283 (1886), quoted in Jed Handelsman Shugerman, "The Dependent Origins of Independent Agencies: The Interstate Commerce Commission, the Tenure of Office Act, and the Rise of Modern Campaign Finance," *Journal of Law and Politics* 31, no. 139 (Fall 2015): 170.

of New York, picked for his state's newly created railroad commission in 1883.[16]

By the mid-1880s Congress had clearly deadlocked on federal regulation. Against the Reagan bill, railroads supported the legislation written by Senator Shelby Cullom, who became chair of the Senate Interstate Commerce Committee. Cullom, a former Republican governor of Illinois who appointed that state's first railroad commissioners, had fallen under the influence of Adams's views. Adams, now president of the besieged Union Pacific, especially fretted over threatening legislation. After drafting his bill, Cullom carefully consulted with Fink and Blanchard for suggestions. His final bill created a commission, gave discretion to the commissioners to decide what constituted illegal rebating and short-haul discrimination, and, most importantly of all, remained vague on pooling—an opening wedge for explicitly government-enforced cartels in the future.

In late 1886, the Supreme Court drastically weakened state-level commissions in *Wabash v. Illinois* by holding that only the federal government could regulate interstate commerce under the Constitution. The federal government would fill the void with an even more expansive regulatory net. Reagan and Cullom reached a compromise on their bills, agreeing to prohibit pooling in return for a five-man commission. In early 1887 Congress passed the Interstate Commerce Act, with most of the support coming from southern and western politicians. The law created a five-man commission, prohibited pooling, required publicized rates, forbade rebating, and prevented discrimination against short hauls under certain vague conditions. The nation's railroads waited for the next steps.[17]

---

[16] Benson, *Merchants*, 187–88, 192–94; Churella, *Pennsylvania*, 1:420; DeCanio, *Democracy*, 154, 158–59, 167–70, 173–74; Kazuyuki Matsuo, "Congressional Struggle for the First American Regulatory Agency: The Formation of the Interstate Commerce Commission as a Prelude to Modern America," *Journal of American and Canadian Studies* no. 17 (1999): 32–34; Rothbard, *Progressive*, 69–73; Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877–1917* (Chicago: University of Chicago Press, 1999), 185–90; and Shugerman, "Dependent," 167, 170.

[17] Churella, *Pennsylvania*, 1:543, 545; Shelby M. Cullom, *Fifty Years of Public Service* (Chicago: A. C. McClurg, 1911), 307–8, 318–19; DeCanio, *Democracy*, 192; Kolko, *Railroads*, 42–43; Rothbard, *Progressive*, 73, 80; and Sanders, *Roots*, 188–94.

Capturing the Commission

The legislative provisions of the Interstate Commerce Commission (ICC) could deliver crony rewards to either railroads or shippers. It was up to the personnel to decide what interests to privilege. To the railroads' delight, the commissioners would end up interpreting their mandate in a prorailroad fashion, supporting indirect forms of pooling and cutting down on secretive rebating. This resulted in a temporary strengthening of railroad cartelization, to the detriment of the firms using the railroads' services.

Given the railroad lobby's declining power and the growing influence of shippers to secure restrictions against railroads' rate and pooling policies, the Interstate Commerce Act at first worried the railroads. Railroad leaders fumed at how the law banned pooling, and Albert Fink considered it a "dangerous experiment."[18] Echoing these sentiments, the Atchison, Topeka & Santa Fe and the Chicago, Burlington & Quincy hired corporate lawyer Richard Olney to lobby against the act. Bankers also voiced negative assessments, especially in the *Commercial & Financial Chronicle*. J. P. Morgan's father, Junius, an investment banker in London, blasted the legislation as "a disturbing cause . . . imposed by the National Will, a case of force majeure."[19]

But some saw potential and believed that despite its antipooling provisions, the new commission could indirectly stabilize railroad cartels reorganized under different forms. Adams remained optimistic because the rebate prohibitions would deal with the "canker eating into the very vitals of railroad prosperity."[20] According to one J. P. Morgan biographer, the foremost advocate of pools "was prepared to do his part to see that [the new law] was enforced."[21] Ultimately, these railroad hopefuls realized that the ability of the railroads to capture the

---

[18] Albert Fink, quoted in *Railway Review*, December 18, 1886, 586, quoted in Alan Jones, "Thomas M. Cooley and the Interstate Commerce Commission: Continuity and Change in the Doctrine of Equal Rights," *Political Science Quarterly* 81, no. 4 (December 1966): 612.

[19] Junius Morgan to Drexel, Morgan & Co., December 12, 1888, quoted in Strouse, *Morgan*, 257.

[20] Charles Francis Adams Jr., quoted in White, *Railroaded*, 359.

[21] Carosso, *Morgans*, 257.

ICC depended on the specific personnel administering the policy. The vague clauses, an optimistic Adams noted, meant that "there is much labor cut out for the commission."[22]

The focus shifted to whom the Democratic president Grover Cleveland would appoint. Unlike the many agrarian Democrats who voted for the law, Cleveland was a Bourbon Democrat who championed limited government. But the president frequently maintained a prorailroad position and sympathized with their anticompetitive efforts. Such affinity for the railroads was common among the Bourbons and undermined their otherwise anticrony stance. For instance, the Democrats' 1876 presidential candidate, the Bourbon Samuel Tilden, had established himself as a political reformer turned governor of New York, but he had also been a wealthy railroad lawyer and served on the boards of at least four railroads before his presidential run.

Cleveland, too, had served as an attorney for several railroads, which gave him insight into their point of view. Most notably, in the early 1870s Cleveland's law partnership, Laning, Cleveland & Folsom, had worked for the New York Central Railroad, and in 1881 the railroad's vice president Chauncey Depew asked Cleveland to be one of its chief counsels. Though Cleveland refused, he deliberated heavily on the offer and did try some cases for the railroad. Then, after he became governor of New York in 1883 and appointed railroad men to the state railroad commission, Cleveland listened to Drexel, Morgan & Co. and vetoed a bill regulating passenger rates. The erstwhile Republican Morgan even crossed party lines to vote for him in the presidential election of 1884. As president, Cleveland appointed railroad lawyers and directors to his cabinet. "It is clear," writes Philip Burch, that the first Cleveland administration was dominated by "pro-business, and more specifically pro-railroad, leaders—to a

---

22 Charles Francis Adams Jr., quoted in *Travelers Official Railway Guide for the United States and Canada*, 19th year, no. 11 (April 1887): 1½, quoted in White, *Railroaded*, 358. Burch, *Elites*, 2:98; Carosso, *Morgans*, 289, 364; Thomas W. Gilligan, William J. Marshall, and Barry R. Weingast, "Regulation and the Theory of Legislative Choice: The Interstate Commerce Act of 1887," *Journal of Law and Economics* 32, no. 1 (April 1989): 59–61; Edward A. Purcell Jr., "Ideas and Interests: Businessmen and the Interstate Commerce Act," *Journal of American History* 54, no. 3 (December 1967): 572–77; Sanders, *Roots*, 193, 458; and White, *Railroaded*, 358–59.

greater extent, in fact, than some of the preceding Republican regimes."[23] While the transcontinentals' previous gorging at the taxpayers' expense disgusted Cleveland, he was not above ruling in their favor, as the lobbying battle between James J. Hill and the Northern Pacific demonstrated.[24]

If the railroads were to secure any special privileges in the ICC they would come through Cleveland. The president did not disappoint. Although the administration remained absent from the legislative drive, the president carefully considered which commissioners to nominate for the relatively prorailroad Senate to confirm. Based on Senator Cullom's recommendation Cleveland chose as the ICC's chairman the jurist Thomas Cooley, who worked with Fink as an administrator for the Joint Executive Committee. Like Cleveland, Cooley excluded railroad policy from his laissez-faire scruples. Other appointments also benefited the railroads, particularly Aldace Walker, a future chairman of the board of the Atchison, Topeka & Santa Fe.

According to the *New York Times*, "President Cleveland's selections were almost uniformly approved" by Wall Street and affiliated railroads. Fink, for one, thought "very highly" of Cooley, and Depew, now president of the New York Central, commended "the wise work of President Cleveland."[25] The *Commercial & Financial Chronicle* stated that Cleveland's "appointments, under the circumstances, could not have been better."[26] Cooley would "cause general satisfaction in the mercantile community [because he] has had experience in railroad matters" and would "conserve both industrial and railroad interests."[27]

---

[23] Burch, *Elites*, 2:91.

[24] Benson, *Merchants*, 181–82, 187–94; Burch, *Elites*, 2:73–74, 86–91, 112, 118; Horace Samuel Merrill, *Bourbon Leader: Grover Cleveland and the Democratic Party* (Boston: Little, Brown, 1957), 6, 47, 50–51, 81; George F. Parker, *Recollections of Grover Cleveland* (New York: Century, 1909), 37–38; Rothbard, *Progressive*, 75; Strouse, *Morgan,* 241; and Richard E. Welch Jr., *The Presidencies of Grover Cleveland* (Lawrence: University Press of Kansas, 1988), 79.

[25] "The Railway Commission, Mr. Cleveland's Task Well Performed," *New York Times*, March 24, 1887, 1.

[26] "The Financial Situation," *Commercial & Financial Chronicle*, March 26, 1887, 380.

[27] "The Financial Situation," *Commercial & Financial Chronicle*, April 2, 1887,

The new commissioners' rulings pleased the railroads. Cooley interpreted the vague provision that prohibited discrimination against short hauls in a way that enabled them to raise rates on long hauls. Walker wrote that this ruling, "as a prevention of rate wars[,] . . . is already recognized by intelligent railroad men as better than the pool" because most rate wars began with cuts in long-haul rates.[28] The trunk lines used Cooley's ruling to attack competition and market efficiency: when the New York Central accused the Grand Trunk Railway of setting lower rates on traffic from Boston to Detroit than from Boston to Vermont, the ICC agreed and ruled against the Grand Trunk. The ICC further weakened competition by mandating a single rate for all railroads shipping grain from Chicago to an East Coast city. Furthermore, it reduced Standard Oil's ability to obtain lower transportation costs by preventing railroads from reducing rates for full carloads without reducing rates for less-than-full carloads. The Detroit and Indianapolis Boards of Trade, along with the Nebraska Farmers' Alliance, criticized the ICC's prorailroad interpretations of its mandate.

The ICC's rulings especially benefited the eastern railroads. They managed to skirt the pooling prohibition by creating a rate association that only fixed rates without allocating traffic shares, meaning that it was technically not a pool. With Fink as commissioner, the reorganized Trunk Line Association pledged to "aid in the enforcement of the provisions of the Interstate Commerce Law."[29] Between the act's passage in early 1887 and winter 1893 the rates to ship eastbound grain stabilized, a sharp contrast to the rate wars of the mid-1880s. The trunk lines' profits from freight transportation grew markedly. For example, the New York Central's net receipts from shipments increased 44 percent and its stock price rose 36 percent.[30]

410–11. Burch, *Elites*, 2:91; Allan Nevins, *Grover Cleveland, a Study in Courage* (New York: Dodd, Mead, 1964), 355–56; Rothbard, *Progressive*, 75–76; and Sanders, *Roots*, 458.

[28] Aldace Walker to Joseph Nimmo Jr., November 22, 1887, quoted in Kolko, *Railroads*, 52.

[29] *Articles of Association of the Trunk Lines—Copy of Trunk Line Contract of February 20th, 1889* (Philadelphia, 1894), 7, quoted in Kolko, *Railroads*, 61.

[30] Ari Hoogenboom and Olive Hoogenboom, *A History of the ICC: From Panacea*

The western railroads were less conforming. Fierce competition between the Union Pacific; the Northern Pacific; the Atchison, Topeka & Santa Fe; and the Southern Pacific had led to repeated rate wars in the West. By December of 1888, Adams was criticizing "the dishonest methods of rate-cutting, the secret systems of rebates, [and] the indirect and hidden payments made to influence the course of traffic."[31] Still desiring government-enforced pools, Adams wanted to use "the power of the bankers against recalcitrants and . . . the machinery of the Interstate Commerce Act against every violator of law."[32] J. P. Morgan thoroughly agreed, eager to make railroads realize that they should stop competing and "no longer take the law into their own hands."[33]

Morgan and other bankers hammered out an agreement with presidents of ten western railroads. In early 1889, after getting approval from Cooley, Walker, and another ICC commissioner, Adams organized the Interstate Commerce Railway Association to engage in the "maintenance of rates and enforcement of all the provisions of the Inter-State Law."[34] Like the remodeled Trunk Line Association the Interstate Commerce Railway Association was technically not a pool because it did not allocate traffic among railroads. To lead it Adams recommended Walker, who promptly resigned from the ICC to take the new post.

Everything appeared promising for the western lines. Despite the commission's blessing, however, they failed to successfully

---

to Palliative (New York: W. W. Norton, 1976), 21–24; Kolko, *Railroads*, 50–53, 61; Paul W. MacAvoy, *The Economic Effects of Regulation: The Trunk-Line Railroad Cartels and the Interstate Commerce Commission before 1900* (Cambridge, MA: MIT Press, 1965), 116–19, 193–94, 197, 203–4; and Rothbard, *Progressive*, 76–77.

[31] "Hot Shot from a Friend: Charles Francis Adams on Railroad Management," *New York Times*, December 16, 1888, 9.

[32] Charles Francis Adams Jr., quoted in Maury Klein, *Union Pacific*, vol. 1, *1862–1893* (Minneapolis: University of Minnesota Press, 2006), 589.

[33] J. P. Morgan, quoted in Carl Hovey, *The Life Story of J. Pierpont Morgan* (New York, 1911), 139.

[34] *Proceedings of the Conferences between Presidents of Railroad Lines West of Chicago and St. Louis and Representatives of Banking Houses, January 8th and 10th, 1889* (New York, 1889), 2, 10, quoted in Kolko, *Railroads*, 60.

cartelize because cheating and external competition persisted. By the end of the year secret rate cuts reappeared in various forms, including deliberately false classifications and the underestimation of freight weights. Moreover, the Great Northern did not join the association, and according to Julius Grodinsky, "there appeared to be little hope of inducing Hill to adopt a policy of rate stabilization."[35] Frustrated by the Interstate Commerce Railway Association and other failures, the Union Pacific forced Adams out in November 1890.[36]

Adams's ousting was followed by the good times ending for even the eastern railroads. In 1891 Cooley resigned from the ICC on grounds of poor health. Without Walker and Cooley the commission became less supportive of railroads. Matters took a turn for the worse when the Panic of 1893 sent 192 railroads—a fourth of the entire rail system—into various stages of bankruptcy. By mid-1894 eastbound grain rates plummeted and New York Central president Depew bemoaned "the present demoralization."[37] Finally, as the killing blow, in a series of cases the Supreme Court crippled the ICC's ability to regulate rate discrimination and railroads' ability to create rate associations. According to Paul MacAvoy, this "nullified all of the gains of regulation and cartelization over the structure and level of rates."[38]

Thus, as Murray Rothbard argues, by 1896 the railroads realized "that the existing Interstate Commerce Act was not sufficiently powerful to act as a successful cartelizer of the railroad industry."[39] Notables of the New York Central, the Pennsylvania, and the Baltimore & Ohio resumed lobbying efforts for a stronger ICC to support pooling agreements. One example, the Gorman bill, was written by the attorney for the B&O. He demanded

---

[35] Julius Grodinsky, *Transcontinental Railway Strategy, 1869–1893: A Study of Businessmen* (Philadelphia: University of Pennsylvania Press, 1962), 348.

[36] Carosso, *Morgans*, 257–59; Klein, *Union*, 1:589–93; Rothbard, *Progressive*, 77–78, 81; and White, *Railroaded*, 360–65, 372–78, 385–91.

[37] "Mr. Depew on Rate Cutting," *New York Times*, March 25, 1894, 3.

[38] MacAvoy, *Economic*, 153. Hoogenboom and Hoogenboom, *History*, 35–37; Kolko, *Railroads*, 68–71; MacAvoy, *Economic*, 164–65, 186–87, 194; Morris, *Tycoons*, 236; and Rothbard, *Progressive*, 78–79.

[39] Rothbard, *Progressive*, 80.

"the intervention of the Commission. We do not want an agreement to go into effect without their approval."[40] Congressmen, however, were preoccupied with the economic depression, and their inaction impeded big-business advocates of federal cartelization.

After the panic, Morgan, in charge of the new J. P. Morgan & Co. formed in 1895, reorganized the Erie, the Philadelphia & Reading, the Northern Pacific, and many other railroads that fell into bankruptcy. With his "morganization" of the railroads, he started to devise new ways of controlling competition.[41] In particular, Morgan wanted to informally merge the nation's railroads into regional communities of interest, such as Hill's Great Northern and the Northern Pacific, through shared stock ownership and overlapping boards of directors. Morgan's plan would undeniably improve efficiency through greater economies of scale and better oversight by the owners. However, at the large size Morgan envisioned, the communities of interest could only succeed if a friendly government cracked down on secret rebates.[42]

Equally important, the election of 1896 preoccupied Morgan and the railroads. That summer the Populist wing of the Democratic Party wrested control from the Bourbons. William Jennings Bryan became the presidential candidate and advocated a more antirailroad ICC. Union interest groups, such as the Big Four railroad unions of skilled engineers, conductors, firemen, and trainmen, backed his candidacy. Although the Chinese Exclusion Act of 1882 blocked out Chinese labor competition, new European immigrants and southern blacks still undercut the wages of Anglo-Saxon unions. The Pullman strike of 1894 failed partially because of such competition. Railroad unions especially worried about black labor, and in 1896 the *Locomotive Firemen's Magazine* warned that the black strikebreaker was only

---

[40] Senate Document No. 39, 55:1, 57–58, quoted in Kolko, *Railroads*, 77.

[41] Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Simon and Schuster, 1990), 67.

[42] Carosso, *Morgans*, 363–90; Chernow, *Morgan*, 67–69; Churella, *Pennsylvania*, 1:625; and Kolko, *Railroads*, 75–78.

"in his 'infancy' as a competitor in the labor market."[43] Unions wanted Bryan to disincentivize railroads from hiring their rivals. Such legislation, in combination with proshipper rate regulation, threatened to raise railroads' labor costs and lower revenue. To implement their plans, then, Morgan and the railroad leaders had to defeat Bryan and elect the probusiness Republican William McKinley.[44]

The railroad industry during the Great Barbecue is the definitive illustration of how businesses lobby for cronyism. Constant infighting combined with attacks by other interest groups surrounded the railroads' search for favors. First, promoters fought bitterly over which companies would receive federal subsidies to build a transcontinental route. Then, once the Union Pacific and Central Pacific offensively lobbied to receive government loans and land grants, they defensively lobbied to deny the same privileges to other railroads. As the decades progressed, more transcontinentals lobbied to receive the same favors, while shippers emerged to seek privileges at the railroads' expense. Besieged on all sides, the railroads sought to protect themselves, achieving partial success by lobbying for a commission that enforced pooling agreements by another name. Even with the guiding hand of Morgan and other investment bankers, too many railroads had different goals, with some favoring price-cutting and competition over cartelization. The ICC failed to promote the desired

---

43 "The Negro and the Labor Question," *Locomotive Firemen's Magazine*, July 1896, 4.

44 Eric Arnesen, *Brotherhoods of Color: Black Railroad Workers and the Struggle for Equality* (Cambridge, MA: Harvard University Press, 2001), 25–30; Eric Arnesen, "'Like Banquo's Ghost, It Will Not Down': The Race Question and the American Railroad Brotherhoods, 1880–1920," *American Historical Review* 99, no. 5 (December 1994): 1609, 1612–19; David E. Bernstein, *Only One Place of Redress: African Americans, Labor Regulations, and the Courts from Reconstruction to the New Deal* (Durham, NC: Duke University Press, 2001), 45–48; Merrill, *Bourbon*, 204–8; Gwendolyn Mink, *Old Labor and New Immigrants in American Political Development: Union, Party, and State, 1875–1920* (Ithaca, NY: Cornell University Press, 1986), 129–48; Linan Peng, "The Political Economy of the Anti-Chinese Movement in California in the Nineteenth Century," *Journal of Economics, Race, and Policy* 5, no. 1 (March 2022): 13–24; Paul Michel Taillon, *Good, Reliable, White Men: Railroad Brotherhoods, 1877–1917* (Chicago: University of Illinois Press, 2009), 178; and White, *Railroaded*, 293–314, 429–50.

and purported stability. Instead of shifting gears and advocating less government intervention, however, railroads doubled down and sought a stronger regulatory commission to suppress market forces.

The railroad industry was not alone in lobbying for government handouts during and in the decades following the Civil War. Lincoln and the Republican Party ushered in a new American System, with government support for internal improvements favored by the railroads and protective tariffs chosen by the nation's manufacturing interests. The same decades that saw railroad subsidies and restrictions on railroad competition featured similar crony forces at work to protect manufacturers from market forces.

CHAPTER 4

THE FAILURE TO MONOPOLIZE

During the decades-long Great Barbecue, the market forces that broke up railroad pools also hit manufacturers' cartels. Despite tariffs' intense shield from foreign firms, new domestic competition weakened large companies' attempts to raise prices and restrict production. Further paralleling the railroad industry, smaller businesses posed a threat by lobbying for antitrust legislation. This could mean only one thing: large manufacturers would further lobby the federal government to deny smaller interests' preferred antitrust legislation, kill any emerging free-market proposals to lower tariffs, and secure increased tariff cronyism for themselves along with new regulatory barriers. By the end of the century they would shift their attention to forming new industrial corporations that could restrict production through patent holdings on new technologies.

Tariffs for the Manufacturers

As the 1860s arrived, the ascendant Republicans chose as their first special-interest policy a hallmark of the American System: protective tariffs. In the brief space between southern states seceding and the outbreak of the Civil War, they passed the Morrill Tariff of 1861. Following the Panic of 1857, politico Henry Carey sought to increase tariffs on various goods—including coal, which Carey wanted to personally invest in. The "Ajax of Protection" encouraged Republicans to campaign on this monopolistic restriction in Pennsylvania and other manufacturing states.[1] Thanks to his strategy, they secured control of the House in the 1858 midterm elections. Protectionists then elevated Ohio's John Sherman to the chair of the Ways and Means Committee, who in turn directed tariff legislation to Justin Morrill of Vermont.

Morrill always insisted his tariff bill did not depend on business pressure, but this was a blatant lie. As Phil Magness explains, the tariff was "undeniably the product of interest-group lobbying and manufacturer collusion" by small- and medium-sized northern businesses that produced chemicals, copper, glass, hemp, lead, oil, screws, sugar, wool, woolen goods, and iron wares.[2] These firms wanted higher tariffs on their products at the expense of southern farmers who exported agricultural staples, businesses that imported inputs, and consumers in general. They cared more about producing for the domestic market than expanding overseas. This is unsurprising, since high tariffs tend to reduce the incomes of foreign consumers, which causes them to buy fewer American goods.

For example, Pittsburgh copper smelters, New Jersey and Massachusetts window glaziers, Maine carpet producers, and Wisconsin lead makers lobbied Morrill and other politicians to block out cheaper and more efficient foreign competition from the domestic market. In many instances what businesses asked they received: McCullogh & Co. secured sheet iron rates of 1 to 1.5 cents per pound, the Revere Copper Co. acquired copper sheathing taxes of 2 cents a pound, and the Boston Sugar Refinery received its preferred refined sugar duty of 2.5 cents per pound. In one notable case William Angell, president of the American Screw Company of Rhode Island, personally wrote to Morrill requesting that the tariff on wood screws be increased from 4 to 5 cents per pound.[3]

---

[1] Henry C. Baird, "The Carey-Baird Centenary," *American Bookseller*, February 16, 1885, 104, quoted in Reinhard Luthin, "Abraham Lincoln and the Tariff," *American Historical Review* 49, no. 4 (July 1944): 614.

[2] Phillip W. Magness, "Morrill and the Missing Industries: Strategic Lobbying Behavior and the Tariff, 1858–1861," *Journal of the Early Republic* 29, no. 2 (Summer 2009): 328.

[3] Magness, "Morrill," 296–97, 299, 308–9; and Daniel Peart, *Lobbyists and the*

Thanks to the assistance of Henry Carey, the Republican House passed the Morrill Tariff in May 1860. Truly, the bill would have made Henry Clay and his Whigs blush: rates on wood screws jumped from 24 to 55 percent, polished sheet iron levies surged from 24 to 65 percent, the refined sugar tariff soared from 24 to 59 percent, and bituminous coal tariffs increased from 24 to 32 percent. In toto, the tariff on dutiable imports increased from 19 to 27 percent. Unfortunately for its proponents, the bill went to Robert Hunter of Virginia, the free-trade Democratic chairman of the Senate Finance Committee. With southern Democrats on Hunter's side, the Senate postponed its consideration of the bill until December.[4]

Protectionists then decided to use the bill as a campaign plank in the upcoming presidential election. The Republicans "re-adopted Protection" through Abraham Lincoln's nomination, according to Carey, who eagerly promoted him in the Philadelphia press.[5] The issue played a pivotal role in securing victory in the manufacturing states of Pennsylvania and New Jersey, which were crucial for Lincoln's campaign strategy: without receiving thirty-one Electoral College votes from them he would not have secured an electoral majority. Lincoln tellingly confided to a friend that "to the Tariff Whig element of Penn[sylvania] was he most indebted (*and he will not betray it*)."[6]

Protectionists continued racking up victories at the end of 1860 and in early 1861. The secession of South Carolina and six other southern states made it much easier for Senate Republicans to pass the tariff in the lame-duck session. When the Democratic president James Buchanan signed the bill right before Lincoln's inauguration, free traders lamented the outcome. The

---

Making of US Tariff Policy, 1816–1861 (Baltimore: Johns Hopkins University Press, 2018), 183–86.

[4] William K. Bolt, *Tariff Wars and the Politics of Jacksonian America* (Nashville, TN: Vanderbilt University Press, 2017), 201–3; Douglas A. Irwin, *Clashing over Commerce: A History of US Trade Policy* (Chicago: University of Chicago Press, 2017), 209–10; Magness, "Morrill," 312–15, 319–20; and Peart, *Lobbyists*, 186–88.

[5] Henry C. Carey to C. N. David, June 2, 1860, quoted in Peart, *Lobbyists*, 189.

[6] Hawkins Taylor to John Allison, December 21, 1860, quoted in Magness, "Morrill," 320–21; emphasis in Magness.

British economist William Stanley Jevons, realizing how the law sundered US trade relations with Great Britain, called it "the most retrograde piece of legislation that this country has witnessed."[7] The time of relatively free trade in America was over; a new era of ardent protectionist cronyism began.[8]

Just when the protected industries thought they secured their grand prize, a new threat emerged. Unexpectedly, the Civil War exploded federal expenditures from $63 million in 1860 to $1.3 billion in 1865, which increased the relative size of the government from 1.4 percent to 13 percent of the nation's gross domestic product. Higher tariffs could not come close to raising sufficient funds, so Congress financed spending by printing money and shifting the burden onto future generations through borrowing. The public debt soared over 4,000 percent, from $65 million to $2.68 billion.[9]

Significantly, Congress also financed part of the war through higher taxes, and businessmen responded predictably. According to the *Chicago Daily Tribune*, "Everybody wants to see his neighbor taxed, but is anxious that his own burden shall be light."[10] Sixty-odd lobbyists circled the capital, including from the New York City Chamber of Commerce, the Boston and Philadelphia Boards of Trade, several railroads, and New England industrialists. In the face of proposals for income taxes and taxes on manufactured goods, these interests pushed for general sales taxes or property taxes to shift the burden to consumers and western farmers. Despite the businessmen's ferocious lobbying, the reality of military expenditures and the need to pay interest on government debt outweighed their clamor. Defeated,

---

[7] William Stanley Jevons, *The Coal Question: An Inquiry Concerning the Progress of the Nation, and Probable Exhaustion of Our Coal-mines* (London, 1866), 236,

[8] Bolt, *Tariff*, 203–8; Irwin, *Clashing*, 208–9; Magness, "Morrill," 320; and Peart, *Lobbyists*, 188–93.

[9] Jeremy Atack and Peter Passel, *A New Economic View of American History*, 2nd ed. (New York: W. W. Norton, 1994), 368–69; Stuart D. Brandes, *Warhogs: A History of War Profits in America* (Lexington: University of Kentucky Press, 1997), 69–70; and Louis Johnston and Samuel H. Williamson, "What Was the U.S. GDP Then?," MeasuringWorth (accessed October 7, 2024), https://www.measuringworth.com/datasets/usgdp12/.

[10] *Chicago Daily Tribune*, March 18, 1862, 1.

they acrimoniously watched Lincoln sign new tax laws in 1861 and 1862.[11]

The new laws contained two crucial components. First, they instituted a progressive income tax, an inheritance tax, license taxes on various professions, excise taxes on alcohol and tobacco, and taxes on manufactured goods. The income tax of 3 to 5 percent struck at the wealthy, as less than 2 percent of workers earned incomes that qualified. Second, the laws created the Bureau of Internal Revenue to enforce the collections. The Treasury Department became replete with fine sinecures for government officials, and its bureaucracy grew dramatically: at just 383 clerks in 1861, by 1864 it employed 2,000 clerks along with a bevy of new assistant treasurers, custom-house officials, and internal revenue agents. These officials collected bribes when issuing licenses and extracting taxes in the vast labyrinth of 185 collection districts. In the words of Richard Bensel, the bureau turned into "the most coercive civilian agency of the national government."[12]

While many manufacturers received lucrative contracts to produce or procure weapons, uniforms, provisions, and other goods related to the war, they complained loudly about the manufacturing and income taxes that offset these subsidies, and for good reason: the coerced payments disincentivized their production. On top of increasing the prices that consumers paid, the higher taxes contributed to the wartime stunting of the nation's

---

[11] Brandes, *Warhogs*, 104; W. Elliot Brownlee, *Federal Taxation in America: A History*, 3rd ed. (New York: Cambridge University Press, 2016), 61–64; Leonard P. Curry, *Blueprint for Modern America: Non-military Legislation of the First Civil War Congress* (Nashville, TN: Vanderbilt University Press, 1968), 161, 167, 175; Bray Hammond, *Sovereignty and an Empty Purse: Banks and Politics in the Civil War* (Princeton, NJ: Princeton University Press, 1970), 276, 280; Roger Lowenstein, *Ways and Means: Lincoln and His Cabinet and the Financing of the Civil War* (New York: Penguin Press, 2022), 127–128; and Heather Cox Richardson, *The Greatest Nation on Earth: Republican Economic Policies during the Civil War* (Cambridge, MA: Harvard University Press, 1997), 115–22.

[12] Richard Franklin Bensel, *Yankee Leviathan: The Origins of Central State Authority in America, 1859–1877* (New York: Cambridge University Press, 2003), 169. Roberta Sue Alexander, "Salmon P. Chase," in *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, ed. Larry Schweikart (New York: Facts on File, 1990), 94, 98; Atack and Passel, *Economic*, 367; Bensel, *Yankee*, 169–70; Brandes, *Warhogs*, 102–4; Brownlee, *Taxation*, 64–65; Irwin, *Clashing*, 211–12; and Lowenstein, *Ways*, 127.

private capital stock and economic growth. After rising 7.8 percent per year from 1840 to 1859, output growth in the manufacturing sector grew only 2.3 percent per year from 1860 to 1869, and manufacturing's share of overall commodity output crawled from 32 percent in 1859 to just 33 percent in 1869. The taxes were an albatross businesses wanted off their already burdened necks.[13]

Fortunately for the manufacturers, the indefatigable protectionist Justin Morrill pushed for raising tariffs to counterbalance the tax burden. "If we bleed manufacturers we must see to it that the proper tonic is administered at the same time," he cautioned, "or we shall have destroyed the goose that lays the golden eggs."[14] What Morrill really meant was that Congress needed to burden other businesses and consumers by forcing them to pay even higher prices for foreign wares. The higher tariffs acted as a surrogate sales tax, granting those businesses that had previously lobbied for a sales tax some of what they desired. Congress dutifully passed the second Morrill Tariff in July 1862. The legislature raised tariff rates further in 1864 to compensate for additional tax increases. For example, Congress raised the tariff on pig iron from $6 per ton to $9 per ton to compensate for a new production tax of $2 per ton. As with the 1861 tariff, politicians distracted by the war simply raised rates on whatever products businesses lobbied for.[15]

The real bounty for the protectionist interest groups in the Great Barbecue came with the war's end. Thanks to their lobbying efforts, by 1872 Congress eliminated all nontariff taxes save those on alcohol, tobacco, and some luxury items. The tax cuts

---

[13] Atack and Passel, *Economic*, 363–65, 368–70; Brandes, *Warhogs*, 71–73, 83–91, 102–05; Robert E. Gallman, "Commodity Output 1839–1899," in *Trends in the American Economy in the Nineteenth Century*, by National Bureau of Economic Research (Princeton, NJ: Princeton University Press, 1960), 26; Irwin, *Clashing*, 199–200; Edward C. Kirkland, *Industry Comes of Age: Business, Labor, and Public Policy, 1860–1897* (New York: Holt, Rinehart and Winston, 1961), 182–83; and Robert P. Sharkey, *Money, Class, and Party: An Economic Study of Civil War and Reconstruction* (Baltimore: Johns Hopkins University Press, 1959), 141–42.

[14] Justin Morrill, *Congressional Globe*, 37th Congress, 2nd session, March 12, 1862, 1196.

[15] Irwin, *Clashing*, 211–14, 222.

incentivized the private sector to increase output. At the same time, though, manufacturers pushed to increase tariffs, with the average rate rising from 36 percent in 1864 to 47 percent by 1870. Protectionists strategically made most tariffs specific dollar amounts, so the percentage rates rose sharply when import prices fell 16 percent in the postwar years. The tariff increases blatantly privileged American firms in specific sectors and disadvantaged foreign producers, other businesses, and consumers. Due to this artificial raising of the prices of foreign goods, other businesses that used foreign inputs and consumers seeking lower-cost products from abroad were pushed to buy domestically, increasing domestic prices and overstimulating domestic production. The ultimate outcome was a misallocation of scarce factors of production away from goods that the United States had a relative advantage compared to other countries in producing and into the uneconomical growth of the protected industries.[16]

Tariff cronyism lasted because influential Republican politicians had joined in on the spoils by investing in northeastern and midwestern businesses that benefited from protection. For example, William Sprague of Rhode Island, one of New England's largest cotton textile manufacturers, had the good fortune in 1863 to become a senator and marry the daughter of Salmon P. Chase, Lincoln's secretary of the Treasury. During his service Senator Sprague assiduously defended the cotton textile duties that protected his company A&W Sprague Manufacturing Co. Zachariah Chandler, a senator from Michigan, invested in copper mines and successfully procured a tariff on Chilean copper in the Copper Act of 1869. Pennsylvania congressman Daniel Morrell praised higher iron rates, as he owned the largest iron producer in the country, the Cambria Iron Works. Chief tariff architect Justin Morrill himself, who produced wool and invested in marble production, ardently defended tariffs on those goods. Supposed stewards of the public welfare had a compelling financial interest in bilking the American public.[17]

---

[16] Nicolas Barreyre, *Gold and Freedom: The Political Economy of Reconstruction* (Charlottesville: University of Virginia Press, 2015), 105–6; Brownlee, *Taxation*, 69–71; Irwin, *Clashing*, 222–23, 229; and Richardson, *Greatest*, 137.

[17] Barreyre, *Gold*, 92, 95; Stanley Coben, "Northeastern Business and Radical Reconstruction: A Re-examination," *Mississippi Valley Historical Review* 46,

The protectionist ranks further strengthened when privilege-seeking businesses organized into trade associations to coordinate lobbying efforts. The most prominent were the woolens and iron and steel industries. It is no coincidence that these two sectors secured some of the largest rate increases in the postwar tariff structures.

The New England woolen interests struck first and achieved success by joining with midwestern sheep farmers. These groups normally fought each other because textile manufacturers wanted cheap rates on imported raw wool and domestic raw wool producers wanted higher rates. While the tariff on woolen goods had increased from 21 percent in 1860 to 39 percent in 1864, protecting the domestic woolen industry, the rate on raw wool also increased to roughly 37 percent, hurting the industry's bottom line. This greatly worried Erastus Bigelow of the Bigelow Carpet Company, one of the nation's leading carpet manufacturers. Familiar with how to pay off politicians, Bigelow gave a rug to Congressman Justin Morrill's wife—a material reminder to the politician that if rates on raw wool increased then woolen manufacturers needed compensation in turn. In late 1864, Bigelow worked with lobbyist John Hayes to create the National Association of Wool Manufacturers (NAWM). The NAWM then allied with the National Wool Growers Association and intensely lobbied Congress for higher rates in the 1867 Wool and Woolens Act. Various woolen manufacturers, including carpet makers, now received net protection of 25 percent. The voiceless loser in this affair was the consumer required to pay relatively higher prices.[18]

---

no. 1 (June 1959): 72, 74; Congressional Quarterly, *American Political Leaders, 1789–2000* (Washington, DC: CQ Press, 2000), 292; William W. Culver and Cornel J. Reinhart, "Capitalist Dreams: Chile's Response to Nineteenth-Century World Copper Competition," *Comparative Studies in Society and History* 31, no. 4 (October 1989): 722, 735; Matthew Josephson, *The Politicos, 1865–1896* (New York: Harcourt, Brace and World, 1966), 55–56; Magness, "Morrill," 317, 319; John Oller, *American Queen: The Rise and Fall of Kate Chase Sprague—Civil War "Belle of the North" and Gilded Age Woman of Scandal* (Philadelphia: Da Capo Press, 2014), 47–49, 56, 74, 144; and Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, 1865–1879* (Princeton, NJ: Princeton University Press, 1964), 44, 54–56.

[18] Barreyre, *Gold*, 94–95; Harry Brown, "The Fleece and the Loom: Wool Growers and Wool Manufacturers during the Civil War Decade," *Business History Review* 29, no. 1 (March 1955): 4–11, 19–25; Coben, "Northeastern,"

The burgeoning iron and steel interests hit Congress next. The American Iron and Steel Association (AISA) and the Pennsylvania Industrial League spearheaded the drive. These organizations were dominated by Congressman Daniel Morrell and wealthy ironmasters and steel manufacturers such as Stephen Colwell, Joseph Scranton, Eber Ward, and Joseph Wharton. Thanks to the AISA's flurry of periodicals, Congress revised the tariff schedule in 1870. Notably, it changed the tariff on imported Bessemer steel rails from 45 percent to a specific duty of $28 per ton. The specific dollar amount meant that as British rail prices decreased, the tariff burden swelled to between 70 and 100 percent. This cunning change from percent to dollar amount heavily privileged American steel producers and encouraged the formation of Andrew Carnegie's Edgar Thomson Steel Works in 1872. In 1873, the AISA appointed as its secretary James Swank, who became the industry's foremost lobbyist defending protection of the American iron and steel industries. The politically savvy economist Henry Carey lined his pockets by investing in coal and iron and remained the sector's leading intellectual apologist. The AISA's tariff led to relatively higher prices of steel rails, which hurt the railroad industry by making it more expensive to import British rails. The importance of the tariff in developing the American steel industry remains questionable, as new iron ore discoveries, technological improvements, and knowledge transfer from British producers would have spurred growth in the absence of protectionism.[19]

74–76; C. Donald Johnson, *The Wealth of a Nation: A History of Trade Politics in America* (New York: Oxford University Press, 2018), 97–98; and Chester Whitney Wright, *Wool Growing and the Tariff: A Study in the Economic History of the United States* (Boston: Houghton Mifflin, 1910), 168–70, 197.

[19] Samuel Bostaph, *Andrew Carnegie: An Economic Biography*, updated ed. (Lanham, MD: Rowman and Littlefield, 2017), 57; Northcoate Hamilton, "American Iron and Steel Association," in *Encyclopedia of American Business History and Biography: The Iron and Steel Industry in the Nineteenth Century*, ed. Paul A. Paskoff (New York: Facts on File, 1989), 20–21; John A. Heitmann, "Joseph H. Scranton," in Paskoff, *Encyclopedia*, 306–7; Irwin, *Clashing*, 272–73; Stuart W. Leslie, "Andrew Carnegie," in Paskoff, *Encyclopedia*, 57, 61; Charles R. Morris, *The Tycoons: How Andrew Carnegie, John D. Rockefeller, Jay Gould, and J. P. Morgan Invented the American Supereconomy* (New York: Henry Holt, 2005), 279; and Unger, *Greenback*, 53–56.

Free traders, including those still in the Republican Party, watched feebly as special interests carved tariff favoritism into the nation's laws. Senator James Grimes of Iowa witnessed that "the manufacturers of iron and a few wool agriculturists and speculators . . . have organized associations, contributed large sums of money to mold public sentiment through the press, and have formed combinations with other interests to control the legislation of the country."[20] Another western Republican, Congressman John Kasson of Iowa, lamented how the manufacturers could boast of their associations while "the great interest of the consumers of the country is not organized into a system of mutual protective associations."[21] Without a political association looking out for the consumer—such as a revitalized Democratic Party harkening back to Jacksonian free trade—the protectionists ran unimpeded.[22]

By the end of the 1860s Republicans had showered on northern industry the generous gift of restricted foreign competition. Starting with the 1861 Morrill Tariff, Congress repeatedly increased rates until it erected a formidable wall around the domestic market, which doubled after businesses successfully lobbied to remove taxes on domestic production and incomes. Soon enough, many politicians and intellectuals invested in the industries for which they championed protection, diminishing the likelihood that Congress would lower tariffs. The solidifying bonds between special interests and politicians made it much harder to pass meaningful free-trade reform.

Protecting the Trusts

Tariffs were here to stay. Yet manufacturers were not given complete protection. Emerging sources of competition increased production and lowered prices, which decreased profit margins. Again and again, large businesses bought out their competitors and tried to monopolize markets, but each time market forces thwarted them. Instead of trying to innovate and outcompete their rivals, established players resorted to the political arena:

---

[20] *Congressional Globe*, 39th Congress, 2nd session, January 24, 1867, 696.

[21] *Congressional Globe,* 39th Congress, 1st session, July 10, 1866, 3719.

[22] Congressional Quarterly, *American*, 175, 205.

lobbying for ever-higher tariffs that privileged them without regard to the public's welfare.

After the stagnation of the Civil War, America entered another Industrial Revolution. Between 1870 and 1890 real gross domestic product and its per capita equivalent soared 184 percent and 80 percent, respectively. The manufacturing sector grew 7 percent per year from 1869 to 1889, and manufacturing's share of overall commodity output leapt from 33 percent to 48 percent. Increased mechanization caused manufacturing workers' productivity to rise 39 percent. The resultant increase in the quantity of consumer goods pushed retail prices down 30 percent. Middle and lower classes reaped the benefits—real wages rose between 28 and 40 percent, and the average workday fell from eleven to ten hours.[23]

The neo–American System of railroad subsidies and protective tariffs did not occasion this burst of economic growth. Subsidies caused railroads to uneconomically build far ahead of demand. American manufacturing had flourished during the relatively free-trade 1850s. The genesis for growth came, instead, from a powerful combination: Americans began saving more for retirement and their heirs, which decreased long-term interest rates. Increasing numbers of unskilled immigrant workers, along with an abundance of iron ore, coal, and other natural resources, lowered businesses' costs of production. Skilled immigrants also expanded on foreign technologies. These factors, not the new government interventions, steered the United States to resume its growth potential.[24]

---

[23] Gallman, "Commodity," 26, 43; Johnston and Williamson, "GDP"; Lawrence H. Officer and Samuel H. Williamson, "Annual Wages in the United States, 1774–Present," MeasuringWorth (accessed October 7, 2024), https://www.measuringworth.com/datasets/uswage/; Murray N. Rothbard, "A History of Money and Banking in the United States before the Twentieth Century," in *A History of Money and Banking in the United States: The Colonial Era to World War II*, ed. Joseph T. Salerno (Auburn, AL: Ludwig von Mises Institute, 2005), 155, 159–66; Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 91–92; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 3, *Economic Structure and Performance* (New York: Cambridge University Press, 2006), 158.

[24] Sidney Homer and Richard Sylla, *A History of Interest Rates*, 4th ed. (Hoboken, NJ: John Wiley and Sons, 2005), 305–6, 312; Irwin, *Clashing*, 269–75,

The economic growth led to an increase in competition as new firms entered markets to earn profits. Businessmen did not exactly have the best of intentions: the goal was always to be one of a few sellers or the only seller. Every business prefers to be a monopolist. The plan was that once their business's greater efficiencies drove competitors out of operation, they would attempt to decrease production and increase prices to fatten profits. Most businesses tried to skip ahead and become one of a few sellers that worked in concert by entering into a variety of cartel agreements through various trade associations, like the National Association of Wool Manufacturers and the American Iron and Steel Association. Still others tried to achieve outright monopoly through informal mergers, known as "trusts."

Under the trust form, businesses combined their assets into a centralized management structure in return for shares of ownership that were informally traded. The most famous example occurred in 1882, when John D. Rockefeller combined forty companies to form the Standard Oil Trust. This industrial giant controlled almost 90 percent of oil refining and had a total capital value of $70 million, an enormous amount for manufacturing yet still small relative to railroads. Though "trusts" technically referred to the specific business form used by Rockefeller, to the public a trust was simply any big business or group of large companies.

An illuminating statement about trusts came from Henry Havemeyer, who in 1887 created the New York–based American Sugar Refining Company—the so-called Sugar Trust. Later he admitted that "the mother of all trusts is the customs tariff bill. . . . Without the tariff I doubt if we should have dared to take the risk of forming the trust."[25] It is true that Standard Oil and other big businesses, like Armour & Co. and Swift & Co. of the so-called Beef Trust of Chicago, achieved their large market size without

---

283–87, 300–301; Sutch and Carter, *Historical*, 3:291–93; and Richard White, *Railroaded: The Transcontinentals and the Making of Modern America* (New York: W. W. Norton, 2011), xxiv, xxvi–xvii, 515–17.

[25] House of Representatives Document No. 476, 56th Congress, 1st Session 109 (1899–1900), 101, quoted in Richard Zerbe, "The American Sugar Refinery Company, 1887–1914: The Story of a Monopoly," *Journal of Law and Economics* 12, no. 2 (October 1969): 341.

tariffs and instead by lowering costs through mass production and other economies of scale. But Havemeyer perceived that in many industries, attempts to monopolize could only succeed if the government provided special privileges. In the Sugar Trust's case, the privileges were tariffs, because higher duties made it harder for foreign competitors to enter markets and lower prices.[26]

Protectionist industries worked hard to defend their tariff privileges. First, they continued to recruit intellectuals. Joseph Wharton, a disciple of Henry Carey, the major stockholder in the Bethlehem Iron Company and former AISA vice president, donated $100,000 to the University of Pennsylvania in 1881 to create the explicitly protectionist, and eponymous, Wharton School of Finance and Economy. The Wharton School hired Simon Patten and other economists trained by the interventionist German Historical School. These German-trained intellectuals played a chief role in shifting the profession from its laissez-faire origins to statism. Patten was one of the founders of the American Economic Association (AEA) in 1885, an organization that recognized supporting free markets prevented economists from obtaining prestigious positions of authority. According to Thomas Leonard, the AEA considered "laissez-faire . . . a nonstarter as a professionalizing strategy."[27] Though some members of the new generation of economists trained in Germany would never admit it, they could thank protectionist businessmen for

[26] Atack and Passell, *Economic*, 482–83; Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877–1900* (New York: Cambridge University Press, 2000), 316–17, 319; Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 16, 47; Christopher J. Calton, "Monstrous Monopolies and Vicious Competition: The General Incorporation Movement in Nineteenth-Century America" (PhD diss., University of Florida, 2023), 251–52; Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA: Harvard University Press, 1977), 316–19; Patrick Newman, "Playing the Defense: The Beef Trust, Cronyism, and the 1891 and 1906 Meat Inspection Acts," *Independent Review* 29, no. 1 (Summer 2024): 34–36; and Rothbard, *Progressive*, 91, 95, 101.

[27] Thomas C. Leonard, *Illiberal Reformers: Race, Eugenics, and American Economics in the Progressive Era* (Princeton, NJ: Princeton University Press, 2016), 28.

providing the seed money needed to advance their ideas and profession.[28]

Second, trusts compromised with one of their leading adversaries: the unions, or the politically influential labor cartels that constituted 2.5 to 5 percent of the labor force. Even though the current Industrial Revolution was progressively reducing working hours and raising real wages, the American Federation of Labor, established in 1886, and other unions attempted to restrict the labor supply in order to raise their wages further. Higher wages for union workers could only come at the expense of competing groups of labor: immigrants, blacks, and other nonunionized workers would have to increase the labor supply in other sectors and thereby drive down wages in those jobs. Although trusts strongly disapproved of unionization, protectionists such as James Swank of the AISA shrewdly tried to enlist unions to the protariff side by arguing that tariffs actually protected their incomes. A dubious argument, since tariffs raise the cost of consumer goods and tariff-induced monopolies reduce business competition and hence demand for labor. But the tactic succeeded in convincing unions to be suspicious of free trade.[29]

Third, trusts supported Republican attempts to drain the Treasury's burgeoning surplus by spending it on larger pensions for Civil War veterans. The existing program under the 1879 Arrears of Pension Act was incredibly corrupt, doling out annual payments two and a half times the average income. Contemporaries estimated that a quarter of approved applications were

---

[28] Johnson, *Wealth*, 100–102; Leonard, *Illiberal*, 27–29; John W. Malsberger, "Bethlehem Iron Company," in Paskoff, *Encyclopedia*, 35; Marc-William Palen, *The "Conspiracy" of Free Trade: The Anglo-American Struggle over Empire and Economic Globalization, 1846–1896* (New York: Cambridge University Press, 2016), 177–78; and Steven A. Sass, "An Uneasy Relationship: The Business Community and Academic Economists at the University of Pennsylvania," in *Economists and Higher Learning in the Nineteenth Century*, ed. William J. Barber (New Brunswick, NJ: Transaction, 1993), 227–31.

[29] Vernon M. Briggs Jr., *Immigration and American Unionism* (Ithaca, NY: Cornell University Press, 2001), 33–48, 63; Claudia Goldin, "Labor Markets in the Twentieth Century," in *The Twentieth Century*, vol. 3 of *The Cambridge Economic History of the United States*, ed. Stanley L. Engerman and Robert E. Gallman (New York: Cambridge University Press, 2000), 553, 570–72; Josephson, *Politicos*, 402–3, 428; Murray N. Rothbard, "Origins of the Welfare State in America," in Rothbard, *Progressive*, 325–26; and Rothbard, *Progressive*, 152–55.

fraudulent, and Democrats deemed the entire program an effort "to save the tariff in order to enrich a few men that are making princely fortunes out of it at the expense of the great mass of the people."[30] The Democrats realized all too well that protectionist businessmen supported the nascent welfare state because higher expenditures necessitated the need for tariff revenue.[31]

Lastly, the trusts and cartels employed time-honored congressional lobbying tactics to increase tariffs. John Hayes of the NAWM, Swank and Wharton of the AISA, Havemeyer of the Sugar Trust, and others frequently testified before Congress, financed protariff writings, and donated heavily to protectionist politicians. For example, the AISA bought the support of Senator John Sherman by purchasing ten thousand copies of a protectionist speech he delivered. The Sugar Trust found a major ally in Republican senator Nelson Aldrich of Rhode Island, whom it invited to New York "before the sugar schedule should be reached . . . [to] go through one or more of our refineries in order to inform yoursel[f] thoroughly on the subject."[32] The Sugar Trust was so pleased with Aldrich's vigorous defenses of the tariff that it rewarded him with the presidency of the United Traction and Electric Company in Rhode Island, a firm one of the Sugar Trust's lobbyists had formed. Its monopoly franchise made Aldrich a millionaire.[33]

---

[30] Senator James Beck, *Congressional Record*, 50th Congress, 1st session, March 1, 1888, 1637.

[31] Richard Franklin Bensel, *Sectionalism and American Political Development, 1880–1980* (Madison: University of Wisconsin Press, 1984), 70; Irwin, *Clashing*, 243–44; and Murray N. Rothbard, "Beginning the Welfare State: Civil War Veterans' Pensions," *Quarterly Journal of Austrian Economics* 22, no. 1 (Spring 2019): 71–73.

[32] John Searles to Nelson Aldrich, December 6, 1888, quoted in David J. Rothman, *Politics and Power: The United States Senate, 1869–1901* (Cambridge, MA: Harvard University Press, 1966), 203–4.

[33] César J. Ayala, *American Sugar Kingdom: The Plantation Economy of the Spanish Caribbean, 1898–1934* (Chapel Hill: University of North Carolina Press, 1999), 31–32; Jay Cost, *A Republic No More: Big Government and the Rise of American Political Corruption* (New York: Encounter Books, 2015), 127–28; Josephson, *Politicos*, 330, 333, 338–39, 364; Joanne Reitano, *The Tariff Question in the Gilded Age: The Great Debate of 1888* (University Park: Pennsylvania State University Press, 1994), 116; and Rothman, *Politics*, 203–6.

For these reasons, Republicans successfully beat back Democratic attempts to reform rates for protected industries. The Tariff of 1883 was a travesty of reform and continued to protect influential sectors. In 1888 the Democratic administration of Grover Cleveland failed to muster enough strength to defeat tariff lobbyists and pass its quasi-free-trade Mills bill. Throughout the decade tariffs remained around 45 percent of dutiable imports.[34]

Despite all this effort, protected industries watched their monopolies melt away because of internal cheating and new competition as businesses took advantage of falling interest rates, cheaper resources, and new technologies. Recently opened refineries in Philadelphia and Baltimore caused the American Sugar Refining Company's market share to drop from 80 to 66 percent between 1887 and 1889, and retail sugar prices fell 23 percent during the 1880s. In 1887 Andrew Carnegie and other steel producers formed the Rail Association and hiked the price of American steel rails 7.5 percent, but by 1889 the price declined back to its previous level. By the end of the decade there existed 719 steelworks, blast furnaces, and rolling mill companies in the United States, an environment hardly conducive to cartelization and trust monopolization.

The trusts without tariff protection fared no better against the gales of competition. From 1882 to 1890 Standard Oil's market share slipped from nearly 90 percent to roughly 85 percent, and prices of refined oil fell 21 percent. On the international front, Standard Oil began to experience fierce competition from Russian oil. Neither could Armour & Co. and the rest of the Beef Trust control their market: from 1883 to 1889 retail prices for beef tenderloins plummeted 39 percent, and the number of meatpacking establishments increased from 872 in 1879 to 1,367 in 1889.[35]

---

[34] Irwin, *Clashing*, 6, 231–39, 257–61.

[35] Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure*, 2nd ed. (Oakland, CA: Independent Institute, 1990), 51, 66; Kirkland, *Industry*, 202; Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1896–1904* (New York: Cambridge University Press, 1985), 78; Rothbard, *Progressive*, 96, 98, 101–2, 230, 237; Peter Temin, *Iron and Steel in Nineteenth-Century America: An Economic Inquiry* (Cambridge, MA: MIT Press, 1964), 284; and Mary Yeager, *Competition and Regulation: The Development of Oligopoly in the Meat Packing Industry* (Greenwich, CT: JAI Press, 1981), 70.

To compound the trusts' frustrations, rival businesses proposed their own special-interest legislation. The Interstate Commerce Act of 1887 benefited railroads at the expense of large manufacturers by making it harder for companies that shipped in bulk to obtain rebates. European meatpackers lobbied their own governments to ban American meat products based on the allegations of diseased meat, despite American meat being just as safe as European meat.

The most prominent threats against big business were state-level attacks on sheer bigness, usually through "anti-trust" legislation. Various legislatures heeded the call of smaller and less efficient competitors by initiating investigatory proceedings against large companies—for example, New York against the Sugar Trust and Ohio against Standard Oil. Large companies had to devote resources to fending off legal attacks and avoiding negative publicity. In 1889 interest groups in the emerging Populist movement lobbied twelve midwestern and western states to pass harsh antitrust laws that expressly prohibited various business practices and included severe penalties. In Missouri, for example, cattle ranchers and retail butchers lobbied for a state antitrust law that prohibited actions intended "to *limit* or fix the price" of outputs (i.e., prohibited large businesses from using their efficiencies to reduce prices or to prevent them from rising).[36] Missouri's antitrust law made it harder for the Beef Trust to lower meat prices based on the claim that such behavior was anticompetitive because it could drive other firms out of business (the truth is precisely the opposite, for cutting prices is a rivalrous practice that encourages other businesses to be more efficient so they can stay in operation).

If big businesses' attempts to monopolize markets were to succeed in the 1890s, they needed to replicate what the railroads had done in the run up to the Interstate Commerce Act: lobby to secure higher tariffs and new anticompetitive barriers while finding a way to weaken state antitrust laws so they could retain their bigness advantage in the marketplace. But obtaining new

---

[36] *Laws of Missouri*, 35th General Assembly, 1889 (Jefferson City, Missouri 1889), 96–97, quoted in Donald J. Boudreaux and Thomas J. DiLorenzo, "The Protectionist Roots of Antitrust," *Review of Austrian Economics* 6, no. 2 (September 1993): 92; emphasis in Boudreaux and DiLorenzo.

federal legislation required replacing the current president, Grover Cleveland, a Bourbon Democrat who supported lower tariffs and frugal veterans' pensions.[37]

The Billion Dollar Congress

Thanks to strong financial and political support from the trusts, the Republicans ousted the Democrats from the White House and Congress. With a control of government not seen since the Civil War years, Republicans enacted new special privileges that big business believed would reduce competition—namely, higher tariffs and federal meat inspection. In addition, the party defused small businesses' proposals to hamper larger businesses by passing a weak and vague antitrust law.

The presidential election of 1888 was one of the first elections in which big businesses' campaign contributions played a substantial role. Previously, political parties raised campaign funds from government employees who received patronage appointments in return. This ended with the Pendleton Civil Service Act of 1883, which Congress passed at the urging of the National Civil Service Reform League and other organizations eager to create an entrenched bureaucracy insulated from popular control. The Pendleton Act instituted a series of exams and grades of tenure for the classified civil service. In 1884 the civil service constituted 12 percent of the federal bureaucracy, but the law empowered the president to add more bureaucrats and by 1896 the number of protected employees rose to 45 percent.[38]

---

[37] Atack and Passell, *Economic*, 483; Boudreaux and DiLorenzo, "Antitrust," 89–93, 95; Irwin, *Clashing*, 257–60; Robert Kelley, *The Cultural Pattern in American Politics: The First Century* (New York: University Press of America, 1979), 293–350; Newman, "Defense," 36–38; Palen, *"Conspiracy,"* 115, 131; Rothbard, "Beginning," 75–76; Werner Troesken, "Did the Trusts Want a Federal Antitrust Law? An Event Study of State Antitrust Enforcement and Passage of the Sherman Act," in *Public Choice Interpretations of American Economic History*, ed. Jac C. Heckelman, John C. Moorhouse, and Robert M. Whaples (New York: Springer, 1999), 86; and Yeager, *Competition*, 101.

[38] Ronald N. Johnson and Gary D. Libecap, *The Federal Civil Service System and the Problem of Bureaucracy: The Economics and Politics of Institutional Change* (Chicago: University of Chicago Press, 1994), 58; Rothbard, "Bureaucracy," 66–71; and Rothbard, *Progressive*, 203–4.

According to Matthew Josephson, the Pendleton Act caused political machines to become "devoted to the service of the large corporations in their regions that required political privileges."[39] Sometimes large companies maintained the upper hand over politicians, while other times politicians simply extorted businesses by threatening to remove their privileges. Thus, James Foster, president of the protectionist Republican League of the United States, stated before the upcoming election, "*I would put the manufacturers of Pennsylvania under the fire and fry all the fat out of them*."[40]

The Republicans wholeheartedly embraced industrialists in the election. At the national convention they set aside frontrunner John Sherman for dark-horse candidate Benjamin Harrison, a former protectionist senator from Indiana. The convention chose Senator Matthew Quay, the political boss of Pennsylvania, to manage Harrison's campaign. Quay put Philadelphia department store magnate John Wanamaker in charge of a special advisory committee to raise money from the trusts. Thomas Dolan of the NAWM, a prominent investor in one of the country's largest woolen mills, and Herman Armour, cofounder of Armour & Co., worked with Wanamaker on the committee. According to Wanamaker, "We raised the money so quickly that the Democrats never knew anything about it."[41] He wasn't exaggerating: the special committee raised $700,000 of the Republicans' total $1.2 million war chest, which dwarfed the Democrats' $250,000 in campaign funds. Over $300,000 of the Republicans' funds came from iron, steel, and other Pennsylvania manufacturers, and Quay personally donated $50,000.

In American politics, money buys everything. The Democrats fought hard for free trade, but the Republicans outspent them to narrowly oust Cleveland from office. Whereas Harrison exulted that "Providence has given us the victory," Quay was far more accurate: "Providence hadn't a damned thing to do

---

[39] Josephson, *Politicos*, 406.

[40] "Manufacturers and Farmers," *Nation*, July 26, 1888, 64. Josephson, *Politicos*, 350, 362, 424–26.

[41] John Wanamaker, quoted in Herbert Adams Gibbons, *John Wanamaker* (New York: Harper and Brothers, 1926), 1:259.

with it."[42] The real reason, of course, was the big-business slush fund.[43]

The Republicans also regained control of the House, giving them unified control of the federal government. The party quickly repaid the special interests that bought them the victory. Contemporaries called the 1889 to 1891 congressional sessions the Billion Dollar Congress for its profligate spending and what Matthew Josephson deemed its "auctioning of immense sums and of public privileges greater still."[44] Indeed, the large trusts found their contributions to Harrison a worthwhile investment that yielded the McKinley Tariff, the Sherman Antitrust Act, and a meat inspection act.

The *New York Times* minced no words, describing the McKinley Tariff of 1890 as the "'Campaign Contributors' Tariff Bill."[45] Republican congressman William McKinley of Ohio, chair of the House Ways and Means Committee, so vigorously defended midwestern manufacturers that he was known as the "Napoleon of Protection."[46] He certainly had benefactors who wanted protection. His mentor and fundraiser, Ohio politico Mark Hanna, owned one of the largest coal and iron firms near the Great Lakes.[47]

---

[42] Benjamin Harrison, quoted in Gibbons, *Wanamaker*, 1:260; and Matthew Quay, quoted in A.K. McClure, *Old Time Notes of Pennsylvania* (Philadelphia: John C. Winston, 1906), 2:573.

[43] Burch, *Elites*, 2:122; Charles W. Calhoun, *Minority Victory: Gilded Age Politics and the Front Porch Campaign of 1888* (Lawrence: University Press of Kansas, 2008), 80–82, 89–90, 126–28, 176; Cost, *Republic*, 120, 122–25; Josephson, *Politicos*, 408, 422–26, 428–33; Patrick Newman, "Revenge: John Sherman, Russell Alger and the Origins of the Sherman Act," *Public Choice* 174, no. 3 (March 2018): 260–61; Palen, *"Conspiracy,"* 139–47; George Thayer, *Who Shakes the Money Tree? American Campaign Finance Practices from 1789 to the Present* (New York: Simon and Schuster, 1973), 38–39; and Louise Carroll Wade, *Chicago's Pride: The Stockyards, Packingtown, and Environs in the Nineteenth Century* (Chicago: University of Illinois Press, 1987), 65.

[44] Josephson, *Politicos*, 434.

[45] "Mr. Sherman's Hopes and Fears," *New York Times*, October 1, 1890, 4.

[46] *New York Times*, November 6, 1890, 4.

[47] Thomas J. DiLorenzo, "The Origins of Antitrust: An Interest-Group Perspective," *International Review of Law and Economics* 5, no. 1 (June 1985): 82; Richard F. Hamilton, *President McKinley, War and Empire*, vol. 1, *President McKinley and the Coming of War, 1898* (New York: Routledge, 2017), 46;

The McKinley Tariff raised the average tariff rate from 47 percent to 51 percent and protected woolen goods, iron and steel, refined sugar, and other manufacturing industries. A canonical example of Republican cronyism during the Great Barbecue, the McKinley Tariff was "widely seen as an unnecessary new tax on the public for the benefit of the rich."[48] Scores of industry representatives lobbied congressmen for their preferred rates. This included steel magnate Andrew Carnegie, who was on good terms with McKinley and had given him $5,000 in 1889.

Two examples in the McKinley Tariff stand out. First, the Sugar Trust instructed Senator Aldrich to maintain protection on refined sugar while eliminating the tariff on raw sugar to reduce its input costs. Hardly a move to the free market, the law compensated Louisiana sugar growers with a $7 million subsidy, which made those firms less responsive to market conditions and more dependent on taxpayer assistance. Second, the Tin Plate Association lobbied to obtain a specific duty on tin plates that raised import prices 70 percent, even though virtually no domestic tin plate production existed at the time—it was more efficient to import tin plates from Great Britain since the relevant inputs were expensive and US producers lacked experience. McKinley, however, represented a district where aspiring tin plate firms were located. He, not the American people, stood to gain by protecting tin plate manufacturing.[49]

Ironically named, even the Sherman Antitrust Act of 1890 benefited the trusts. Big-business Republicans understood that they risked incurring the public's wrath by raising monopolistic tariffs as it vindicated Democrats' charges that tariffs fostered the trusts. As a counterweight, they advocated federal antitrust legislation to tame any monopolies. It was a ruse. Republican beneficiaries of big business devised a vague and nonthreatening law. Such legislation would provide cover for higher tariffs while not actually interfering with large companies; blunt cattle

---

Rothbard, *Progressive*, 179–80; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 5, *Governance and International Relations* (New York: Cambridge University Press, 2006), 201.

[48] Johnson, *Wealth*, 123.

[49] Bensel, *Political*, 497–98; Bostaph, *Carnegie*, 143; Irwin, *Clashing*, 265–69; Johnson, *Wealth*, 123; and Newman, "Revenge," 270.

ranchers, small oil refiners, and other inefficient interest groups' drive for a strong federal antitrust law that would harm big business; and supersede anti-big-business state antitrust laws. Businesses were fine with abandoning the legal form of the trust if they could reorganize as a different type of entity, such as a corporation that investors publicly traded on stock exchanges.

Politicians had self-interested motivations as well. Senator Sherman, whom the law was named after, only took up the antitrust cause in earnest when he realized he could use it to weaken Russell Alger, a former governor of Michigan turned political rival. Sherman believed that he lost the presidential nomination at the Republican national convention because Alger had bribed away some of his delegates. Fortunately for Sherman, Alger was tangentially involved with the Diamond Match Company of Michigan, a firm recently embroiled in a legal case concerning its attempt to buy out competitors. Sherman used his energies in the Senate debates to continually connect Alger with the Diamond Match Company to diminish Alger's prospects on a future Republican presidential ticket. Sherman's fixation, write historians Peter Dickson and Philippa Wells, "was not the response of a legislator who was sincerely concerned about passing effective antitrust legislation."[50] Once Sherman criticized his enemy he bowed out of the legislative process.

The trusts then received what they wanted. Unlike state antitrust laws, the Sherman Antitrust Act vaguely declared any contracts and combinations "in restraint of trade or commerce" illegal.[51] It did not define what constituted a trust, a monopoly, or competitive conditions. Enormous interpretative leeway was left to the Justice Department and the courts. An attorney general favorable to big business could interpret the act in such a way that very few actions of large companies violated it. For this reason, the *Commercial & Financial Chronicle*, worried about various state laws, concluded that investors attached "little importance"

---

[50] Peter R. Dickson and Philippa K. Wells, "The Dubious Origins of the Sherman Antitrust Act: The Mouse That Roared," *Journal of Public Policy and Marketing* 20, no. 1 (Spring 2001): 10.

[51] The Sherman Antitrust Act (26 Stat. 209), July 2, 1890, quoted in William Letwin, *Law and Economic Policy in America: The Evolution of the Sherman Antitrust Act* (New York: Random House, 1965), 283.

to the Sherman Act.[52] Probusiness attorneys general from 1893 to 1897, such as Richard Olney in the second Cleveland administration, made the law irrelevant. To the extent that Olney did use the law, he deployed it to strike down union activities—which big business heartily supported.[53]

The Billion Dollar Congress finished with the Meat Inspection Act of 1891, reflecting the growing desire for cronyism within the food and drug industry. Various special interests wanted the US Department of Agriculture (USDA), which had been raised to cabinet status in 1889, to institute burdensome compliance costs and taxes on rivals. Even though competitors produced goods that were the same or better quality, special-interest groups always camouflaged their favoritism in the guise of protecting the nation's health. For example, in 1886 dairy farmers successfully lobbied Congress for a discriminatory production tax on oleomargarine because it competed with butter. Sugar producers sought to cripple the less expensive glucose. The American Medical Association assailed competing patent medicines and medical practitioners because they posed formidable threats to its licensed doctors. The pietist Women's Christian Temperance Union longed for influence in dictating consumption habits. Chemist Harvey Washington Wiley was determined to concentrate the enforcement powers of a food and drug law in the USDA's chemistry division. To Wiley and other interests' dismay, Congress failed to pass a food and drug law in the early 1890s because the public was "either apathetic or positively opposed to a pure food and drug act as an illegitimate and paternalistic intervention of government into their lives."[54]

---

52 "Railroad and Miscellaneous Stocks," *Commercial & Financial Chronicle*, May 10, 1890, 653.

53 Atack and Passell, *Economic*, 488; Bensel, *Political*, 317, 337–44; Gary D. Libecap, "The Rise of the Chicago Packers and the Origins of Meat Inspection and Antitrust," *Economic Inquiry* 30, no. 2 (April 1992): 242–62; Newman, "Revenge," 260–70; Rothbard, *Progressive*, 228–29; Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877–1917* (Chicago: University of Chicago Press, 1999), 272–73; Werner Troesken, "The Letters of John Sherman and the Origins of Antitrust," *Review of Austrian Economics* 15, no. 4 (December 2002); and Troesken, "Trusts," 84–89.

54 Rothbard, *Progressive*, 248.

On the other hand, the meatpacking industry seized an opportunity. In general, the Beef Trust's refrigerated meat, canned products, and use of preservatives drastically improved meat quality by reducing spoilage, bacterial contamination, and the monotony of diets. However, that did not stop the Butchers' National Protective Association from blasting the Beef Trust for selling diseased meat while downplaying infections in their own meats. Responding to the situation, in 1884 Armour & Co. and other Chicago meatpackers lobbied for federal inspection of exported meat to stymie the small packers' criticisms as well as induce European governments to lift their discriminatory bans. Their efforts failed: Congress only created the Bureau of Animal Industry (BAI) in the USDA to supervise animal quarantines.

Five years later, sagging meat exports caused Secretary of Agriculture Jeremiah Rusk to reinvigorate the drive for meat inspection. Armour & Co. instructed William Campbell, a former Republican Illinois state senator turned lobbyist, to make sure Congress produced the appropriate bill. The Meat Inspection Act of 1891 required BAI inspection of meat exports and provided for nonmandatory inspection of meat intended for interstate commerce. Philip Armour, the head of Armour & Co., lauded Rusk's accomplishment and told the *Chicago Tribune* that "there is no objection to it on our part."[55] For good reason: the taxpayers, not the packers, paid for the inspection, and the USDA devoted most appropriations to inspecting the Beef Trust's products. This taxpayer-subsidized quality seal, according to a meatpacking periodical, allowed the Chicago packers to get one-eighth to one-quarter cent more for their products.[56]

Overall, the trusts certainly earned a return on their investment in the election of 1888. Much to their delight the Republicans and the Billion Dollar Congress increased tariff protection, enacted a favorable antitrust law, and subsidized the Chicago meatpackers' exports. Conditions appeared ripe for

---

[55] "All Believe It an Excellent Idea," *Chicago Tribune*, March 4, 1891, 2.

[56] Benjamin R. Cohen, *Pure Adulteration: Cheating on Nature in the Age of Manufactured Food* (Chicago: University of Chicago Press, 2019), 147–71; Ronald Hamowy, *Government and Public Health in America* (Cheltenham, UK: Edward Elgar, 2007), 103–22, 126–28, 242, 244, 247; Newman, "Defense," 34–40; and Rothbard, *Progressive*, 243–49.

consolidation, and the next phase of industrialists' attempts to monopolize markets could now commence.

Corporate Cartelization

The early 1890s inaugurated the corporate merger movement as big businessmen formed corporations to cartelize and monopolize markets. Throughout the decade these corporations attempted to corner markets under the McKinley Tariff, patent protection, or other forms of government-granted privilege. Though they were mostly successful in stopping inimical tax and labor legislation proposed by Populist special-interest groups, the unrelenting emergence of new competition continued to cut into their market shares and profits.

Between 1890 and 1893 investors formed fifty-one corporations in the US, often in New Jersey because that state's new and relatively free-market incorporation law made it easy to establish manufacturing corporations and purchase stock in other companies. J. P. Morgan, who had previously invested largely in railroads, bank stocks, and foreign and domestic government securities, led Wall Street into an alliance with the nation's manufacturing interests. A major J. P. Morgan concern was General Electric, which he helped form in April 1892. General Electric was a $50 million combination of two of the largest electrical equipment manufacturers, Edison General Electric and Thomson-Houston Electric. Morgan sat on the board of directors and made Thomson-Houston executive Charles Coffin president of the concern.[57]

The so-called Electric Trust's business strategy relied on patent restrictions. Patents were a special privilege administered by the US Patent Office that granted to the inventor of a technology a monopoly for a certain period (at the time seventeen years). Patents stimulate overinvestment in the early stages of technologies by giving monopoly rights to the first developer while hampering investment in later stages of technologies by disincentivizing the patent holder from innovating (because the

---

57 Atack and Passell, *Economic*, 483–84; Bensel, *Political*, 317, 455; Calton, "Monstrous," 249–51, 254–59; Carosso, *Morgans*, 175–273, 390; Chandler, *Visible*, 331–32; and Strouse, *Morgan*, 311–15.

patent holder already has a legal monopoly) and forcibly barring competitors from making advancements. The patent system outlined in the late eighteenth century emphasized the inventor, but the corporate movement spurred the transfer of patent rights from individuals to large-scale businesses. Corporations began to buy patents away from the discoverers of the technology so that they, not the inventor, could legally prevent other companies from entering the sector. In General Electric's case, it tried to amass all the patents related to electrical equipment.[58]

A similar Wall Street–manufacturing alliance was forged between Standard Oil—then in the process of reorganizing under New Jersey's incorporation laws—and the nation's largest commercial bank, National City Bank. William Rockefeller, John D.'s brother and a Standard Oil cofounder, did the heavy lifting. He befriended National City's president, James Stillman; arranged for his two sons to marry Stillman's daughters; funneled Standard Oil's money into the bank; and became a large stockholder and prominent director in the bank. Contemporaries labeled National City Bank "the oil bank" and watched its influence grow steadily in the following years.[59]

Catastrophe struck when the newly formed corporations began to experience serious difficulties in the Panic of 1893 and the ensuing depression. General Electric lost 75 percent of its value and avoided bankruptcy only through Morgan's infusion of funds. Other firms, such as the National Cordage Company,

---

[58] David F. Noble, *America by Design: Science, Technology, and the Rise of Corporate Capitalism* (New York: Oxford University Press, 1977), 9–12, 19, 84–93; Leonard S. Reich, "Lighting the Path to Profit: GE's Control of the Electric Lamp Industry, 1892–1941," *Business History Review* 66, no. 2 (Summer 1992): 307–11; Murray N. Rothbard, *Man, Economy, and State with Power and Market*, 2nd scholar's ed. (Auburn, AL: Ludwig von Mises Institute, 2009), 752; and Sutch and Carter, *Historical*, 3:425–27.

[59] Quoted in James Freeman and Vern McKinley, *Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi* (New York: Harper Collins, 2018), 58. William H. Becker, *The Dynamics of Business-Government Relations: Industry and Exports, 1893–1921* (Chicago: University of Chicago Press, 1982), 32; Harold van B. Cleveland and Thomas F. Huertas, *Citibank, 1812–1970* (Cambridge, MA: Harvard University Press, 1985), 314; Freeman and McKinley, *Borrowed*, 58–68; and Ralph W. Hidy and Muriel E. Hidy, *Pioneering in Big Business: History of Standard Oil Company (New Jersey), 1882–1911* (New York: Harper and Brothers, 1955), 219–332.

the rope trust that had reorganized into a corporation and then embarked upon a borrowing spree to expand operations, were not so lucky. When it failed in 1893, National Cordage owed $1 million to J. S. Morgan & Co., the London-based arm of the Morgan empire. Despite additional financing from J. P. Morgan that allowed it to reopen, National Cordage failed again in 1895.[60] New attempts to restrict prices and production floundered. The iron and steel industry especially stood out. Morgan watched the situation with considerable dismay, recognizing that current cartelization efforts could not survive in the cutthroat depression and that he would have to postpone plans to devise new corporations in the industry.

Despite attempts to control the wire nail market before the panic, prices fell 22 percent from 1890 to 1892 and dropped an additional 23 percent between 1892 and 1894. In the spring of 1895 manufacturers formed a new cartel, the Wire-Nail Association, which promptly jacked up prices 81 percent. But new firms kept entering the fray, and the Association spent considerable sums of money paying them not to produce wire nails. In 1896 competition routed the cartel and prices crashed 50 percent. The total plunge in prices from 1890 to 1897 amounted to 46 percent. A similar phenomenon occurred with the Rail Association and the newly formed Carnegie Steel: a short-lived price spike for steel rails and hefty payments to would-be competitors in 1895 followed by a return to reality, with a 41 percent price decline between 1890 and 1897. The infant tin plate industry fared no better at controlling competition: by 1897 the American Tin Plate Manufacturers' Association watched helplessly as independent firms relentlessly pushed down prices.[61]

The Beef Trust experienced similar problems. After the Meat Inspection Act passed in March 1891, Chicago packers formed a cartel in May to control meat shipments in the nation. But a new firm, the Cudahy Packing Company, undercut the agreement and drove the industry into fierce competition throughout

---

[60] Jeremiah D. Lambert and Geoffrey S. Stewart, *The Anointed: New York's White-Shoe Law Firms* (Guilford, CT: Lyons Press, 2021), 10; Reich, "Lighting," 307–11; and Strouse, *Morgan*, 114, 244–45, 319–20.

[61] Lamoreaux, *Merger*, 14, 66–69, 72–73, 80; and Larry Schweikart, "Carnegie Steel," in Paskoff, *Encyclopedia*, 77–78.

1892. When the panic struck, the Beef Trust formed a new cartel, making sure to include Cudahy. But this agreement suffered from familiar problems: there was internal cheating by the cartelists, and the new firm Schwarzschild & Sulzberger refused to join. By May 1896 the cartel had collapsed. Compounding these difficulties, the Beef Trust incurred unanticipated costs from inspection when veterinarians in the BAI enforced a stringent condemnation of carcasses. This was uneconomical, as the Beef Trust and many physicians argued that the meat was safe to eat if properly cooked.[62]

The Panic of 1893 convinced many financiers and big businessmen that excessive competition and overproduction caused the business cycle—businesses overproduced, which led to surpluses that caused prices to fall and business activity to become depressed. Their solution was to form larger corporations that could better restrict domestic sales. Then the corporations would sell any remaining surplus in export markets. Increased attention to the export market was a significant development; outside of Standard Oil and the Beef Trust the international scene was all but neglected.

Of course, big business concurrently devised new ways of using special privileges to strengthen their corporations. In early 1896, for example, General Electric negotiated an agreement with its remaining major rival, Westinghouse, to create a Board of Patent Control, a cartel that enabled the firms to exchange their monopoly grants and cooperate in blocking out competitors. General Electric also envisioned a vigorous program of exports and planned on acquiring foreign patents to cripple the competitiveness of international rivals.

Smaller and medium-sized manufacturers wanted to get in on the overseas action and drafted their own plans for government assistance. In 1895 they formed the National Association of Manufacturers (NAM) to push for subsidies so they could compete with American big businesses in overseas markets. For instance, the NAM called upon the government to subsidize the merchant marine, advertise American products, and help negotiate with foreign businesses and governments. As early as 1896

---

[62] Newman, "Defense," 36–37, 40–41.

the NAM called for a new federal Department of Commerce and Manufacturers to execute these policies.[63]

Leading members of the new breed of interventionist economists articulated businessmen's desires. Jeremiah Jenks, an economics professor at Cornell University in New York and a founding member of the AEA, sharply criticized excessive competition for leading to "remarkable reductions in prices" and "small profits."[64] Charles Conant, an economist for the New York *Journal of Commerce*, stressed the need for US businessmen to find "an outlet for their surplus savings."[65] Conant argued that the government could stop capitalist overproduction by encouraging the formation of corporations and forcing South American and Asian countries to accept manufacturers' exports. Naturally, Jenks, Conant, and other intellectuals envisioned themselves as influential advisors to both manufacturers and the government.[66]

The new dispensation in businessmen and economists' thinking pleased many Republican imperialists, among them President Harrison's secretary of state James Blaine, Massachusetts senator Henry Cabot Lodge, Civil Service Commissioner Theodore Roosevelt, naval strategist Alfred Mahan, and the historian Brooks Adams. Harkening back to another tenet of Henry

---

[63] Becker, *Dynamics*, 29–32, 44–46, 114, 211; David Healy, *US Expansionism: The Imperialist Urge in the 1890s* (Madison: University of Wisconsin Press, 1970), 159–77; Lambert and Stewart, *Anointed*, 10; James Livingston, *The Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca, NY: Cornell University Press, 1986), 53, 59–61; Reich, "Lighting," 308; and Joseph R. Stromberg, "William McKinley: Architect of the American Empire," in *Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom*, ed. John V. Denson (Auburn, AL: Mises Institute, 2001), 322–26.

[64] Jeremiah Jenks, "The Economic Outlook," *Dial* 10 (1890): 253.

[65] Charles Conant, *The United States in the Orient* (New York: Houghton, Mifflin, 1900), 3.

[66] John Howard Brown, "Jeremiah Jenks: A Pioneer of Industrial Organization?," *Journal of the History of Economic Thought* 26, no. 1 (March 2004): 70; Healy, *Expansionism*, 194–209; Livingston, *Origins*, 37–39; Carl P. Parrini and Martin J. Sklar, "New Thinking about the Market, 1896–1904: Some American Economists on Investment and the Theory of Surplus Capital," *Journal of Economic History* 43, no. 3 (September 1983): 562–65; Murray N. Rothbard, "The Origins of the Federal Reserve," in Rothbard, *History*, 208–12; and Rothbard, *Progressive*, 211–12.

Clay's American System, the imperialists desired to make America a world power by creating a Western Hemispheric bloc that forced South American and Asian countries to purchase American exports. But their efforts failed because the newly reelected President Cleveland thwarted Republicans' attempts to annex Hawaii in 1893 and practiced a generally restrained foreign policy, save for intervening in a boundary dispute between Great Britain and Venezuela. With manufacturers growing more eager for export markets, however, the potential for the Republican dream of a worldwide American empire appeared within reach.[67]

Until the depression ended in 1897, though, the new conglomerations and globalist vision had to wait. Big businessmen completed only twenty-seven mergers from 1894 to 1896 and fixated on electing Ohio governor McKinley to the Oval Office. Andrew Carnegie, for one, noted that because of the political uncertainty "capital at home equally with capital abroad has become alarmed. It has run into its hole."[68] William Jennings Bryan, the Populist Democrat who favored free silver coinage to reduce the value of the gold dollar, would not just make it harder for corporations to receive investment funds. A Bryan presidency would deliver cronyism very different from what big business wanted: income taxation on the wealthy, prounion privileges, and strict antitrust enforcement to break big businesses up. These policies would redistribute income away from wealthy industrialists and deliver it to farmers, smaller competitors, and unions.

Big businessmen received a taste of this in the depression. The Populist Democrats' Wilson-Gorman Tariff of 1894 included a 2 percent income tax on all corporations' profits and on personal incomes above $4,000. The wealthy derided it as class legislation, and Joseph Choate, one of the lawyers who successfully argued its unconstitutionality before the Supreme Court, worried it was "the beginning of socialism and communism."[69] Choate

---

[67] Palen, *"Conspiracy,"* 174–79, 183, 191–98, 253–61; and Rothbard, *Progressive*, 203–6.

[68] "The Financial Situation," *Commercial & Financial Chronicle*, May 23, 1896, 924.

[69] David Graham Phillips, *The World*, March 30, 1895, quoted in E. S. Martin, *The Life of Joseph Hodges Choate* (New York: Charles Scribner's Sons, 1920), 2:8.

was a prominent Wall Street lawyer whose clients included Standard Oil.

Unions continued to worry about competition undercutting their wage rates, and the resultant violence in the 1892 Homestead and 1894 Pullman strikes greatly disturbed businessmen. In both cases industrialists hired immigrants and other cheaper labor to break the strikes and lobbied for government-funded troops to restore order. In the face of such setbacks, unions advocated making their competition less affordable. For example, Samuel Gompers, the head of the American Federation of Labor, declared that "unrestricted immigration is working a great injury to the people of our country" and called for a literacy test to block lower-skilled labor.[70] The anxiety of manufacturers increased when Gompers urged the union's members to vote for Bryan.[71]

By the mid-1890s leading manufacturers found their cartel and monopoly attempts once again unsuccessful. Despite new tariff privileges provided by the Billion Dollar Congress, big business could not control competition and achieve monopolies. Budding corporations then had to make sure other interests did not receive any government favoritism—a Bryan presidency must be prevented. Once they secured the election of 1896, big businesses could again devise government policies to crack down on competition and promote export markets. In other words, "it was time, then, for those industrial and financial groups who had sought monopoly to emulate the example of the railroads: to turn to government to impose the cartels on their behalf."[72]

---

[70] Samuel Gompers, *Report of the Proceedings of the Twelfth Annual Convention* (AFL), 1892, 14, quoted in Philip Taft, *Organized Labor in American History* (New York: Harper and Row, 1964), 306.

[71] Briggs, *Immigration*, 45, 63–64, 73; Brownlee, *Taxation*, 79–82; Calton, "Monstrous," 283; Chandler, *Visible*, 332; Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (Oakland, CA: Independent Institute, 2012), 91–103; Johnston and Williamson, "GDP"; Josephson, *Politicos*, 610–11; Lambert and Stewart, *Anointed*, 19; Gwendolyn Mink, *Old Labor and New Immigrants in American Political Development: Union, Party, and State, 1875–1920* (Ithaca, NY: Cornell University Press, 1986), 42, 144–48; Morris, *Tycoons*, 196–206; Rothbard, *Progressive*, 180; and Sanders, *Roots*, 268–74.

[72] Rothbard, *Progressive*, 107.

As with the railroads and manufacturers, Wall Street bankers found the Republican Party a sympathetic ally during and after the Civil War. Republicans, eager to enlist New York City bankers to their side, proceeded to enact banking laws and paper money schemes that this special interest favored. Another happy customer during the Great Barbecue!

CHAPTER 5

WALL STREET'S NATIONAL BANKS

In the cardinal area of money and banking, the Republicans excelled in distributing subsidies and restrictive regulations during the Great Barbecue. Under the cloak of wartime emergency the federal government printed irredeemable greenbacks, enlisted a politically connected banker to market the public debt, and devised a quasi-central-banking system of national banks that concentrated bank reserves in New York City. Such shifts in the financial system did not benefit the public; instead, the rewards accrued to increasingly powerful Wall Street banks. After the war Wall Street avariciously defended its crony spoils, blocking attempts to deregulate banking and open competition and solidifying its sway over the monetary expansion process. A new era of vast Wall Street influence, with monetary favors flowing to New York City bankers, emerged. Before long, however, state banks, rival Chicago national banks, and Populists in favor of nonbank forms of monetary expansion—namely, silver coinage—challenged their supremacy.

Nationalizing the Banking Pyramid

Initially, Republicans' relationship with leading investment bankers was hostile. With the outbreak of the Civil War, the federal government harassed financier W. W. Corcoran because of his prosouthern sympathies. After experiencing a brief arrest and federal troops on his Washington properties, Corcoran cashed in his chips and expatriated his wealth to Paris. August Belmont, for his part, recognized the changing political climate and realized he currently commanded the semitreasonous Democratic Party. He worked assiduously to develop cordial relations with the Lincoln administration by convincing the Rothschilds and foreign governments not to recognize the Confederacy or loan it money.[1]

The sour relations extended to commercial banks on Wall Street. The leader of the resistance was James Gallatin, president of the Gallatin Bank and son of President Thomas Jefferson's Treasury secretary, Albert Gallatin. Many of New York City's financial and merchant elites maintained profitable connections with southern cotton interests and did not support an administration that would damage those relationships. Furthermore, they believed that Secretary of the Treasury Salmon P. Chase wanted to sell the public debt at unreasonably high prices to secure artificially low borrowing costs.

By August 1861, Chase convinced bankers to purchase $150 million of government bonds. But Chase, an ex-Jacksonian Democrat, adhered to the Independent Treasury's requirement to accept revenue only in specie. A commendable hard-money stipulation that restricted fractional-reserve banks' credit expansion, it ran directly counter to the government's exploding fiscal demands. When bankers acquiesced, the decrease in their gold reserves made it much harder for them to honor redemptions. After bank runs occurred in December, New York City banks illegally suspended specie payments; other banks and the US Treasury followed suit. With stunning rapidity the nation abandoned the gold standard.[2]

In January 1862 Gallatin and other New York City bankers met with Chase and pleaded for a suspension of the Independent Treasury and more attractive returns on the public debt. But Chase refused, and the meeting ended in a deadlock. The

---

[1] Janet L. Coryell, "W. W. Corcoran," in *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, ed. Larry Schweikart (New York: Facts on File, 1990), 149; and Irving Katz, *August Belmont: A Political Biography* (New York: Columbia University Press, 1968), 93–104, 114.

[2] Samuel DeCanio, *Democracy and the Origins of the American Regulatory State* (New Haven, CT: Yale University Press, 2015), 41; David M. Gische, "The New York City Banks and the Development of the National Banking System, 1860–1870," *American Journal of Legal History* 23, no. 1 (January 1979): 31–33; Bray Hammond, *Sovereignty and an Empty Purse: Banks and Politics in the Civil War* (Princeton, NJ: Princeton University Press, 1970), 157; and Patrick Newman, "The Origins of the National Banking System: The Chase-Cooke Connection and the New York City Banks," *Independent Review* 22, no. 3 (Winter 2018): 385–86.

Treasury turned to Congress for help financing the war. As Chase found out, the bankers still got their way: Massachusetts's Samuel Hooper and Elbridge Spaulding of New York controlled the financial subcommittee of the House Ways and Means Committee. A wealthy merchant, Hooper owned Samuel Hooper & Co. and served as an influential director of, and the largest stockholder in, Boston's strongest bank, the Merchants Bank. Spaulding served as both the president of the Farmers and Mechanics Bank in Buffalo and the chair of the subcommittee.[3]

The two banker politicians argued that, given the military's financial needs, Congress should print paper money that would not be redeemable in specie until an unspecified future date but count as legal tender. Significantly, giving the paper money legal-tender status would enable commercial banks to pay their depositors with the government's notes and use them as reserves for loan expansion, in lieu of gold. While Secretary Chase and some bankers, such as Gallatin, distrusted such notes, other Wall Street bankers heartily supported their issuance. Notable examples include John Stevens and John E. Williams, the respective presidents of the Bank of Commerce and the Metropolitan Bank, New York City's first and third largest banks by assets.

In late February, President Lincoln signed the Legal Tender Act, enabling the issuance of $150 million in notes. The *New York Times* reported that the law had been supported by a "powerful influence among the banks, private bankers, and great merchants of the country" and emphasized how banks were eager to use the money as a basis for credit expansion.[4] By early March the New York Clearing House, the entity that settled accounts between the city banks, adopted the notes as a settlement medium. The New York City banks were ready to use the government's paper money for credit creation.[5]

---

[3] Gische, "Banks," 33–34; Hammond, *Sovereignty*, 159–60; Fritz Redlich, *The Molding of American Banking*, vol. 2, *Men and Ideas* (New York: Johnson Reprint, 1968), 8, 57, 104, 163; and Robert P. Sharkey, *Money, Class, and Party: An Economic Study of Civil War and Reconstruction* (Baltimore: Johns Hopkins University Press, 1959), 261.

[4] *New York Times*, February 27, 1862, 3.

[5] Roberta Sue Alexander, "Salmon P. Chase," in Schweikart, *Encyclopedia*, 95; DeCanio, *Democracy*, 44–48; Gische, "Banks," 28, 34; Hammond, *Sovereignty*,

Congress declared that there would be only one issuance of the emergency notes. But as Murray Rothbard reminds, "Printing money is a heady wine."[6] Regrettably, the wine the government imbibes leaves the public with the hangover and the tab. When the government inflates the money supply, its income increases, enabling officials to demand more goods and drive up prices on those goods. The incomes of select businesses and individuals supplying the goods increase and in turn enable them to pay more for other goods. The government, and the businesses and individuals in fortunate proximity, are the early receivers of the new money. Their incomes increase more than the rise in prices, meaning their real incomes increase too. They gain, while the later recipients of the new money—the broader public—suffer reduced real incomes because their incomes increase less than the rise in prices. In this way, inflation is a hidden tax on the populace that subsidizes the politically and financially connected. An expedient way to finance government expenditures!

In July 1862 Congress authorized another issuance, and by the war's close the Treasury had churned out $449 million in greenbacks—so called because of the green ink used to print the bills. The banking system did its part, using new greenback reserves to expand notes and deposits 115 percent. In total, from 1860 to 1865 the money supply increased 153 percent. The government and bank inflation resulted in a staggering 96 percent rise in the prices of consumer goods (14.4 percent per year), taxing real income away from workers and redistributing it to the first receivers of the new money. When taking into consideration other war-induced burdens such as tariffs, real wages fell 18 percent.[7]

158, 161–62, 185–86, 196, 218–21, 229, 232; Newman, "Origins," 386; and Irwin Unger, *The Greenback Era: A Social and Political History of American Finance, 1865–1879* (Princeton, NJ: Princeton University Press, 1964), 16.

[6] Murray N. Rothbard, "A History of Money and Banking in the United States before the Twentieth Century," in *A History of Money and Banking in the United States: The Colonial Era to World War II*, ed. Joseph T. Salerno (Auburn, AL: Ludwig von Mises Institute, 2005), 124.

[7] Alexander, "Chase," 99; Jeremy Atack and Peter Passel, *A New Economic View of American History*, 2nd ed. (New York: W. W. Norton, 1994), 365–68; Newman, "Origins," 386; Gretchen Ritter, *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America, 1865–1896* (New York:

Congress embarked upon yet another policy of inflationary cronyism, one that revolutionized the country's fractional-reserve banking system to increase the demand for war bonds. To accomplish this, Chase worked with his benefactor, the investment banker Jay Cooke. The Cooke family maintained very cordial relations with Ohio heavyweights Chase and Congressman John Sherman. Jay's brother Henry owned the pro-Chase newspaper the *Ohio State Journal*, and after the 1860 election the Cookes pushed for Chase to become secretary of the Treasury and financed John Sherman's senate bid. Around this time, in January 1861, Cooke established the Philadelphia investment bank Jay Cooke & Co. With the pieces in place, the Cookes' father wrote to Jay in March emphasizing that because Henry succeeded "in getting Chase into the Cabinet & Sherman into the Senate . . . now is the time for making money."[8]

Indeed, Jay Cooke plied Chase for the "natural advantages" that derived from their "personal friendship." More to the point: "We could not be expected to leave our comfortable homes and positions here without some great inducement" for their patriotic service.[9] The investment banker counseled Secretary Chase, entertained his family, and privately invested his money. Moving in for the kill, in February 1862 Jay Cooke & Co. created a Washington branch managed by the firm's lobbyist, Henry Cooke. Positioned next to the Treasury Building, Chase and other officials kept accounts at the institution.

Chase responded to the brothers' lobbying by granting Cooke a near monopoly on selling US securities. Cooke leapt into the role, embracing the novel strategy of appealing to the public directly with patriotic campaigns, newspaper advertisements,

---

Cambridge University Press, 1997), 30; Rothbard, "History," 124; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 3, *Economic Structure and Performance* (New York: Cambridge University Press, 2006), 158, 602.

[8] Eleutheros Cooke to Jay Cooke, March 25, 1861, quoted in Henrietta M. Larson, *Jay Cooke, Private Banker* (Cambridge, MA: Harvard University Press, 1936), 103. Larson, *Cooke*, 102–3; and Newman, "Origins," 386–87.

[9] Jay Cooke to Salmon P. Chase, July 12, 1861, quoted in Ellis Paxson Oberholtzer, *Jay Cooke: Financier of the Civil War* (Philadelphia: George W. Jacobs, 1907), 1:143–44.

and 2,500 traveling agents. Only through Jay Cooke & Co.'s marketing strategy did the Treasury sell Congress's mounting war obligations, totaling $2.5 billion by 1865. With good reward to boot: Jay Cooke & Co.'s Philadelphia and Washington establishments reaped a combined $1.7 million in profit during the war, and the investment bank then expanded onto Wall Street and to London. Quite the "inducement" from Chase.[10]

During this time Chase hatched a plan: Congress must establish a new national banking system where banks insured the value of their notes by buying federal bonds. These national banks would supplant the commercial banks organized through states' free-banking laws of the 1840s and 1850s (so called because they allowed banks to freely form under limited state regulation instead of under crony state charters). Though Chase received Lincoln's imprimatur, by early 1863 the legislation stalled in Congress. Not one to quit, the secretary turned to his ally Cooke, who realized that the plan would "create and make a market for a large amount of our government bonds."[11] Chase's national banks could earn Cooke more money.

But the Republicans were wary of quickly ramming through such momentous legislation under the guise of wartime emergency. Jay knew his best shot was to recruit Sherman, a member of the Senate Finance Committee. Henry reported to Jay "in the strictest confidence" that he visited the senator, using "my influence with him" to make sure Sherman took "hold of [Chase's] bank bill."[12] The brothers also gave Congress what they called "medicine"—whipping up a propaganda blitz in newspapers—and noted that it was "having its [desired] effect."[13] Sherman fought mightily in the Senate, and thanks to personal appeals the bill squeaked past the upper chamber 23–21. Once Lincoln signed the act in February, Henry triumphantly wrote to Jay

---

[10] Stuart D. Brandes, *Warhogs: A History of War Profits in America* (Lexington: University of Kentucky Press, 1997), 100; Newman, "Origins," 387–89, 398–99; and Joseph F. Rishel, "Jay Cooke," in Schweikart, *Encyclopedia*, 141.

[11] Jay Cooke, "Memoirs" (unpublished), quoted in Oberholtzer, *Cooke*, 1:331.

[12] Henry Cooke to Jay Cooke, January 23, 1863, quoted in Oberholtzer, *Cooke*, 1:332.

[13] Henry Cooke to Jay Cooke, February 11, 1863, quoted in DeCanio, *Democracy*, 51.

that the bill passed because he "induced Sherman to take hold of it, and we went to work with the newspapers."[14] Thanks to the Chase-Cooke connection, within a scant two months a new banking system sprouted into existence.[15]

The 1863 National Banking Act created a new commercial banking system of national bank corporations. Most importantly, each national bank had to maintain fractional reserves of 25 percent in specie or greenbacks. As a sop to urban areas, rural banks could keep 60 percent of these reserves as balances in deposit accounts at national banks in New York City and other large cities. These rural bankers' balances were extremely important for the banking industry. Smaller banks sought to keep some of their reserves in balances at other banks because branching restrictions incentivized them to establish a line of credit with a correspondent bank in a different part of the country and diversify their investments by earning interest on reserves. The larger national banks coveted this business because they could now officially act as quasi-central banks: if they expanded credit, other fractional-reserve banks would not press for redemption of their notes and deposits but keep the money in deposit accounts and expand their own credit on them. Thus, bankers' balances enabled multiple banks to engage in credit expansion. Every large bank wanted to be in the envious position of a quasi-central bank.

Other features of the law further revolutionized the banking system. It created an Office of the Comptroller of the Currency to grant charters for national banks and enforce restrictive regulations. As examples, the minimum capital requirement of $50,000 for banks in cities with fewer than ten thousand people and $100,000 for banks in larger cities impeded both competition from smaller banks and poorer customers' ability to access national bank facilities. Federal, and not just state, prohibitions on branch banking now crippled interstate competition and further encouraged pyramiding of bank reserves. The law also stated that national banks could issue legal-tender

---

[14] Henry Cooke to Jay Cooke, February 12, 1863, quoted in Oberholtzer, *Cooke,* 1:333.

[15] Patrick Newman, *Cronyism: Liberty versus Power in Early America, 1607–1849* (Auburn, AL: Mises Institute, 2021), 279–84; and Newman, "Origins," 389–91, 393–94.

banknotes up to 90 percent of the face value of federal bonds the bank held, with total notes limited to $300 million. This meant that issuance of banknotes would be heavily concentrated in the national banks that invested in government debt. Lastly, national banks could receive government deposits of federal funds. This de facto killed the Jacksonian Independent Treasury and its separation of the federal government's monies from banks' coffers.

As the important head of this new regulatory bureaucracy, the comptroller, Chase appointed Hugh McCulloch, president of the State Bank of Indiana and a strong Cooke ally. Predictably, McCulloch granted the first charters to Cooke and other Chase connections. Cooke controlled the First National Bank of Philadelphia, the Fourth National Bank of New York, and the First National Bank of Washington—the unoriginal naming convention a result of statute. The latter became Cooke's personal bank and paid profitable gold dividends of 10 percent in 1864 and 1865. Chase's friend John Thompson organized the First National Bank of New York, a profitable depository that helped sell federal debt. Several years later he established Chase National Bank in honor of the former secretary.[16]

But there was a major problem: very few state banks converted to national charters, hampering the new national system's ability to finance the war debt. Of the 134 national banks only one was a conversion. The New York City banking oligarchs, including John Williams and John Stevens, vigorously opposed what they considered hostile regulation. Wall Street griped about how the law allowed only rural national banks and not national banks in Boston, Philadelphia, Chicago, and other urban areas to keep reserve balances at New York City banks. As the business of New York City's largest institutions largely revolved around accumulating bankers' balances from these cities, this was a serious hitch. Not only would Wall Street national banks be unable to accumulate urban bankers' balances, but institutions in these other cities could operate as their own quasi-central banks that

[16] Hammond, *Sovereignty*, 142; Gregory S. Hunter, "Chase/Manhattan Companies," in Schweikart, *Encyclopedia*, 107; Michael F. Konig, "George F. Baker," in Schweikart, *Encyclopedia*, 26; Newman, "Origins," 392–95; Rothbard, "History," 138–41; and Sharkey, *Money*, 57.

competed with New York City banks for rural bankers' balances. Wall Street adamantly opposed the competitive threat.

Initially, Cooke wanted to force the New York City banks to convert by threatening to establish a rival national bank that would have a formal relationship with the Treasury. However, he chose a more conciliatory route, urging New York bankers to "join with others" to protect the National Banking System from its critics.[17] In other words, if you can't beat them, enlist them. Eager to control the market for bankers' balances, in early 1864 New York City banking lobbyists descended upon the nation's capital: Williams met with Comptroller McCulloch, and the manager of the New York Clearing House advised the House Ways and Means Committee. Thanks to Wall Street lobbying, Congress passed another law in the spring of 1864.[18]

The latest National Banking Act delivered a heaping spoonful of cronyism to Wall Street. First, it devised a new pyramiding system that monopolized the quasi-central-banking function in New York City. Country banks in small towns could store 60 percent of their required reserves at reserve city or central reserve city banks. Reserve city banks in large cities outside of New York City—the areas so crucial to Wall Street—could keep 50 percent of their required reserves in central reserve city banks. Central reserve city banks, which the law prohibited everywhere outside of New York City, had to maintain all their required reserves in specie and greenbacks. This pyramiding structure incentivized country and reserve city banks to keep their bankers' balances in the central reserve city, New York. In effect, it concentrated bank reserves in privileged Wall Street banks and allowed them to cartelize the business. Wall Street had won, and the other urban centers had lost.

The 1864 National Banking Act further restricted banking by raising capital requirements. It required $200,000 for banks in cities with more than fifty thousand people and $100,000 for banks in cities with more than six thousand people. These

---

[17] Jay Cooke to George Coe, January 18, 1864, quoted in Oberholtzer, *Cooke*, 1:351.

[18] Gische, "Banks," 46; Newman, "Origins," 393–96; and Redlich, *Molding*, 2:108–9.

formidable restrictions on entry further stifled banking competition and created banking deserts that starved poorer regions of financial intermediation services.

As one final blow to the state banking system, in March 1865 Congress instituted a 10 percent annual tax on state banks' notes. The restriction drastically reduced the supply of state banknotes and encouraged those institutions to become national banks so they could continue to issue notes. The state banks that could not afford the higher capital requirements for national banks were driven out of business. The combined blow of the laws was severe: as national banks soared from 66 to 1,640 by 1868, state banks declined from 1,466 to just 247.

The National Banking System did not maintain its near monopoly on banking for long. State banks, though seemingly down for the count, survived because they could still take in deposits. By 1873 state banks rebounded to 1,330. Even so, the institutions were de facto extensions of the Wall Street pyramiding structure, as many states passed laws incentivizing their banks to use national banknotes as reserves. As a result, state banks pyramided on national banks, which in turn pyramided on Wall Street central reserve city banks—a recipe for widespread instability.[19]

In the end, the large Wall Street banks got their way. John Stevens's $10 million Bank of Commerce joined the system in January 1865 as the National Bank of Commerce and other Wall Street banks quickly followed. The city's share of the nation's total banking assets grew from 19 percent in 1860 to 24 percent in 1870. Its bankers' balances exploded by 250 percent. Out of the $300 million limitation of national banknotes, $170 million went to the Northeast. This made it much more difficult for large parts of the country to use banknotes in day-to-day transactions.

---

[19] Matthew Jaremski, "State Banks and the National Banking Acts: Measuring the Response to Increased Financial Regulation, 1860–1870," *Journal of Money, Credit and Banking* 45, no. 2–3 (March–April 2013): 382–83, 385; Patrick Newman, "The Depression of 1873–1879: An Austrian Perspective," *Quarterly Journal of Austrian Economics* 17, no. 4 (Winter 2014): 486–87; Newman, "Origins," 396–98; Rothbard, "History," 140–41, 144; Sutch and Carter, *Historical*, 3:633–34, 641; and Eugene Nelson White, *The Regulation and Reform of the American Banking System, 1900–1929* (Princeton, NJ: Princeton University Press, 1983), 32–33.

If Wall Street lorded over the National Banking System, then Jay Cooke sat on the throne. Cooke's Fourth National Bank turned into the largest New York City bank by assets and the second largest in bankers' balances. Fitting for a king, Cooke used his profits from selling government debt and establishing national banks to construct the fifty-room Ogontz Estate outside of Philadelphia, one of the nation's most expensive mansions. No surprise people began saying "as rich as Jay Cooke."[20]

As with manufacturers and their tariff privileges in the postwar years, Cooke and Wall Street worked hard to defend the National Banking System from its critics, including thwarting attempts to restore the Independent Treasury by shifting government funds from national banks to Treasury vaults. The *New York Herald* fumed against Cooke, saying, "The national banks are a gigantic monopoly" and "A great moneyed oligarchy has been created, which in the end would make the rich richer and the poor poorer."[21] In response, Cooke contemplated creating a banking association like the iron and woolen industries' "to avoid hostile legislation." His lobbyist, Assistant Secretary of the Treasury William Chandler, warned him that such a public organization "would perhaps do more harm than good."[22] Instead, Cooke maintained Republicans' allegiance to the system by making campaign contributions and personal loans to politicians. The tactic worked, and congressmen even came to own shares in national banks. In the 1870s, when Congress failed to relax the requirements for setting up national banks, disgruntled businessmen insinuated it was because "members of Congress have got too much National Bank stock themselves."[23]

---

[20] Quoted in Matthew Josephson, *The Robber Barons* (New York: Harcourt, Brace, 1962), 57. Newman, "Origins," 398; and Rishel, "Cooke," 141.

[21] "Jay Cooke's Special Plea for the National Banks," *New York Daily Herald*, October 24, 1867, 6.

[22] William Chandler to Jay Cooke, December 2, 1867, quoted in Oberholtzer, *Cooke*, 2:56.

[23] Quoted in Mark Wahlgren Summers, *The Era of Good Stealings* (New York: Oxford University Press, 1993), 115. Richard Franklin Bensel, *The Political Economy of American Industrialization, 1877–1900* (New York: Cambridge University Press, 2000), 448; Matthew Josephson, *The Politicos, 1865–1896* (New York: Harcourt, Brace and World, 1966), 58–59; Larson, *Cooke*, 202; and Oberholtzer, *Cooke*, 2:33, 53–56.

By 1870 the stage was set for credit expansion. The National Banking System had matured as country and reserve city banks stashed away all allowable reserves in New York City central reserve city banks. When the latter started to expand credit, other national banks joined in, and the pyramid grew. Congress made the situation worse by increasing the maximum number of national banknotes from $300 million to $354 million. This caused massive inflation in bank credit because state banks used the new banknotes as reserves for their own credit expansion. The results were striking: from 1867 to 1870 the total money supply, which included deposits at national banks, state banks, and the rapidly emerging mutual savings banks, rose 8.5 percent before jumping 34 percent from 1870 to 1873. Many of the new loans went into the booming railroad industry of the time.

The monetary balloon was expanding, but just as in the 1850s, it and the new railroad investments were fragile. The Panic of 1857 repeated itself, only this time the centralized system made it far more contagious. If rural state and country banks experienced an increased demand for banknotes—which they did during the fall crop harvesting season when farmers needed to pay workers—government laws once again prevented them from issuing their own notes to meet the demand, this time because of the tax on state banknotes and the federal bond-backing requirement. State and country banks had to draw on their reserves at other banks or pay out the reserves in their vaults. Illiquidity would spread to reserve city banks, and then to central reserve city banks, with the convulsion at each bank aggravated by the lack of branch facilities. All it took for the bubble to burst was the failure of a prominent company.[24]

The bubble did indeed burst during the 1873 fall harvesting season, when "a remarkable example of poetic justice struck Jay Cooke."[25] In September, while he entertained President Grant at Ogontz, Cooke learned that his company, stuffed with unprofitable Northern Pacific Railroad loans, had gone belly up. The

---

[24] Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton, NJ: Princeton University Press, 1963), 21, 56–57, 704; Newman, "Depression," 484, 486, 488–89; and Newman, "Origins," 399.

[25] Rothbard, "History," 156.

House of Cooke collapsed, and the Philadelphia, New York, Washington, and London offices of Jay Cooke & Co., along with the First National Bank of Washington, went bankrupt. A full-blown panic ensued as already-fragile banks from the interior pulled out deposits from central reserve city banks in New York, shaking the overextended banking system. Jay Cooke was no more; the devastation forced him to move into a small cottage. Over the next decade J. P. Morgan replaced Cooke as the nation's premier banker and titan on Wall Street, a position he would hold past the dawning of the new century.

The Panic of 1873 and the ensuing depression were yet another instance of how the National Banking Acts harmed the public. The public only recovered when federal monetary intervention subsided. Initially, the federal government doubled down. To prop up the banking system, Republicans injected $26 million in greenbacks and removed reserve requirements for national banknotes. This enabled banks to increase credit expansion, and the money supply rose 10 percent through 1875. The refilling of the punch bowl served only to prolong bad investments and prevent prices and production from correcting to more feasible levels. Consequently, after expanding 23 percent during the 1870 to 1873 boom (7.2 percent per year), real gross domestic product (GDP) grew less than 2 percent from 1873 to 1875 (0.8 percent per year).

Recovery picked up only in 1875, when the victory of hard-money Democrats in the midterms caused Republicans to begrudgingly prepare for specie resumption in 1879. Congress contracted the supply of greenbacks, which, in combination with bank failures, caused the money supply to shrink, or deflate, over 9 percent from 1875 to early 1879. The deflationary credit contraction hastened resource reallocation and price and wage cuts, causing real GDP growth to rebound and real GDP to increase by 13 percent between 1875 and 1878 (4.1 percent per year). The reduction in monetary intervention encouraged the market to recover. Paradoxically, contemporaries mistook the short recession followed by the period of strong economic growth for a seven-year depression because nominal incomes were falling. Those experiencing declining nominal wages did not fully realize that because consumer goods prices were also falling, real wages fell by less, and in many cases rose. For example, nominal wage rates in manufacturing industries fell 13.6 percent from 1873 to 1878; adjusted for the 16.7 percent decline in consumer goods prices, they rose 3.7 percent.[26]

Though Congress returned to specie convertibility and reduced the supply of greenbacks, it did not roll back the National Banking System. Instead, the numerous privileges granted to central reserve city banks solidified, along with the regulations that destabilized the banking system. Wall Street had acquired a foothold in the federal government's distribution of special privileges and looked forward to strengthening it.

Maintaining Monopolistic Restraints

In the aftermath of the Panic of 1873 Wall Street bankers sought to control competition and stop other special interests' attacks. When it came to competition, Wall Street national banks worked hard defending the restraints they had secured during the Civil War. As for other interests encroaching, Wall Street contrived to keep monetary expansion out of congressional control and in its own hands—what Murray Rothbard calls "the more subtle, and more privileged, big-bank-controlled variety."[27] Fitting behavior for a principal special-interest group during the Great Barbecue, this portended their future advocacy of more interventionist and restrictionist policies.

---

[26] Dee Brown, *Hear That Lonesome Whistle Blow: The Epic Story of the Transcontinental Railroads* (New York: First Owl Books, 2001), 216; Robert L. Frey, "Jay Cooke," in *Encyclopedia of American Business History and Biography: Railroads in the Nineteenth Century*, ed. Robert L. Frey (New York: Facts on File, 1988), 63; Friedman and Schwartz, *Monetary*, 704; Louis Johnston and Samuel H. Williamson, "What Was the U.S. GDP Then?" MeasuringWorth (accessed October 7, 2024), https://www.measuringworth.com/datasets/usgdp12/; Newman, "Depression," 486–97; Newman, "Origins," 399–400; Rothbard, "History," 150–53; Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 48–49; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 2, *Work and Welfare* (New York: Cambridge University Press, 2006), 267; Sutch and Carter, *Historical,* 3:158; and Margaret Susan Thompson, *The "Spider Web": Congress and Lobbying in the Age of Grant* (Ithaca, NY: Cornell University Press, 1985), 183–84, 202–3.

[27] Murray N. Rothbard, "The Origins of the Federal Reserve," in Rothbard, *History*, 189.

In the 1880s the ubiquitous J. P. Morgan of Drexel, Morgan & Co. assumed a formidable presence on Wall Street. Though Morgan and his partnership focused on the investment banking activities of marketing government and railroad securities, the company participated in the deposit-taking business of commercial banks and worked with the leading national banks on Wall Street that accumulated bankers' balances. Morgan's major commercial-bank ally was the First National Bank of New York, now led by George Baker, "Mr. Morgan's Secretary of the Treasury."[28] Baker's First National specialized in bankers' balances and possessed the first or second largest balances in New York City throughout the decade.

As the eighties progressed Morgan, Baker, and Wall Street grew increasingly frustrated with the erosion of the National Banking System's privileges. The system originally hit state banks with a punitive annual tax on banknotes and concentrated reserves in New York City by designating it as the only central reserve city location. These favors gradually dissipated. State banks did not go away: the increasing use of checkable deposits relative to notes allowed them to make a comeback and operate under state laws with less onerous capital requirements. Thus, from 1880 to 1893 the number of state banks surpassed their pre–National Bank Acts high, surging from 1,279 to 5,685, while national banks increased from 2,076 to only 3,807. More strikingly, state bank money was growing faster than national bank money: state bank deposits increased from 81 percent of all national banknotes and deposits in 1880 to 149 percent of all national bank money in 1893.[29]

Wall Street's concentration of reserves in central reserve city banks also suffered because midwestern reserve city banks began competing vigorously for the balances of country and state

[28] Sheridan Logan to Vincent Carosso, December 13, 1982, quoted in Vincent P. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, MA: Harvard University Press, 1987), 453.

[29] Carosso, *Morgans*, 140–273; Margaret G. Myers, *The New York Money Market*, vol. 1, *Origins and Development* (New York: Columbia University Press, 1931), 245–46; Murray N. Rothbard, "The Federal Reserve as a Cartelization Device: The Early Years, 1913–1930," in Rothbard, *Progressive*, 465–67; Jean Strouse, *Morgan: American Financier* (New York: Harper Perennial, 2000), 186; and Sutch and Carter, *Historical*, 3:634, 641.

banks. Between 1875 and 1885 bankers' balances in Chicago rose from $10.3 million to $28.1 million (a 173 percent increase) while those in New York City increased from $94.2 million to $139.8 million (a 48 percent increase). Moreover, the First National Bank of Chicago and other large national banks in that city came to exert considerable influence through a powerful new lobbying front, the American Bankers Association (ABA), established in 1875. Over the next several decades the ABA would champion deregulatory reforms beneficial to the economy, particularly by pushing for the relaxing of federal bond-backing requirements to make it easier for national banks to issue notes. James Forgan, a future leader of the First National Bank of Chicago and the ABA, spent part of his career at banks in Canada and Scotland, two countries with relatively deregulated banks that could freely issue notes and open branches. Experience had shown him that banks operating in these more laissez-faire systems, with policing by competitive firms, were more stable and less susceptible to bank panics.

Chicago bankers scored a massive coup against New York City in 1887 when Congress elevated Chicago and St. Louis to central reserve city status, enabling banks in those cities to act as quasi-central banks. According to Margaret Myers, the "rival cities" were determined to "use this means of wresting from New York the prestige and financial preeminence which caused such envy among the growing towns of the West."[30] When Congress passed the law, the First National Bank of Chicago leapt at the opportunity and petitioned the comptroller of the currency to begin the formal process of converting to a central reserve city bank. From 1886 to 1897, New York City's share of central reserve cities' deposits and bankers' balances fell from 100 percent to 77 and 73 percent, respectively. The cartel was facing new competition. Henry Clews, a New York banker, noted that Chicago's emerging influence would check "the growing ascendancy of New York" and its rise to becoming a worldwide financial center.[31]

---

[30] Myers, *Money*, 1:240.

[31] Henry Clews, *Fifty Years in Wall Street* (New York: Irving, 1908), 2:579. Clews, *Fifty*, 2:577–80; F. Cyril James, *The Growth of Chicago Banks*, vol. 1, *The Formative Years, 1816–1896* (New York: Harper and Brothers, 1938), 488, 490, 529, 558–59; Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation*

While the feud between New York and Chicago raged, another powerful interest group, who became known by the early 1890s as the Populists, threatened both cities. The Populists formed out of southern and western small farmers, silver mine owners, shippers, and other interest groups who previously lobbied for their own anti-big-business special privileges. The farmers and silver mine owners had been the factions most concerned with monetary policies. Historical myth holds that after the Panic of 1873 farmers suffered from intense debt burdens that were aggravated by falling prices. However, most did not take out large mortgages, and nominal interest rates on their loans decreased in order to reflect anticipated price decreases. Agrarians' real incomes in fact increased over the next two decades, but less than manufacturing workers', owing to lower productivity gains from industrialization in the agricultural sector. Nonetheless, they had reason to be dissatisfied with the financial status quo.[32]

Undoubtedly, the National Banking System's restrictions hurt agrarians. High capital requirements, combined with provisions that curtailed real estate loans, hampered farmers' ability

---

of American History, 1900–1916 (New York: Free Press, 1963), 141; Richard T. McCulley, *Banks and Politics during the Progressive Era: The Origins of the Federal Reserve System, 1897–1913* (New York: Garland, 1992), 50, 92–94; Myers, *Money*, 1:241–42, 245–49; Ross M. Robertson, "St. Louis: Central Reserve City, 1887–1922," *Federal Reserve Bank of St. Louis Monthly Review* 36, no. 8 (August 1954): 89; George Selgin and Lawrence H. White, "Monetary Reform and the Redemption of National Bank Notes, 1863–1913," in George Selgin, *Money: Free and Unfree* (Washington, DC: Cato Institute, 2017), 110, 117, 119–20; and Lawrence H. White, "Free Banking in History and Theory," in *Renewing the Search for a Monetary Constitution*, ed. Lawrence White, Viktor Vanberg, and Ekkehard A. Kohler (Washington, DC: Cato Institute, 2015), 194–98.

[32] Jeremy Atack, Fred Bateman, and William Parker, "The Farm, the Farmer, and the Market," in *The Cambridge Economic History of the United States*, ed. Stanley L. Engerman and Robert E. Gallman (New York: Cambridge University Press, 2000), 2:275–76, 280, 282; Donald J. Boudreaux and Thomas J. DiLorenzo, "The Protectionist Roots of Antitrust," *Review of Austrian Economics* 6, no. 2 (September 1993): 87; Robert Higgs, *The Transformation of the American Economy, 1865–1914* (New York: John Wiley and Sons, 1971), 96–102; Susan Previant Lee and Peter Passell, *A New Economic View of American History* (New York: W. W. Norton, 1979), 292–301; Charles R. Morris, *The Tycoons: How Andrew Carnegie, John D. Rockefeller, Jay Gould, and J. P. Morgan Invented the American Supereconomy* (New York: Henry Holt, 2005), 116; and Ritter, *Goldbugs*, 55–57.

to access financial intermediaries. Furthermore, as the Treasury accumulated tariff-induced surpluses, it bought federal bonds at a 29 percent premium from wealthy individuals and large northern national banks to decrease the national debt. To farmers' dismay, this decrease in bonds limited the notes national banks could issue, and notes in circulation declined an astonishing 60 percent between 1880 and 1890. This made it very difficult for farmers to acquire banknotes for their daily transactions and forced them to rely on greenbacks and specie.[33]

Many agrarians saw the solution in monetary cronyism. First, in the 1870s, the Granger movement favored replacing the National Banking System with a steady stream of greenbacks from Congress. In essence, they wanted to shift money creation away from privileged banks to a profarmer government that would give them the new money first and saddle the yoke of higher prices upon the mercantile and industrial communities.[34]

By the end of the decade, the greenback craze had fizzled out. In its place, Farmers' Alliance groups (the successors to the Granger movement), and southerners and westerners in the Democratic Party lobbied to increase the money supply through the free coinage of silver. This was an issue years in the making: in 1873, Congress had closed the nation's mints to silver. The concern was that, because increased silver production and demonetization of silver by leading European nations would reduce its value on the world market, the value of a dollar redeemable in both gold and silver would decline relative to other gold-exclusive currencies. To quiet the clamor against the "Crime of 1873," Congress passed the Bland-Allison Act in 1878, mandating that the Treasury purchase $2 million to $4 million of silver per month to make coins that had legal-tender status.[35]

---

[33] Douglas A. Irwin, *Clashing over Commerce: A History of US Trade Policy* (Chicago: University of Chicago Press, 2017), 255; Josephson, *Politicos*, 399; Ritter, *Goldbugs*, 67–69; George Selgin, "New York's Bank: The National Monetary Commission and the Founding of the Fed," in *Money: Free and Unfree* (Washington, DC: Cato Institute, 2017), 127–28; and Sutch and Carter, *Historical*, 3:641.

[34] Bensel, *Political*, 447–51; Newman, "Origins," 399; and Ritter, *Goldbugs*, 51–52, 129–31.

[35] Quoted in Rothbard, "History," 158.

This meant that when the country resumed specie payments in 1879, it was technically on a bimetallic standard with the dollar defined in both gold and silver.

Even though many of the silver coins never left the government vaults, the Bland-Allison Act had enormous implications for the dollar because banknotes and greenbacks now represented claims to either gold or silver, which were less valuable than claims to gold alone. Creditors who had previously loaned money to private institutions or the federal government could now be paid back in depreciated silver-backed dollars. Foreign investors whose currencies were no longer tied to silver especially interpreted the shift to bimetallism as a partial default. It was for these reasons that Morgan, Wall Street, and the bankers in the ABA, who sold dollar-denominated securities to domestic and foreign investors, condemned the act. Confidence abroad in the US economy dropped in the early 1880s because of the Bland-Allison Act and the steady shift in Treasury balances from gold to silver. As investors feared that the dollar would no longer be redeemable in gold, they pulled the yellow metal out of an already overextended banking system. The leakage helped precipitate the Panic of 1884.[36]

Bankers expected the hard-money Bourbon Democrat Grover Cleveland to veto any prosilver legislation that southern and western Democrats proposed. They could not say the same about his successor, Benjamin Harrison. His presidency was bad timing for the gold standard. Like many Republican leaders, Harrison remained inconsistent on the silver issue and campaigned on a bimetallic platform in 1888 to curry political favor with agrarians and another constituency: silver mine owners. By the late 1880s silver mine owners jumped on the bandwagon and supported silver coinage to enhance their own profits. Their resolve strengthened when Harrison admitted into the Union six western states with strong silver mining interests (North Dakota, South Dakota, Montana, Washington, Idaho, and Wyoming). Republican senators Henry Teller of Colorado and John

[36] Bensel, *Political*, 377–81, 447; Alan L. Sorkin, "Depression of 1882–1885," in *Business Cycles and Depressions: An Encyclopedia*, ed. David Glasner (New York: Garland, 1997), 150; Rothbard, "History," 157–61; and Strouse, *Morgan*, 172, 179, 305.

Jones and William Stewart of Nevada, longtime owners of silver mining stock, received new allies in the upper chamber. The establishment of the American Bimetallic League in November 1889 symbolized the alliance between agrarians and silver mine owners.

During tariff debates in the Billion Dollar Congress, Senator Stewart bluntly stated that if the trusts wanted a protectionist sweetener the silver interests needed their own largesse: "There will be no tariff legislation this session unless a silver bill is passed."[37] They received the Sherman Silver Purchase Act of 1890, signed into law before the McKinley Tariff. This quid pro quo reaffirmed the Civil War alliance between Republican protectionists and inflationists. The law required the Treasury to buy 4.5 million ounces of silver per month with new legal-tender Treasury notes that could be redeemed in silver *or* gold. Since the Treasury had only been purchasing $2 million of silver a month under the Bland-Allison legislation, given the price of silver at the time the Treasury would now have to purchase over $4 million a month—more than twice as much as before. The law put in serious jeopardy the US government's commitment to redeeming the dollar in gold. As the Treasury purchased silver with Treasury notes, domestic citizens and foreigners turned around and redeemed the notes for gold.[38]

The new law greatly worried Morgan and foreign investors. With each passing year the United States teetered closer and closer to not only a bank panic but a default on the dollar, which

---

[37] Quoted in H. Wayne Morgan, *William McKinley and His America*, rev. ed. (Kent, OH: Kent State University Press, 2003), 109.

[38] Bensel, *Political*, 396–98; Irwin, *Clashing*, 264; Stanley L. Jones, *The Presidential Election of 1896* (Madison: University of Wisconsin Press, 1964), 19–25; Josephson, *Politicos*, 421, 444, 536, 663–64; Michael P. Malone, *The Battle for Butte: Mining and Politics on the Northern Frontier, 1865–1906* (Seattle: University of Washington Press, 1981), 24–31, 41–45, 105–6; Horace Samuel Merrill, *Bourbon Leader: Grover Cleveland and the Democratic Party* (Boston: Little, Brown, 1957), 109–17; Kirk Porter and Donald Johnson, *National Party Platforms: 1840–1960* (Urbana: University of Illinois Press, 1961), 81; Mark Zachary Taylor, "Benjamin Harrison and the Seeds of Economic Crisis, 1889–1893," *Critical Review* 33, no. 1 (2021): 114–18, 124; Richard H. Timberlake, "The Panic of 1893," in Glasner, *Business*, 517–18; and Allen Weinstein, *Prelude to Populism: Origins of the Silver Issue, 1867–1878* (New Haven, CT: Yale University Press, 1970), 70–81, 150–76.

would ruin Wall Street. From 1890 to 1892 the nation's monetary gold stock declined over 7 percent as gold left the country. In March 1891 the Treasury imposed a heavy fee on the export of gold bars, and the Senate passed a free coinage bill in July 1892. Although the bill went no further, the Senate's passage of it, along with the new fee, heightened uncertainty. By the end of the year the *Commercial & Financial Chronicle* wrote of "the lack of confidence which our policy is causing Europe to feel in our financial stability. . . . As fast as Europeans can dislodge their holdings in America they take the money away."[39] To make matters worse, the gold drains occurred while the banking system inflated the money supply 53 percent (6.3 percent per year) from 1885 to 1892. The National Banking System groaned under the pressure of an expanding credit structure pyramided upon a depleting base of gold reserves. Monetary conditions tightened in late 1892, and by spring the Philadelphia & Reading Railroad and the National Cordage Company failed. A rash of southern and western bank failures followed, and another panic hit the nation.[40]

Unlike the panics in 1873 and 1884, the Panic of 1893 sparked a double-dip depression that lasted for four years. From 1892 to 1894 GDP declined 10 percent before increasing in 1895 by 11 percent, only to slide by 1.6 percent in 1896. Overall, the economy contracted by 1.7 percent between 1892 and 1896, a clear retrogression. On top of the National Banking System's usual boom-bust cycle and built-in fragilities (the pyramiding of reserves, limited note issuance, and prohibitions on branch banking), the panic included a severe currency shock caused by the fear that the US might abandon the gold standard. Foreign investors remained very nervous about America's commitment to gold, and the precious metal continued to flow out of the country through 1895, leaving the nation with 15 percent less gold than in 1888. Intense union strikes and the emergence of a peacetime income tax in the Wilson-Gorman Tariff of 1894

---

39 "Gold Shipments," *Commercial & Financial Chronicle*, December 17, 1892, 1012.

40 Friedman and Schwartz, *Monetary*, 705; Rothbard, "History," 168–69; Strouse, *Morgan*, 305, 318–19; Sutch and Carter, *Historical*, 3:596; and Taylor, "Harrison," 118–20.

aggravated business uncertainty. Combined, these factors curtailed investment spending and economic growth.[41]

The monetary program pursued during the panic reflected the Wall Street position—a defense of the gold dollar and continued restrictions on smaller bank competitors. Morgan, customarily a Republican, had voted for the Democrat Cleveland in his first administration. His support grew after 1889, when Cleveland worked for Bangs, Stetson, Tracy & MacVeagh, the law firm of one of his campaign advisors and friends, Francis Lynde Stetson. Stetson was known on Wall Street as "Morgan's attorney general" and received a $50,000 annual retainer from the banker.[42] In other words, Morgan now had a direct line to the former president and repeat presidential contender.[43]

The Democratic Party's monetary plank in the 1892 election contained two important laissez-faire reforms. First, Cleveland vowed to repeal the Sherman Silver Purchase Act, which appealed to Wall Street. Second, Cleveland pledged to eliminate the tax on state banknotes. This was designed to appeal to southerners, who were increasingly under the influence of Populism. Southern state bankers had been eager to repeal the prohibitory tax on the issuance of state banknotes. Removing the tax would have made it easier for farmers to access currency and would not have been inflationary. If a depositor wanted to convert some of his money into notes, the bank would correspondingly decrease his deposit account. If a state bank engaged in credit expansion by issuing notes to borrowers, other banks would redeem its notes and keep the money supply in check. As a result, the tax

---

41 Charles W. Calomiris, "Greenback Resumption and Silver Risk: The Economics and Politics of Monetary Regime Change in the United States, 1862–1900," in *Monetary Regimes in Transition*, ed. Michael Bordo and Forrest Capie (New York: Cambridge University Press, 1993), 87–88, 99–101, 110–11, 117; Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (Oakland, CA: Independent Institute, 2012), 77–105; Johnston and Williamson, "GDP"; Newman, "Depression," 493–97; and Sutch and Carter, *Historical*, 3:596.

42 Quoted in Carosso, *Morgans*, 366.

43 Jeremiah D. Lambert and Geoffrey S. Stewart, *The Anointed: New York's White-Shoe Law Firms* (Guilford, CT: Lyons Press, 2021), 28–33; and Strouse, *Morgan*, 241, 259.

repeal received the support of the laissez-faire Sound Currency Committee of the New York Reform Club.

True to his word, Cleveland muscled repeal of the Sherman silver law through Congress in late 1893, reducing uncertainty about the dollar in the short term. Disastrously, Cleveland did not fight for repeal of the state banknote tax. Congressional Republicans and even Bourbon Democrats defended the National Banking System's special privileges and defeated the measure in June 1894. This betrayal amplified southern Democrats' wrath against Wall Street, and they increasingly championed Populism and the free coinage of silver as a panacea for their woes.[44]

More fundamental reform of the nation's banking system was needed, but Wall Street fiercely guarded its privileges. During the panic midwestern banks argued that national banks suffered from note inelasticity. Chicago bankers endorsed the so-called Baltimore Plan, proposed by the president of the Second National Bank of Baltimore at an ABA meeting in 1894. In essence, the Baltimore Plan repealed the federal bond-backing restriction for national banknotes and created a note insurance fund instead, a quasi deregulation. This asset currency reform would have increased the ability of national banks to satisfy depositors' demands for notes by not restraining their issuance with government debt, thereby improving banking stability and the economy. The proposal received the support of Wall Street banker A. Barton Hepburn. But other Wall Street bankers, particularly George Williams, opposed the plan. Williams's word carried enormous weight: he served as the president of the Chemical National Bank, the largest New York City commercial bank in terms of assets in 1891. Williams warned that "very many mushroom banks would be started" that would engage in note issuance.[45] Put differently, the plan would lead to new and

---

[44] Bensel, *Political*, 142–43, 410–14, 450–53; Calomiris, "Greenback," 117; McCulley, *Banks*, 84; Merrill, *Bourbon*, 184; Porter and Johnson, *Platforms*, 88; Ritter, *Goldbugs*, 55–58, 173–74; Rothbard, "History," 169; and Rothbard, *Progressive*, 166–67.

[45] George Williams, "Testimony," *Banker's Magazine*, January 1895, 280.

vigorous competition for Wall Street, and that was unacceptable. The Baltimore Plan never got off the ground.[46]

Poor Grover Cleveland. In his two nonconsecutive terms he tried to practice laissez-faire policies that defended the dollar and improved monetary stability, but his actions undoubtedly acquiesced to Wall Street cronyism. His time was running out: the president had burned a great deal of political capital among soft-money Democrats by pushing for the repeal of the Sherman Silver Purchase Act while letting banking reform slip through his fingers. To Populist Democrats, this was incontrovertible proof that their president valued Wall Street's monopolistic privileges more than the welfare of the periphery. They would stand for this no more, setting the nation up for one of the most pivotal elections in its history.

The Election of 1896

Wall Street had momentarily achieved its goals of stopping the silver threat to the dollar and blocking meaningful national and state banking reforms. These victories, however, would be pyrrhic indeed, for they seriously fractured the Democrats. This left the party ripe for the taking by smaller crony interests, a scenario that gravely threatened Wall Street and the nation's economy in general and marked a significant change in the trajectory of special-interest policies.

The party in power nearly always loses an election during the bust phase of the business cycle. The midterms in November 1894 were no exception: the Republicans trounced the Democrats. Significantly, Democratic losses also coincided with a weakening of the Bourbons and a shifting of party control to the Populists. By this time, the fiery evangelist Congressman William Jennings Bryan of Nebraska had become that faction's standard-bearer. Though he was the subject of many starry-eyed

---

[46] James Freeman and Vern McKinley, *Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi* (New York: Harper Collins, 2018), 59; McCulley, *Banks*, 91–92; Robert Craig West, *Banking Reform and the Federal Reserve, 1863–1923* (Ithaca, NY: Cornell University Press, 1977), 43–44; and Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, MA: Harvard University Press, 1962), 13, 62.

accounts, it is a dirty secret that Bryan relied upon wealthy silver backers, even if they fell short of Wall Street's munificence.

Marcus Daly, an influential owner of the Anaconda Copper Company in Montana who recognized that the increased coinage of silver would raise the price of silver and increase Anaconda's profits, was the major donor. In 1893 Daly funded the American Bimetallic League and served as the president of his state's affiliate level organization while Bryan worked for the league's Nebraska State Council. Then, after Bryan failed to become one of Nebraska's senators in the midterms, Daly rescued the *Omaha World-Herald* from bankruptcy and made Bryan editor-in-chief. He succeeded in getting Bryan to use the position as a platform for the silver cause, which the aspiring presidential candidate increasingly did throughout 1895 and 1896.[47]

It became clear to the financially astute that the stronger Bryan and the Populists became in the Democratic Party, the more likely it was that the US would abrogate the redemption of dollars for gold. As gold flowed out of the Treasury's vaults in late 1894, Wall Street grew increasingly concerned. Morgan and his top-flight legal counsel Stetson traveled to the White House in early 1895. They arranged a gold loan with Cleveland to prevent the US from defaulting on the dollar and to shore up investor confidence. In total, Morgan assisted with a series of loans totaling $262 million over three years in attempts to secure a gold dollar. The transactions required the House of Morgan to call upon the entire gamut of commercial and investment banking elites, including George Baker's First National Bank of New York, the Stillman-Rockefeller National City Bank, and investment bank Kuhn, Loeb & Co. Although Populists heavily criticized the action, especially because it involved Jewish bankers, Morgan earned a

[47] Richard Franklin Bensel, *Passion and Preferences: William Jennings Bryan and the 1896 Democratic National Convention* (New York: Cambridge University Press, 2008), 34; Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 184; Richard F. Hamilton, *President McKinley, War and Empire*, vol. 1, *President McKinley and the Coming of War, 1898* (New York: Routledge, 2017), 77; Malone, *Butte*, 24–31, 41–45, 105–06; Merrill, *Bourbon*, 197, 204–05; Rothbard, *Progressive*, 164–65, 182–84, 188–90; Strouse, *Morgan*, 319; and Charles Morrow Wilson, *The Commoner: William Jennings Bryan* (Garden City, NY: Doubleday, 1970), 151, 195–202, 204.

middling 5 percent return—a modest compensation for the risk involved.[48]

Thanks to Morgan and other big bankers' efforts, US gold reserves began to recover. But they began to fall again in March 1896 when investors realized that the upcoming presidential election could threaten the gold standard anew. Much to Wall Street's anxiety, a moderate chance existed that both the Democrats and the Republicans would nominate prosilver candidates. That the Democrats would nominate a Populist seemed likely; it was the Republicans that worried Wall Street more. Morgan wanted the Republicans to choose Levi Morton, his longtime banker friend, a former vice president, and the current governor of New York. It became increasingly certain, however, that Mark Hanna's maneuvering would secure Ohio governor William McKinley the nomination. A McKinley candidacy was problematic for Wall Street because it could not trust him on the silver question: as a congressman he had voted for the Bland-Allison Act and the Sherman Silver Purchase Act.

Before the Republican convention in June, Ohio banker Myron Herrick asked Morgan to endorse McKinley. Morgan dismissed the request, considering McKinley a man with a "backbone of jelly" due to his silver record.[49] Herrick suggested a sit-down with Hanna, whom Morgan had never met. At that fateful meeting on Morgan's yacht *Corsair*, Hanna pledged that McKinley would firmly support the gold standard if Morgan and Wall Street helped fund the campaign. The deal was struck. Later in the month McKinley won the nomination on a protectionist and progold platform. Upon the Republicans' adoption of the gold standard plank, silver Republicans flocked to the Democrats.[50]

The Democratic convention held the following month ushered in a veritable party revolution. The convention repudiated

---

[48] Carosso, *Morgans*, 325–27, 339, 349, 439; Freeman and McKinley, *Borrowed*, 67; and Strouse, *Morgan*, 319, 339–54.

[49] J. P. Morgan, quoted in T. Bentley Mott, *Myron Herrick—Friend of France* (New York: Doubleday, Doran, 1929), 68–69.

[50] Calomiris, "Greenback," 100; Carosso, *Morgans*, 289, 292; Hamilton, *McKinley*, 59, 71; Rothbard, *Progressive*, 180–82; Strouse, *Morgan*, 306, 354–55; and R. Hal Williams, *Realigning America: McKinley, Bryan, and the Remarkable Election of 1896* (Lawrence: University Press of Kansas, 2010), 60.

Cleveland and nominated Bryan for president. It was official: the Populists had wrested control away from the Bourbons, causing Abram Hewitt, a former Democratic mayor of New York City, to remark that "the Democratic party, as we knew it, is dead."[51] Laissez-faire Democrats either voted for the Republican ticket because of its progold stance or joined the fledgling third-party Gold Democrats. Although Bryan ran largely on a prosilver platform, everyone knew that he embraced Populist interventions, including railroad regulation, stringent antitrust enforcement, income taxation, and abolition of the National Banking System. Wall Street did not want that.

Bryan could count upon silver miners to contribute, especially Marcus Daly of the renamed Anaconda Copper Mining Company (1895). Daly and other mine owners spent $289,000 electing prosilver delegates to the convention. For Bryan's actual campaign, Daly donated $100,000 and "adopted a rule at the mines that each man contribute a day's pay to the silver cause"—his workers coughed up $60,000.[52] Altogether, Bryan mustered up $300,000, largely from silver special interests—a paltry sum compared to the $3.5 million swollen hoard Hanna amassed for McKinley from Wall Street and the nation's big businesses. For example, J. P. Morgan personally provided $250,000, Standard Oil donated $250,000, railroads pitched in $174,000, and the Beef Trust donated $40,000. Unsurprisingly, McKinley smashed Bryan in the November election. Morgan breathed a sigh of relief at the news. Gold began to flow back into the country, and trust in the dollar recovered.[53]

---

[51] Abram Hewitt to Thos Fenlon, December 4, 1900, quoted in Mark D. Hirsch, *William C. Whitney: Modern Warwick* (Hamden, CT: Archon Books, 1969), 509.

[52] Marcus Daly to M. Donohoe, May 12, 1896, quoted in Dennis L. Swibold, *Copper Chorus: Mining, Politics, and the Montana Press, 1889–1959* (Helena: Montana Historical Society Press, 2006), 61.

[53] Bensel, *Passion*, 155; Carosso, *Morgans*, 348; Hamilton, *McKinley*, 77; Malone, *Butte*, 108–9; Merrill, *Bourbon*, 132, 204–7; Rothbard, *Progressive,* 182–86; Strouse, *Morgan*, 305, 359; Swibold, *Copper*, 9–10, 61; and Williams, *Realigning*, 97–98, 136–37.

The election of 1896 marked an important change in the course of monetary privileges and government largesse in general. Since its inception the Republican Party had championed a modified version of the Whigs' American System. During the Civil War, railroads, large manufacturers, and New York City bankers lobbied the party for restrictions and subsidies that provided them benefits while resulting in higher prices, reduced competition, and lower growth, to the detriment of the economy overall. To the frustration of these companies, their gains were gradually whittled away by new competition, labor and smaller businesses eager for their own privileges, downturns spurred by government policy, and the return of laissez-faire Democrats. The railroads were the first group to change their strategy, advocating for a commission that regulated competition and stopped shippers' proposals to force rates down, and they achieved some of what they wanted through the appointments of President Cleveland. But the railroads and Wall Street had lost the friends they had in the Democratic Party after Populist interests took over and backed their own preferred cronyism for smaller businesses and unions. This forced corporations to postpone calls for new government favors and concentrate on defeating Bryanite Populism.

After business interests, led by the newly organized J. P. Morgan & Co. in the 1890s, safely elected McKinley, they proceeded to double down on the railroad strategy. The new special-interest proposals of New York City banks, large corporations, railroads, and food and medical providers would almost always revolve around establishing regulatory commissions or strengthening existing ones. The goals remained the same: raise prices and institute compliance costs on rival interests, especially smaller firms, to increase their own domestic and foreign market shares. Another desire of big business would be to use the commissions to prevent rivals—like shippers and unions for the railroads or smaller banking interests for national banks—from enacting policies that diminished big business's control, influence, or bottom lines. For Populism was down but not out for the count, and those in its ranks pressed on for their own special favors.

To win, big business and all those seeking government privilege would have to develop new public relations skills and convince the public that commissions and related legislation were "progressive," "forward looking," and "enlightened," and promoted societal welfare by reining in entrenched big business—when the reality was precisely the reverse. Cronies enlisted members of the intellectual class, including lawyers and accountants, who recognized how government policymaking increased the demand for their legal and bureaucratic services. Interventionist economists and other academics keen for government jobs and consulting work would also prove essential.

Historians have taken the public relations at face value and labeled the early twentieth century the Progressive Era. But the supposedly progressive policies would not progress the public. Instead, they launched the big-business corporatist state in America, a tectonic expansion in the history of cronyism. Under corporatism the government organizes businesses, intellectuals, unions, and other groups into various privileged cartels. This allows the groups to focus less on competing in the marketplace and serving consumers and more on the political and bureaucratic arena, where they can fight over restrictionist rules and commissioner appointments. Corporatism produces a middle-of-the-road and interventionist statism in place of welfare-enhancing laissez-faire capitalism or destructive and confiscatory socialism. The result, however, still injures the public—higher prices, lower quality, reduced product variety, and a persistent inequality between the groups favored by the government and those that are not. This was the system that was about to be thrust upon the American people.[54]

[54] Rothbard, *Progressive*, 107, 109, 190–97.

PART III

THE CORPORATIST ERA, 1897–1929

CHAPTER 6

WALL STREET'S CENTRAL BANK

"Something radical is going to be necessary in order to meet the banking competition that we are facing," wrote National City Bank's vice president Frank Vanderlip to his superior, James Stillman, in 1907.[1] True to his word, three years later Vanderlip, like-minded Wall Street bankers, and allied economists did concoct a radical corporatist proposal at a secluded resort in Georgia: a central bank that would protect their cartel in bankers' balances from midwestern competitors and propel New York City and the dollar into worldwide financial hegemony. This regulatory agency has perceptively been called "the Creature from Jekyll Island" and was the defining achievement of the corporatist state.[2] More than the trusts' trade commission, the enhanced Interstate Commerce Commission, and new agencies that regulated food and drugs, the central bank was the prime example of how a progressive policy that was purportedly designed to combat big business actually provided special privileges to that group. The reason was personnel: Wall Street succeeded in making sure that one of its men would serve as the dominant and lasting influence, seizing control of monetary policy for Wall Street's benefit.[3]

---

[1] Frank Vanderlip to James Stillman, February 1, 1907, quoted in Harold van B. Cleveland and Thomas F. Huertas, *Citibank, 1812–1970* (Cambridge, MA: Harvard University Press, 1985), 59.

[2] G. Edward Griffin, *The Creature from Jekyll Island: A Second Look at the Federal Reserve*, 4th ed. (Westlake Village, CA: American Media, 2002).

[3] Larry Schweikart, "Frank Arthur Vanderlip," in *Encyclopedia of American*

The Creature from Jekyll Island

By the twentieth century, the Wall Street power elite centered around John Pierpont Morgan's J. P. Morgan & Co., Jacob Schiff's Kuhn, Loeb & Co., George Baker's First National Bank of New York, and James Stillman's National City Bank. These institutions informally allied through shared investments in corporate securities and interlocking directorates. For example, Schiff and Morgan partners Robert Bacon and George Perkins sat on the board of directors of National City Bank, which had grown immensely profitable, leading in government deposits and bankers' balances as well as becoming a large recipient of corporate deposits. Thanks to a merger and portfolio acquisitions, its assets jumped from $37 million in 1896 to $194 million by 1901. Stillman's institution turned into the signature commercial-bank titan on Wall Street.

Wall Street continually experienced harsh criticism from Populists, culminating in an attack on an omnipresent "Money Trust" by the early 1910s.[4] However, like US Steel, various railroad communities of interest, and other corporate mergers Wall Street created in the early 1900s, the Money Trust never achieved a monopoly. Instead, central reserve city banks in Chicago and St. Louis continued to erode New York City's market share. Between 1897 and 1912 Wall Street's share of central reserve city deposits slipped from 77 percent to 72.7 percent. More drastic was the change in its share of bankers' balances, the highly desired accounts where other banks kept some of their reserves in central reserve city banks: they dropped from 73 percent to 57.5 percent. More banks were choosing to keep their reserves in Chicago and St. Louis, reducing New York City banks' control of the credit expansion process and thus their ability to act as quasi-central banks. Wall Street was facing more, not less, competition.[5]

Business History and Biography: Banking and Finance to 1913, ed. Larry Schweikart (New York: Facts on File, 1990), 471–72, 477.

[4] Charles A. Lindbergh, *Banking and Currency and the Money Trust* (Washington, DC: National Capital Press, 1913).

[5] Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 182–83; Vincent P. Carosso, *Invest-*

On the international front, Wall Street had defended the gold dollar against the Populists, but New York City still played a distant fiddle to British finance. US trade with Great Britain and other countries was largely financed through British acceptances, a type of financial instrument where banks guaranteed payment to exporters so importers could purchase goods. The National Banking Acts prohibited national banks from participating in the acceptance business. Moreover, between 1899 and 1913, as a share of foreign exchange reserves held by foreign governments and private banks, the dollar was not on the same map as the British pound sterling or even the German mark or the French franc. Wall Street had to pay commissions to European bankers, had to sell securities denominated in a currency that was not in high demand, and failed to get dollar-denominated banknotes and deposits to serve as reserves for credit expansion abroad.

Wall Street desperately sought to stem the erosion in its competitive position domestically and ascend to unquestioned supremacy internationally. It decided to accomplish this not by becoming more efficient compared to rivals in a deregulated market, but through the time-honored method of acquiring new privileging regulations from Congress. In other words, Wall Street financiers demanded corporatist regulations that cartelized the banking industry and aggressively promoted New York finance around the world.[6]

---

ment Banking in America: A History (Cambridge, MA: Harvard University Press, 1970), 151–52; Vincent P. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, MA: Harvard University Press, 1987), 452; Cleveland and Huertas, *Citibank*, 48–49, 56, 314–15; James Freeman and Vern McKinley, *Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi* (New York: Harper Collins, 2018), 65–70; Richard T. McCulley, *Banks and Politics during the Progressive Era: The Origins of the Federal Reserve System, 1897–1913* (New York: Garland, 1992), 91; Margaret G. Myers, *The New York Money Market*, vol. 1, *Origins and Development* (New York: Columbia University Press, 1931), 246; and Ross M. Robertson, "St. Louis: Central Reserve City, 1887–1922," *Federal Reserve Bank of St. Louis Monthly Review* 36, no. 8 (August 1954): 89.

[6] J. Lawrence Broz, *The International Origins of the Federal Reserve System* (Ithaca, NY: Cornell University Press, 1997), 36–45, 66–85, 105–14; and Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (New York: Oxford University Press, 2011), 32.

Three important developments during the late 1890s solidified Wall Street's relationship with the McKinley administration and the Republican Party. First, the resumption of foreign confidence in the American monetary system, new gold production, and an increase in exports to Europe caused the amount of gold in the United States to increase 85 percent between 1895 and 1900. The Treasury, now overflowing with gold from tariff revenue, stored its revenue surpluses in national bank depositories. This reserve subsidy enabled Wall Street to further expand credit, for National City Bank was one of the primary recipients and held more than 10 percent of the government's balances in the early 1900s.[7]

Second, Republican imperialists, back in power, embarked upon Caribbean and Pacific empire building. In 1898 they annexed Hawaii and invaded the Philippines and Cuba. Initially, Morgan and other Wall Street bankers hesitated about the Spanish-American War for fear that the imperialism would jeopardize the country's credit and require silver inflation to finance the expenditures. But large gold inflows and higher taxes assuaged their worries, and the Morgans and National City Bank agreed to underwrite any portion of the $200 million bond issue not taken by the public. In this way, Wall Street helped finance the new imperialist order. By the war's end the ten largest banks in New York City held nearly $400 million of the nation's $1 billion in national debt. A key government official managing the transactions was Assistant Secretary of the Treasury Frank Vanderlip, who did such a good job that Stillman appointed him vice president of National City in 1901.[8]

---

[7] Cleveland and Huertas, *Citibank*, 48–49; McCulley, *Banks*, 55–58; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 3, *Economic Structure and Performance* (New York: Cambridge University Press, 2006), 596.

[8] Carosso, *Morgans*, 452; Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Simon and Schuster, 1990), 80; Jonathan Kirshner, *Appeasing Bankers: Financial Caution on the Road to War* (Princeton, NJ: Princeton University Press, 2007), 45–55; McCulley, *Banks*, 55–58, 65, 91; Walter Nugent, *Habits of Empire: A History of American Expansion* (New York: Vintage Books, 2008), 263–64, 278–79; and Schweikart, "Vanderlip," 471–72.

Third, in 1898 the plutocratic Nelson Aldrich ascended to the chairmanship of the Senate Finance Committee. Aldrich personified the cozy relationship between wealthy financiers and political elites—the senator played cards with Morgan, and his daughter married John D. Rockefeller Jr. in 1901. The Rhode Island senator, who had previously devoted most of his efforts to tariff legislation, increasingly shifted into financial matters. As the new chair of the Senate's foremost committee on monetary and banking issues, Aldrich was in a position to exert significant influence on the relevant legislation. According to one contemporary, "No financial measure can pass the Senate without Senator Aldrich's consent."[9] This put Wall Street in a commanding position to advance bills furthering their own cronyism and to block Chicago bankers' deregulatory reform efforts.[10]

Early on, midwestern bankers put Aldrich and Wall Street on the defensive. Led by the president of the First National Bank of Chicago, James Forgan, and the president of the Commercial National Bank of Chicago, James Eckels, the American Bankers Association (ABA) lobbied for Canadian-style deregulations that relaxed the government bond-backing requirement for national banknotes and enabled national banks to engage in interstate branching. Chicago bankers enlisted the support of J. Laurence Laughlin, a free-market economics professor at the new University of Chicago. If adopted, these proposals would have gone a long way toward increasing the stability of the United States banking system. Interstate branching would have increased competition and led to more well-diversified and efficient banks in rural America. Asset currency reforms that allowed banks to freely issue notes in response to customers' changing cash-holding preferences would have let banks satisfy demands for currency without drawing down their specie reserves.

---

[9] Leslie Shaw to Theodore Roosevelt, July 28, 1903, quoted in Horace Samuel Merrill and Marion Galbraith Merrill, *The Republican Command, 1897–1913* (Lexington: University Press of Kentucky, 1971), 151.

[10] Roger Lowenstein, *America's Bank: The Epic Struggle to Create the Federal Reserve* (New York: Penguin Press, 2015), 37, 42–43; and George Selgin, "New York's Bank: The National Monetary Commission and the Founding of the Fed," *Cato Policy Analysis* no. 793 (June 2016): 10.

Wall Street did not support either proposal. Asset currency reforms would decrease demand for the federal debt Wall Street had accumulated, while branching deregulation would enable greater portfolio diversification by smaller banks and reduce their desire to keep bankers' balances in New York City. Wall Street's only exception to relaxing branching regulations concerned establishing foreign branches. National City Bank wanted to promote the dollar-denominated commerce of Standard Oil, the American Sugar Refining Company, the meatpacker Armour & Co., the House of Morgan's new behemoth International Harvester, and other large exporters whose leaders sat on its board. Even here, Wall Street envisioned only allowing the largest banks to establish foreign branches—a blatant grant of monopolistic privilege. Joining Wall Street in opposing deregulation of domestic branching were the numerous country bankers, including Andrew Frame, president of the Waukesha National Bank in Wisconsin. Rural banks worried that the removal of barriers to branching would encourage competition in their communities from larger and more efficient financial intermediaries.

Aldrich and Wall Street supported the Gold Standard Act of 1900 because it weakened silver at the cost of only slightly decreasing barriers to entry and bond-backing requirements. They resisted the subsequent asset currency and branch banking reforms proposed by New Jersey Republican Charles Fowler, who chaired the House Banking and Currency Committee and allied with the ABA. Aldrich cut a deal with the new president, Theodore Roosevelt, who initially supported the ABA's reforms, by persuading him to stick to regulating the trusts and to other legislation the public more easily understood. With the added opposition of the Wisconsin, Iowa, Minnesota, Kansas, and other state-level banking associations that represented smaller country banks, Wall Street and Aldrich killed the Chicago-backed Fowler bills of 1902 and 1903.[11]

---

[11] Broz, *International*, 137–39, 168–69; Cleveland and Huertas, *Citibank*, 41–42, 56, 77; Benjamin J. Klebaner, "Nelson W. Aldrich," in Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, 7; McCulley, *Banks*, 39, 43, 65, 75, 92–94, 96, 103–7; George Selgin, "New York's Bank: The National Monetary Commission and the Founding of the Fed," in *Money: Free and Unfree* (Washington, DC: Cato Institute, 2017), 131–38; Eugene Nelson White, *The Regulation and Reform of the American Banking System, 1900–1929*

Wall Street then schemed how to further its anticompetitive interests. Enter Paul Warburg. A German immigrant and close relative of Schiff, Warburg became a Kuhn, Loeb & Co. partner in 1902, and Morgan personally considered him one of the "coming financiers of the country."[12] Warburg believed that free-market advocates "were preaching unsound doctrines" and America needed a central bank like the great European countries.[13] In essence, under the guise of stopping bank panics, Warburg's central bank would strengthen Wall Street's cartel and promote its services abroad. It would reduce competition from rival cities through granting selective credit expansion subsidies: disproportionate lending to Wall Street banks during growing economies and in downturns would make New York City banks more attractive destinations for other banks' balances relative to institutions in Chicago and St. Louis. The central bank's credit expansion would also promote global use of the dollar and American trade abroad. Through the purchases of acceptances to boost bank reserves, the central bank would subsidize both the market in acceptances and the Wall Street banks that would now be able to grant them. This would stop the "annual tribute to Europe," paid in the form of commissions on British acceptances—tribute that could instead be demanded from Europe in a future dollar-based international order.[14]

In 1902, Warburg articulated his central bank in a paper presented to Schiff. The head of Kuhn, Loeb & Co. approved, but cautioned his fellow German cartelist that Americans remembered the Jacksonians' fight against the monopolistic Second

---

(Princeton, NJ: Princeton University Press, 1983), 85–86; and Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, MA: Harvard University Press, 1962), 62–64.

[12] J. P. Morgan, quoted in Benjamin J. Klebaner, "Paul M. Warburg," in *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, ed. Larry Schweikart (New York: Facts on File, 1990), 438.

[13] Paul M. Warburg, *The Federal Reserve System: Its Origin and Growth* (New York: Macmillan, 1930), 1:19.

[14] Paul M. Warburg, "The Discount System in Europe," in *The Federal Reserve System, Its Origin and Growth*, vol. 2, *Addresses and Essays* (New York: Macmillan, 1930), 188.

Bank of the United States and would not accept another central bank.[15]

Wall Street hunkered down, waiting for the perfect time to strike. New York's banking pyramid, flush with Treasury money and gold inflows, once again engineered a mighty burst of credit expansion. From 1897 to 1907 the total money supply, including deposits at national banks, state banks, mutual savings banks, and the new savings and loan associations, soared by 118 percent (8 percent per annum). The inflationary bank credit percolated down in the form of loans to the nation's new corporate and railroad monoliths. The Treasury added extra fuel in 1906 when it allowed national banks to increase their reserves by borrowing against the Treasury's expected gold inflows. The *Chicago Banker* attacked this policy once it discovered that Treasury Secretary Leslie Shaw had secretly made a $10 million loan to National City Bank and already allowed it to count future gold imports in its reserves. However, Shaw's expansionary policy could not last, because it depended on continued gold inflows. When the Bank of England raised rates in the fall to reverse its own gold outflows, the stage was set for yet another banking crisis.[16]

Wall Street knew what it wanted. Thanks to Schiff, in early 1906 the New York Chamber of Commerce formed a committee on banking reform. The chief members were Vanderlip and economist Charles Conant, the treasurer of the Morgan-affiliated Morton Trust Company. In the early 1900s Conant and other economists partnered with Wall Street, one of the many alliances between big business and intellectuals during the Corporatist Era. While working in the War Department economists pressured Caribbean and Pacific vassals to replace their silver

---

[15] Broz, *International*, 142–52; Ron Chernow, *The Warburgs: The Twentieth-Century Odyssey of a Remarkable Jewish Family* (New York: Random House, 1993), 87–90, 130–31; Lowenstein, *Bank*, 31–33; Merrill and Merrill, *Republican*, 62; and Richard A. Naclerio, *The Federal Reserve and Its Founders: Money, Politics, and Power* (Newcastle upon Tyne, UK: Agenda, 2018), 64–66.

[16] Milton Friedman and Anna Jacobson Schwartz, *Monetary Statistics of the United States: Estimates, Sources, Methods* (New York: National Bureau of Economic Research, 1970), 7–9; McCulley, *Banks*, 120–26; and Ron Paul and Lewis Lehrman, *The Case for Gold: A Minority Report of the U.S. Gold Commission* (Washington, DC: Cato Institute, 1982), 120–21.

reserves with dollars, which furthered Wall Street's banking pyramid and global use of the dollar. For example, thanks to Conant, the Philippines government deposited their dollar reserves in Morton Trust. Conant also induced the new protectorate of Panama to do the same. Wall Street, especially the corporate attorney William Nelson Cromwell of Sullivan & Cromwell, played an important role in the imperialist creation of Panama. In 1900 Cromwell, Morgan, and others had secretly bought the French Panama Canal Company for $5 million. They then engineered a revolution in Colombia in 1903 to create an independent Panama so the US government would purchase the abortive Panama Canal for $40 million, allowing them to pocket a net gain, after other costs, of $25 million. Panama holding dollar reserves was simply icing on the canal cake.[17]

At his job on the New York committee, Conant continued working for New York City banks by researching and visiting European central banks. Vanderlip and Conant's report called for the "centralization of financial responsibility" through the "creation of a central bank."[18] The proposal clashed with James Forgan's concurrent efforts at the annual ABA meeting. Despite their best efforts, Stillman and Vanderlip failed to convince the Chicago banker to change his mind on asset currency reform. Fortunately for them, country bankers preferred a different plan of emergency currency distributed through their local clearing houses. As a result, Representative Fowler's new ABA-backed bill died in the House.[19]

While banking reform ideas were ruminating, the Panic of 1907 erupted after a run on New York's Knickerbocker Trust

---

[17] Carosso, *Morgans*, 619–20; Jeremiah D. Lambert and Geoffrey S. Stewart, *The Anointed: New York's White-Shoe Law Firms* (Guilford, CT: Lyons Press, 2021), 57–65; McCulley, *Banks*, 126–27; and Murray N. Rothbard, "The Origins of the Federal Reserve," in *A History of Money and Banking in the United States: The Colonial Era to World War II*, ed. Joseph T. Salerno (Auburn, AL: Ludwig von Mises Institute, 2005), 219, 222–26, 230–33, 235–39.

[18] *The Currency: Report of the Special Committee of the Chamber of Commerce of the State of New York* (New York, 1906), 9–11, quoted in James Livingston, *The Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913* (Ithaca, NY: Cornell University Press, 1986), 161.

[19] McCulley, *Banks*, 126–30; Selgin, "Bank," in *Money*, 140; and Wiebe, *Businessmen*, 64–65.

Company in October. When it commenced, Morgan, Baker, and Stillman decided which financial institutions to save. The trio was assisted by Morgan's young guns: Benjamin Strong, secretary of the Morgan-affiliated Bankers Trust Company; Thomas Lamont, vice president of the Bankers Trust Company; and Henry P. Davison, vice president of Baker's First National. Notably, the trio received bailout funds from the Treasury, which deposited $25 million in National City, First National, and other Wall Street banks. This kind of assistance incurred the wrath of country-bank stalwart Senator Robert La Follette of Wisconsin and caused him to denounce the Money Trust.

Wall Street recognized that the crisis presented an excellent opportunity. On the intellectual front, in early 1908 Edwin Seligman organized a conference on the currency question. A former president of the American Economic Association (AEA) and a current economics professor at Columbia University in New York, Seligman wanted to elevate the role of the intellectual, believing that the new century would "put us in a position to control . . . and mold" society.[20] Seligman knew that such budding philosopher kings needed wealthy financial backers: he was a relative of Warburg's, and his brother Isaac was a prominent banker at J. W. Seligman & Co. At the conference, Seligman and Warburg, along with Vanderlip, spoke about the disadvantages of bank competition. Seligman started, announcing that the worst part of "our note issue is its decentralization" (i.e., competition).[21] Vanderlip followed by criticizing each bank's "endeavor to pile up reserves" instead of pyramiding together, and Warburg concluded that "small banks constitute a danger."[22] The solution to such competition, they stated, was a central bank that monopolized note issuance and could pump reserves into

[20] Edwin Seligman, "Economics and Social Progress," *Publications of the American Economic Association*, 3rd Series, 4 (February 1903): 70.

[21] Edwin Seligman, "Introduction: The Crisis of 1907 in the Light of History," in *The Currency Problem and the Present Financial Situation: A Series of Addresses Delivered at Columbia University, 1907–1908* (New York: Columbia University Press, 1968), xxvii.

[22] Frank Vanderlip, "The Modern Bank," in *Currency*, 14; and Paul M. Warburg, "American and European Banking Methods and Bank Legislation Compared," in *Currency*, 134.

banks. Later in the year, Warburg delivered another pro-central-banking speech, this time to the attentive AEA, and began corresponding with Professor Irving Fisher of Yale University and other intellectual heavyweights.

In terms of the political picture, Morgan, Warburg, and others met with Aldrich to devise legislation that could lay the foundation for a central bank. Thanks to Aldrich's efforts Congress passed the Aldrich-Vreeland Act in May 1908. The important feature of this law was its establishment of a commission to investigate banking reform.[23]

George Selgin perceptively describes the National Monetary Commission as "a Trojan Horse for Wall Street."[24] Upon the law's passage Morgan and Schiff recommended that Aldrich, the chair of the commission, choose Davison as his advisor. This Morgan satrap expected a central bank to introduce a "level playing field" by reducing the competitiveness of nonnational banks.[25] According to Morgan partner George Perkins, "It is understood that Davison is to represent our views and will be particularly close to Senator Aldrich."[26] Davison certainly made sure: he subsequently sold the politician $50,000 worth of Bankers Trust Company stock for only $40,000. Furthermore, when Aldrich traveled to Europe, Morgan and Teddy Grenfell, a director of the Bank of England since 1905 and a partner in Morgan, Grenfell & Co. (the successor to the British-based J. S. Morgan & Co.), arranged meetings for him with central bankers and economists.[27]

---

[23] Carosso, *Morgans*, 537, 625; Chernow, *Warburgs*, 132–33; Livingston, *Origins*, 190; McCulley, *Banks*, 146–55; Rothbard, "Origins," 215, 218, 239–43, 246; and Wiebe, *Businessmen*, 72–73.

[24] Selgin, "Bank," in *Money*, 147.

[25] Henry P. Davison, quoted in Chernow, *Morgan*, 129.

[26] George Perkins to J. P. Morgan, July 23, 1908, quoted in Chernow, *Morgan*, 129.

[27] Kathleen Burk, "The House of Morgan in Financial Diplomacy, 1920–1930," in *Anglo-American Relations in the 1920s: The Struggle for Supremacy*, ed. B. J. C. McKercher (London: Macmillan Press, 1991), 127; Carosso, *Morgans*, 445–50, 548; Lowenstein, *Bank*, 96; Rothbard, "Origins," 245; and Selgin, "Bank," in *Money*, 323n20; Jean Strouse, *Morgan: American Financier* (New York: Harper Perennial, 2000), 539, 594–95.

Wall Street enhanced its domination of the commission with corporatist intellectuals. Conant worked as a researcher on the commission's payroll and studied European central banks. A. Piatt Andrew, an assistant professor of economics at Harvard who staunchly opposed branch banking, also supported Wall Street on the commission. In fact, over the next two decades J. P. Morgan & Co. became quite friendly with Harvard as its partners and George Baker donated millions to endow the university's new business school. With such banker and intellectual influence, it should come as no surprise that Aldrich steered the National Monetary Commission toward a pro-central-banking position and away from contemporary proposals for elastic note issuance and branch banking.[28]

Wall Street needed to turn recommendations into legislation soon, given the outcome of the 1910 midterms. Early in that year Senator Aldrich, sensing the political winds, had decided that he would not run for reelection; he saved himself the potential embarrassment in the fall, when William Jennings Bryan and his Populist Democrats flipped the House. The small-town bankers they represented had no use for a central bank, recognizing that Wall Street would inexorably dominate it. In contrast to Wall Street's central bank proposal and Chicago bankers' asset currency reforms, Populists championed deposit insurance cronyism for state banks (the federal comptroller of the currency prohibited national banks from joining state-level insurance systems, meaning they could only participate if they converted to a state charter). Oklahoma, Kansas, Nebraska, and Texas had created such systems from 1907 to 1909. These state-level programs encouraged depositors and banks to engage in risky behavior because both groups knew their activities would be subsidized by taxes on the state's banking community. Deposit insurance subsidies were a perfect way to justify the continued prohibitions on interstate branching because depositors would

---

[28] Chernow, *Morgan*, 151; Edward M. Lamont, *The Ambassador from Wall Street: The Story of Thomas W. Lamont, J. P. Morgan's Chief Executive* (Lanham, MD: Madison Books, 1994), 85, 141–42; Livingston, *Origins*, 189; Rothbard, "Origins," 245–46; Selgin, "Bank," in *Money*, 151–52; and Elmus Wicker, *The Great Debate on Banking Reform: Nelson Aldrich and the Origins of the Fed* (Columbus: Ohio State University Press, 2005), 33, 64.

be more willing to put their money in inefficient rural banks if they knew the state taxpayer would bail the institutions out.[29]

Wall Street decided to articulate its thoughts in a concrete proposal. In late November 1910, after Morgan, Aldrich, and other heavyweights attended an Academy of Political Science conference that included pro-central-banking papers by Warburg and Conant, they organized a clandestine excursion to the luxurious Jekyll Island Club in Georgia. The meeting had to be a secret to minimize public uproar—a conspiracy admitted to only after several decades. No minutes were recorded, and some facts are not completely known. Most likely, the new Morgan partner Davison came up with the idea, and Morgan made the necessary arrangements because he was a member and a founder of the club. Aldrich, Assistant Secretary of the Treasury A. Piatt Andrew, Davison, the new president of National City Bank Frank Vanderlip, and Kuhn, Loeb & Co. star Paul Warburg attended the meeting. There is circumstantial evidence that Benjamin Strong, the new vice president of the Bankers Trust Company, attended as well.

Roger Lowenstein argues that the attendees "were conspirators, but patriotic conspirators," because they wanted to benefit themselves through a public-interested reform.[30] Murray Rothbard is more accurate: "There is no clearer physical embodiment of the cartelizing coalition of top financial and banking interests."[31] If the attendees wanted in fact to improve the public welfare by preventing bank panics they would have proposed the curatives of branch banking and asset currency reforms. Instead, Wall Street devised a regulatory commission that would enhance its cartel, diminish other banking regions' influence, and leave in place the underlying fragilities that harmed the public with frequent panics. "The bankers at Jekyll Island," explains Richard McCulley, "regarded laissez-faire and competition in banking as the problem and believed

---

[29] Broz, *International*, 178; McCulley, *Banks*, 155–62, 226–27.

[30] Lowenstein, *Bank*, 119.

[31] Murray N. Rothbard, "The Federal Reserve as a Cartelization Device: The Early Years, 1913–1930," in *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 474.

that a central banking arrangement based upon cooperation and banker self-regulation was the solution."[32]

The Aldrich Plan, as it later became known to those without knowledge of its Jekyll Island origins, proposed to create a single central bank in Washington, DC. National banks, state banks, and trust companies could choose to participate and obtain subsidies by becoming members. The central bank and its fifteen branches could issue gold-backed currency and increase the reserves of member banks, especially those on Wall Street, through loans at the discount window and the purchase of acceptances and other assets. Critically, member banks would own stock in the central bank, appoint the lion's share of bank directors and commissioners, and be able to continue to hold other banks' reserves in the form of bankers' balances. The conclusion is inescapable: Wall Street elites traveled to Jekyll Island to devise a banker-run and banker-owned corporatism that funneled cheap credit to their financial institutions and protected their bankers' balances. This was no public-interest proposal; it was cronyism.

Aldrich presented his plan to the National Monetary Commission in January 1911. But creating the groundwork for a pro–Wall Street central bank and getting Congress to pass legislation on it were two very different things, for Congress was now split between Republicans and Democrats. Populists vehemently hated Wall Street, and there was a very real chance they could pass threatening legislation if the Democrats won the White House in 1912.[33]

Wall Street's Central Banker

Over the next few years Aldrich, Morgan, and Wall Street slowly but surely came to the ugly realization that Congress would *not* pass their cherished cartelizing bank bill but instead pass a curious hybrid, a "decentralized" central bank that

---

[32] McCulley, *Banks*, 232.

[33] Chernow, *Morgan*, 143; Susan Hoffmann, *Politics and Banking: Ideas, Public Policy, and the Creation of Financial Institutions* (Baltimore: Johns Hopkins University Press, 2001), 116–17; Lamont, *Ambassador*, 190; McCulley, *Banks*, 222, 227, 230–32, 234–35; Rothbard, "Cartelization," 474–75; Rothbard, "Origins," 251–54; and Selgin, "Bank," in *Money*, 149–51, 323n21.

assisted the country bankers. Not all hope was lost. Just like the railroads with the Interstate Commerce Commission, Wall Street could still accomplish its goals by influencing the selection of the decentralized central bank's personnel. In Aldrich's words, everything would depend "entirely . . . upon the character and wisdom of the men who will control the various organizations" in the central bank.[34] With the right personnel in charge, Wall Street could get the new central bank to do its bidding.

At the beginning of 1911, Wall Street moved to convince a suspicious public of the blessings of central banking. In doing so, New York City bankers forged a tenuous alliance with James Forgan and other asset currency–minded Chicago bankers by establishing the National Citizens' League for the Promotion of a Sound Banking System. Wall Street, which was to provide $300,000 of the total $500,000 in financing costs, designed the organization as a front to convince the public that central banking had grass-roots support. Forgan and economist J. Laurence Laughlin remained hesitant, however, because of the Aldrich Plan's centralizing tendencies and the senator's insistence that his politically unpalatable name be on the future congressional bill. Even so, Aldrich and his banking allies made enough minor concessions and persuasive speeches to receive the warm endorsement of the American Bankers Association in November.

Victory was fleeting, however, because it coincided with the deteriorating fortunes of Wall Street at the hands of insurgent Populists. After Senator Aldrich retired in early 1911, western Republicans like Congressman Charles Lindbergh of Minnesota, a notable director of and stockholder in the First National Bank of Little Falls, blasted Wall Street's domination of the Aldrich Plan for inviting "capture by Wall Street."[35] They worked with Democrats to pass a law in August 1911 requiring the commission to issue a report by January 1912 and disband. By the end of 1911 President William Howard Taft, previously supportive of

---

[34] Nelson Aldrich to John Sleicher, February 7, 1914, quoted in Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (New York: Free Press, 1963), 248.

[35] *Congressional Record*, 62nd Congress, 1st session, June 13, 1911, 1992.

the Aldrich Plan, began to waver as he worried about his upcoming reelection bid.[36]

The National Monetary Commission faced tough sledding in early 1912 when it submitted the Aldrich Plan to Congress. Even though the public did not know that Wall Street bankers had schemed at Jekyll Island, the mere mention of Aldrich's name convinced voters that the Morgans and other banking elites were not far behind. The bill's chance further crumbled when the Republican National Convention declined to endorse it. Compounding the difficulties, when Taft secured the Republican nomination over Roosevelt, the former president bolted and formed the Progressive Party. Although ex-Morgan partner and preeminent corporatist George Perkins provided $130,000 for Roosevelt's campaign and the former president had previously told Warburg he supported the Aldrich Plan, his desperation to return to the halls of power led him to denounce the bill.

The Democrats moved in for the kill. The House Committee on Banking and Currency not only rejected the Aldrich Plan but set up a special inquisitorial committee to investigate the Money Trust in April. The investigation, cheered on as a progressive attack against big business, was just a country-banker counterattack: the House committee's chair Arsène Pujo of Louisiana, a previous president of his state's First National Bank of Welsh, chaired the subcommittee. He sicced on Wall Street Samuel Untermyer, a politically ambitious New York corporate lawyer and multimillionaire. Untermyer had previously clashed with the Morgan and Rockefeller interests and failed to receive their financial support for a prospective Senate candidacy. With an axe to grind, he attacked Wall Street with vituperative cross-examinations. The Pujo Committee, combined with the Chicago bankers' realization that Wall Street intended to control the proposed central bank, led to the collapse of the National Citizens'

[36] Broz, *International*, 183–84, 188, 192; Kolko, *Triumph*, 188–89; McCulley, *Banks*, 227–28, 241–44, 256–59; Rothbard, "Origins," 254–56; Harry A. Wheeler, "The National Citizens' League: A Movement for a Sound Banking System," *Annals of the American Academy of Political and Social Science* 99 (January 1922): 27; and Wiebe, *Businessmen*, 75–78.

League and the ABA's withdrawal of support for the Aldrich Plan.[37]

It became increasingly apparent to Wall Street that the seismic breakdown in the Republican Party meant that the Democratic candidate, Woodrow Wilson, would win the 1912 election. Wilson was of a rare breed, the scholar turned politician. A former academic who praised the Second Bank of the United States as "a great commanding bank," Wilson spent most of his career at Princeton University, first as a professor of political science and then its president.[38] He became good friends with Frank Vanderlip and secured a $20,000 donation to the university from J. P. Morgan. But some of Wilson's actions alienated prominent trustees of Princeton, including Moses Taylor Pyne, a director of National City Bank, so Wilson shifted into politics and became governor of New Jersey. He soon eyed the presidency and hoped to become the nation's first court intellectual turned commander-in-chief.

Wilson was also of a very common breed: the consummate politician who desired power and frequently rotated between special interests whenever it best served him. While he maintained connections with many important big bankers, the politically astute Wilson realized it was time to move on and look more progressive. He split with his friend Vanderlip and refused to endorse the Aldrich Plan. Wilson then catered to the Populists by coming out against a central bank and supporting the work of the Pujo Committee. Even with this volte-face, Wilson's presidential campaign still received donations from Warburg and Schiff, who perceived that they might be able to reduce the Populist threat by contributing to the Democrats' coffers.

At first, it appeared as if Kuhn, Loeb & Co.'s efforts would not pay off. President Wilson chose for his secretary of state William Jennings Bryan, leader of the Populist wing of the Democratic

---

[37] Broz, *International*, 191–93; Carosso, *Morgans*, 626; Chernow, *Morgan*, 143; Chernow, *Warburgs*, 134–35; John Allen Gable, *The Bull Moose Years: Theodore Roosevelt and the Progressive Party* (Port Washington, NY: Kennikat Press, 1978), 118; McCulley, *Banks*, 259–60, 263, 265–66; and Wiebe, *Businessmen*, 78–79.

[38] Woodrow Wilson, *A History of the American People*, vol. 7, *Critical Changes and Civil War* (New York: Harper and Brothers, 1906), 47.

Party. For Treasury secretary, Wilson picked his future son-in-law, William McAdoo. McAdoo detested Wall Street: as the former president of the Hudson & Manhattan Railroad he had watched J. P. Morgan & Co.'s lines push his company to the brink of bankruptcy. His assistant secretary, John Skelton Williams, was a former Richmond banker and railroad operator who had lost his fortune to a railroad morganization. These appointments did not exude warm feelings toward Wall Street.[39]

The Pujo Committee's Money Trust investigations convinced Democrats of the need for banking reform. Rather than offer their own reforms, however, they chose to revise the hated Aldrich Plan by changing the name, weakening Wall Street's dominance, and making the structure more decentralized to appeal to country bankers. Virginia's Carter Glass, who would become the chair of the House Committee on Banking and Currency, got to work before Wilson's inauguration. Glass turned to the intellectual class, soliciting the help of Washington and Lee economics professor H. Parker Willis. The Glass Plan called for regional central banks—rather than a single central bank with branches—that issued a gold-backed currency and pumped in reserves to banks across the nation. Member banks still owned the regional central banks but had to keep their required reserves at these institutions and not at bankers' banks. Lastly, the comptroller of the currency supervised the entire structure.[40]

When Glass presented his plan to Wilson in December, the president-elect recommended adding a board in Washington to

---

[39] W. Elliot Brownlee, "William Gibbs McAdoo," in Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 240–41; Burch, *Elites*, 2:195, 205, 207; Chernow, *Warburgs*, 140; Thomas Ferguson, "Party Realignment and American Industrial Structure: The Investment Theory of Political Parties in Historical Perspective," in *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems* (Chicago: University of Chicago Press, 1995), 17–20; McCulley, *Banks*, 269–74, 293–94; Patrick Newman, "Personnel Is Policy: Regulatory Capture at the Federal Trade Commission, 1914–1929," *Journal of Institutional Economics* 15, no. 6 (December 2019): 1043; Nomi Prins, *All the Presidents' Bankers: The Hidden Alliances That Drive American Power* (New York: Nation Books, 2014), 14–15, 28–30; and Strouse, *Morgan*, 617.

[40] Hoffman, *Politics*, 119–23; McCulley, *Banks*, 292; and Rothbard, "Origins," 257.

monitor all the regional central banks. Wilson's recommendation stemmed from two sources. First, Wilson, an academic planner par excellence, wanted to increase his own influence through presidential appointments. Second, Warburg and other bankers had lobbied Wilson for a centralized board. Warburg realized that he should appease the Democrats and support a decentralized central bank so long as a banker-appointed board ensured Wall Street dominance. The main conduit between Wilson and Wall Street was Colonel Edward House, the president's politico and advisor on personnel matters.

Wilson and Glass were willing to tolerate some banker representation on the Washington-based board; the same could not be said about Bryan and McAdoo. Wilson, eager to strengthen the Populists' support and further enhance his control over the system, changed his mind. The Glass-Owen bill of mid-1913 mandated that the secretary of the Treasury and the comptroller sit on the board and presidential appointments fill the remainder. This mortified Wall Street and Chicago bankers. Strong stated that "supervisory power . . . should be exercised by bankers of great skill and experience, and not by a body of political appointees and government officials."[41] Warburg worried that the commission would become "a hopelessly political Board" and recklessly pump in new money before elections.[42] More to the point: this credit expansion would benefit special-interest groups besides Wall Street. Warburg and Strong only wanted commissioners who were apolitical (a code word for personnel responsive to different special interests) to serve as the nation's central bankers. Wall Street's premier intellectuals concurred, and A. Piatt Andrew blasted the proposed legislation as a "Bryanized Banking Bill."[43] Warburg, Vanderlip, Davison, and Strong spent the rest of the year attempting to get banker-appointed representation on the board. They wrote letters

---

[41] Benjamin Strong to William Calder, July 14, 1913, quoted in Lester V. Chandler, *Benjamin Strong, Central Banker* (Washington, DC: Brookings Institution, 1958), 35.

[42] Paul M. Warburg, "First Drafts of the Glass Bill," in Warburg, *Federal Reserve System*, 1:99.

[43] A. Piatt Andrew, "The Bryanized Banking Bill," 1913, quoted in McCulley, *Banks*, 299.

to congressmen and tried to meet with Wilson. They were unsuccessful.[44]

On December 23, 1913, Wilson signed the canonical example of progressivism and one of the most consequential bills ever passed by Congress: the Federal Reserve Act. This legislation created a system of regional Federal Reserve Banks that could increase member bank reserves through loans and purchases of securities. The presidentially appointed Federal Reserve Board in Washington would monitor and oversee the Fed banks, though the specific relationship between them and their mandate was not clearly delineated. To quote Allan Meltzer, "The act says very little about the broader purposes of the legislation. . . . The act speaks of setting discount rates 'with a view of accommodating commerce and business' but mentions no other objectives. . . . [There was] no clear division of authority between" the Federal Reserve Board and the regional central banks.[45]

This opened the door for Wall Street to implement its corporatist schemes. Quite significantly, through election of their share of its directors, Wall Street bankers could appoint the head, called the governor, of the Federal Reserve Bank of New York. This individual could liberally lend to Wall Street through the discount window, which would convince other banks that Wall Street would never suspend payments on bankers' balances. It is true that the Federal Reserve Act required all member banks, which automatically included national banks, to store required reserves directly at the regional central banks. But the law also incentivized member banks to park excess reserves on Wall Street because it continued to prohibit branch banking and decreased average reserve requirements from 21 percent to 12 percent, which freed up reserves. Furthermore, the law allowed nonmember state banks to convert deposits at member banks into Federal Reserve Notes, which incentivized them to keep

---

[44] Broz, *International*, 198–201; Chandler, *Strong*, 33–35; Chernow, *Warburgs*, 135–36; Robert Higgs, "Who Was Edward M. House?" in *Delusions of Power: New Explorations of the State, War, and Economy* (Oakland, CA: Independent Institute, 2012), 117–18; Hoffman, *Politics*, 123–25; and McCulley, *Banks*, 298–300, 305.

[45] Allan Meltzer, *A History of the Federal Reserve*, vol. 1, *1913–1951* (Chicago: University of Chicago Press, 2003), 65, 67.

reserves on Wall Street. Thus, with the right governor of the New York Fed, the new central-banking system could strengthen the bankers' balances of the Wall Street cartel.

On the international front, the governor of the New York Fed could spur the acceptance market in the United States by purchasing acceptances from Wall Street, as member banks could now engage in the practice. Encouraging US banks to issue acceptances to finance international trade would promote the dollar. New York City would accumulate most of the benefits from promoting financial services abroad because the legislation limited foreign branches to member banks with a capitalization of $1 million or more—fewer than 3 percent of all national banks in 1909. This enabled New York City banks to monopolize the new business of foreign branches and in turn acquire a greater business in the acceptance market.[46]

But the Federal Reserve Act would only promote Wall Street's bankers' balances and its financial services abroad if Wall Street elites controlled the levers. They were not entirely convinced this would happen. Vanderlip was actually worried that the law would reduce National City Bank's bankers' balances, and briefly contemplated keeping the bank out of the Federal Reserve System by converting it into a state-chartered bank. The stakes were especially high for the commercial banks associated with J. P. Morgan & Co., whose own return slumped from a $9 million profit in 1911 to a $6 million loss in 1913 after a downturn began that year. Hostile government policy made matters worse. Jack Morgan, heir to the empire after his father died in the spring of 1913, watched the New Haven Railroad and other lines teeter on the edge of bankruptcy because shippers had captured the Interstate Commerce Commission. International Harvester and the Morgans' even larger creation, US Steel, faced antitrust lawsuits, and the Populists' contemporary antitrust proposals threatened to ban interlocking directorates between corporate boards. Jack summarized Wall Street's headaches with the Democrats: "The

---

[46] Broz, *International*, 35–36, 52–53, 139, 200, 202; Chernow, *Morgan*, 156; Meltzer, *History,* 1:65–67; Rothbard, "Cartelization," 478, 502; Murray N. Rothbard, *The Mystery of Banking*, 2nd ed. (Auburn, AL: Ludwig von Mises Institute, 2008), 236–38; and Selgin, "Bank," in *Money*, 164–65.

Mexicans are far better off, because their various bosses only murder and rape."[47]

For the Federal Reserve to become the panacea for Wall Street's woes, the directors of the Federal Reserve Bank of New York needed to elect an elite banker to serve as governor. Such a governor, if forceful and energetic, could essentially become a one-man commission that maneuvered around the Federal Reserve Board in Washington and turn the regional central bank into the single central bank New York bankers had always wanted.[48]

Wall Street only needed the directors of the New York Fed to elect their man; the Federal Reserve Board did not need to approve the decision. But Wall Street received an unexpected gift in DC: thanks to Colonel House's recommendation, Wilson offered Warburg a spot on the Federal Reserve Board. The investment banker was both surprised and delighted—contributing to Wilson's campaign had paid off! Even though Warburg would have to resign his partnership at Kuhn, Loeb & Co. and suffer a massive salary drop from $500,000 to $12,000, his acceptance ensured Wall Street representation in Washington. Wilson's rationale was quite simple: after bludgeoning Wall Street, the president, in his characteristic fashion, extended an olive branch in preparation for the upcoming midterms and his future reelection bid. He pressured the hesitant Senate Banking Committee to confirm Warburg in the summer of 1914.[49]

The stage then shifted to New York, the real center of action. By May of that year, the city's leading banks had bought stock in the New York Fed. For example, George Baker's First National purchased $600,000. Once Wall Street invested, the bankers elected their portion of the New York Fed's directors, who then promptly nominated the only man they had in mind for the exalted position of governor: Benjamin Strong, the new president of the Bankers

---

[47] J. P. Morgan Jr. to Henry White, June 5, 1914, quoted in Charles Callan Tansill, *America Goes to War* (Boston: Little, Brown, 1938), 69.

[48] Carosso, *Investment*, 177–80; Carosso, *Morgans*, 608–12, 614–15, 623; Cleveland and Huertas, *Citibank*, 361–62; Rothbard, "Cartelization," 483, 488; Rothbard, *Progressive*, 87, 234; and Tansill, *America*, 53–55.

[49] Burch, *Elites*, 2:214–15; Chernow, *Warburgs*, 137–40; Arthur S. Link, *Wilson: The New Freedom* (Princeton, NJ: Princeton University Press, 1956), 445–57; Meltzer, *History*, 1:475, 484; and Newman, "Personnel," 1044.

Trust Company. This prodigious banker was currently following the career paths of his friends Davison and Lamont, both of whom had been involved with Bankers Trust before becoming Morgan partners. Jack Morgan later reminisced that he "saw Strong often. He was a personal friend certainly."[50] Strong seemed destined for a Morgan partnership, but Wall Street needed him elsewhere.

Strong initially did not want the job, believing that the Federal Reserve failed to grant big bankers enough power and would "restrict the development and usefulness of our National banks."[51] Warburg, Jack Morgan, and Davison told him that he could have the central bank Wall Street wanted if he forcefully took control. As Warburg counseled, he could "frame the bylaws so as to give [him]self sufficient power as Governor."[52] To put it more pointedly, Strong could interpret the vague authorities of his governorship in a way that enhanced his power relative to the Federal Reserve Board. Convinced, Strong accepted the position and was elected governor in October. A certified Morgan man thus became head of the New York Fed, an extremely powerful position. The Money Trust, the object of public wrath, had snuck into the Populists' cherished central bank creation.[53]

---

[50] Jack Morgan, January 9, 1936, quoted in US Senate, *Hearings before the Special Committee Investigating the Munitions Industry* (Washington, DC: Government Printing Office, 1937), 7862.

[51] Benjamin Strong to William Calder, July 14, 1913, quoted in Chandler, *Strong*, 36.

[52] Paul Warburg to Benjamin Strong, October 2, 1914, quoted in Chandler, *Strong*, 67.

[53] Chandler, *Strong*, 38–41; Lawrence E. Clark, *Central Banking under the Federal Reserve: With Special Consideration of the Federal Reserve Bank of New York* (New York: Macmillan, 1935), 64–65, 70–73; David M. Fitzsimons, "Thomas W. Lamont," in Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 207–8; Martin Horn, *J. P. Morgan & Co. and the Crisis of Capitalism: From the Wall Street Crash to World War II* (New York: Cambridge University Press, 2022), 45; Sheridan A. Logan, *George F. Baker and His Bank, 1840–1955* (Stinehour Press and Meriden Gravure, 1981), 164; Priscilla Roberts, "'Quis Custodiet Ipsos Custodes?': The Federal Reserve System's Founding Fathers and Allied Finances in the First World War," *Business History Review* 72, no. 4 (Winter 1998): 590; Rothbard, "Cartelization," 483–84; and Anna Jacobson Schwartz, "Benjamin Strong," in Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 401–3.

By the end of the year, against all odds and the intentions of the Democrats, the Creature from Jekyll Island had become a reality. At least one (Warburg), and possibly two (Strong) of the Jekyll attendees now held crucial offices in the machinery. The Morgans had erected their central bank infrastructure by installing the right personnel, namely their central banker in New York. As Ron Chernow sardonically observes, "The Morgan-Strong friendship would mock any notion of the new Federal Reserve System as a curb on private banking power."[54]

With Strong ensconced, it was now time for Wall Street to use the New York Fed to realize its ambitions. The cartel desperately wanted the regional central bank's credit expansion to strengthen its bankers' balances and deposits vis-à-vis Chicago. More than that: the New York Fed must make the city a world financial power. In July 1914, Warburg had forcefully argued before economists in the Academy of Political Science for the dollar to rival the British pound sterling as the world's medium of exchange. A new global financial empire was within Wall Street's grasp.[55]

The worldwide financial order that Wall Street and the New York Fed would develop over the next two decades was the most significant victory for big business during the Corporatist Era. But it was not the only one. Corporations, railroads, and food and drug interests, led by financial elites, also cartelized their industries through regulatory commissions and favorable administrators. None would be as inextricably ingrained in the whole working of the economy as the Federal Reserve, but in these areas, too, the corporatist state would become firmly established. Beginning in the McKinley administration, corporate interests busily moved away from protective tariffs to disclosure requirements and a trade commission of their own to reduce competitive pressures.

---

[54] Chernow, *Morgan*, 244.

[55] Priscilla Roberts, "Benjamin Strong, the Federal Reserve, and the Limits to Interwar American Nationalism Part I: Intellectual Profile of a Central Banker," *Federal Reserve Bank of Richmond Economic Quarterly* 86, no. 2 (Spring 2000): 64–65, 68–69; Roberts, "Founding," 593; and Selgin, "Bank," in *Money*, 162–65.

CHAPTER 7

A TRADE COMMISSION FOR INDUSTRY

"Government and business are and should be mutually helpful," declared businessman turned regulator Edward Hurley in late 1915. "The bankers," for instance, receive assistance from "the Federal Reserve." "To do for general business," Hurley concluded, what the Federal Reserve does for bankers "was the thought behind the creation of the Trade Commission."[1] Hurley hit the nail on the head: around the same time as the drive for a central bank, businesses, led by the largest corporations, lobbied for a trade commission to cartelize domestic and international markets. Making it more difficult for firms to cut prices, particularly through compulsory public disclosures of business practices, formed a key pillar of the burgeoning corporatist state. It was an uphill battle, though, as big business had to grapple with smaller businesses and unions' antitrust, tax, and labor proposals that hurt their profits. In the end, as with the Federal Reserve, industrialists, partnering with economists and lawyers, achieved their desired regulatory commission by securing favorable commissioner appointments.

The Corporatist Groundwork

McKinley's 1896 presidential win augured well for business and marked a return to prosperity. The decreased likelihood of silver inflation encouraged investor confidence, increased

[1] Edward Hurley, "Some Business Problems of To-Day," *Economic World* 10, no. 23 (December 1915): 721.

immigration led to lower labor costs, and new sources of iron ore and other resources supercharged industry. Confident that the president would not invoke the Sherman Antitrust Act, investment banks on Wall Street and elsewhere returned to financing corporations. In 1898 and 1899 over 1,500 manufacturing and mining companies merged, aggregating to $2.9 billion in market capitalization.

Notably, J. P. Morgan created the $200 million Federal Steel Company and the $80 million National Tube Company to try to monopolize the steel industry. In the process Morgan enlisted top corporate lawyers Francis Lynde Stetson and Elbert Gary. Both shared Morgan's belief in achieving business stability through cartels and monopolies—arrangements that required their legal services. After creating Federal Steel, Morgan made Gary its president. Other examples abound: businessman John "Bet-a-Million" Gates organized the $90 million American Steel & Wire Company, the $294 million Standard Oil empire finished reorganizing as a corporation in New Jersey, and James Stillman and William Rockefeller formed the $75 million Amalgamated Copper by buying out the Anaconda Copper Mining Company.[2] The ostensible goal of these megamergers was to reduce market instability; the real goal was to monopolize markets so big businesses could restrict supply and raise prices.

As large corporations developed economies of scale and lowered production costs below those of foreign concerns, their goods became more competitive abroad. The value of finished manufactured exports surged 56 percent, from $213 million in 1897 to $332 million in 1900. Corporations' increased focus on international markets made them less supportive of protective tariffs because the taxing out of foreign goods made it harder for foreigners to buy American products. On the other hand, smaller firms, like those in the National Association of Manufacturers (NAM), lacked the necessary cost efficiencies and therefore embraced the protection of tariffs. The relative inefficiency of smaller businesses in the NAM caused them to step up their

---

[2] Quoted in Larry Schweikart, "John Warne Gates," in *Encyclopedia of American Business History and Biography: The Iron and Steel Industry in the Nineteenth Century*, ed. Paul A. Paskoff (New York: Facts on File, 1989), 147.

advocacy of a new department of commerce that would provide export assistance.[3]

Some corporations looked for further means of protection, including acquiring additional patents to prevent competitors from using the patented technology. One patent lawyer for American Telephone & Telegraph, a company that J. P. Morgan & Co. increasingly financed and controlled, declared that "the policy of bringing suit for infringement on apparatus patents is an excellent one because it keeps the concerns which attempt opposition in a nervous and excited condition . . . and . . . keeps them all the time changing their machines and . . . adopt[ing] inefficient forms of apparatus."[4] In similar fashion, General Electric continued to restrict competition through its Board of Patent Control and initiated a policy of purchasing foreign patents and stock in foreign companies. The first decade of the twentieth century witnessed noticeable growth in patents held by corporations, with the proportion of new patents for inventions issued

---

[3] William H. Becker, *The Dynamics of Business-Government Relations: Industry and Exports, 1893–1921* (Chicago: University of Chicago Press, 1982), 8, 44, 48, 78–79; Vernon M. Briggs Jr., *Immigration and American Unionism* (Ithaca, NY: Cornell University Press, 2001), 57; Vincent P. Carosso, *Investment Banking in America: A History* (Cambridge, MA: Harvard University Press, 1970), 45, 112; Vincent P. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, MA: Harvard University Press, 1987), 390–92; Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867–1960* (Princeton, NJ: Princeton University Press, 1963), 139; Ralph W. Hidy and Muriel E. Hidy, *Pioneering in Big Business: History of Standard Oil Company (New Jersey), 1882–1911* (New York: Harper and Brothers, 1955), 306–13; Douglas A. Irwin, *Clashing over Commerce: A History of US Trade Policy* (Chicago: University of Chicago Press, 2017), 299–302; Jeremiah D. Lambert and Geoffrey S. Stewart, *The Anointed: New York's White-Shoe Law Firms* (Guilford, CT: Lyons Press, 2021), 48–49; Michael P. Malone, *The Battle for Butte: Mining and Politics on the Northern Frontier, 1865–1906* (Seattle: University of Washington Press, 1981), 137–38; Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 210; Jean Strouse, *Morgan: American Financier* (New York: Harper Perennial, 2000), 397–400; and Richard Sutch and Susan B. Carter, eds. *Historical Statistics of the United States*, vol. 3, *Economic Structure and Performance* (New York: Cambridge University Press, 2006), 553.

[4] Exhibit 1989—"Patent Structure of the Bell System, Its History and Policies and Practices Relative Thereto," 12, quoted in N. R. Danielian, *AT&T: The Story of Industrial Conquest* (New York: Arno Press, 1974), 98.

to domestic corporations rising from 17 percent in 1901 to 23 percent in 1911.[5]

To Wall Street's disappointment, the mergers failed to increase prices and market shares. As the *New York Financier* stated in 1900, "The most serious problem that confronts trust combinations today is competition from independent sources."[6] Inveterate competition and price undercutting especially plagued the steel industry, and *Iron Age* lamented the problems facing cartels "where the combination is naming confessedly high prices for its goods."[7] New firms and cheating broke up Federal Steel and Carnegie Steel's attempt to cartelize the rail market. Nor could American Steel & Wire permanently drive out new wire firms. The large conglomerates engaged in turf warfare and reneged on agreements: Carnegie Steel started to diversify against Morgan's National Tube Company, and American Steel & Wire stopped buying billets from Federal Steel and Carnegie Steel. In the oil industry, Standard Oil failed to adjust to discoveries in Texas, California, Kansas, Illinois, and the Indian Territory (Oklahoma). It also experienced difficulties abroad because of the Royal Dutch Company and the Shell Transport & Trading Company. Promoters had widely overestimated the consolidated corporations' abilities to control competition, and investors overpaid for their stocks.

The second scourge for the large corporations was new antitrust suits from southern and western Populists. This was particularly true in the oil industry. In late 1897, Ohio refiners lobbied the state's attorney general, whose father was the president of Standard Oil competitor Bucyrus Gas Company, to file an antitrust suit. In 1900, Texas forced a Standard Oil subsidiary out on

---

5 Becker, *Dynamics*, 52; Carosso, *Morgans*, 493–95; David F. Noble, *America by Design: Science, Technology, and the Rise of Corporate Capitalism* (New York: Oxford University Press, 1977), 9, 89–92; Leonard S. Reich, "Lighting the Path to Profit: GE's Control of the Electric Lamp Industry, 1892–1941," *Business History Review* 66, no. 2 (Summer 1992): 308, 311–13; and Sutch and Carter, *Historical,* 3:427.

6 *New York Financier*, June 11, 1900, quoted in Marian V. Sears, "The American Businessman at the Turn of the Century," *Business History Review* 30, no. 4 (December 1956): 391.

7 "Combinations and Competition," *Iron Age*, November 1, 1900, 43.

antitrust grounds. That same year, John Archbold, John D. Rockefeller's lieutenant at Standard Oil, lobbied Ohio senator Joseph Foraker and paid him $44,500, mainly to defeat "a very objectionable bill" on antitrust that he should "have no difficulty in killing."[8] These legal headaches weakened Standard Oil's ability to respond to new oil competition, though the failure to respond to new oil sources was more damning.[9]

Their failure to monopolize led industrialists to advocate for corporatist legislation that cartelized markets through government coercion. In 1898, Congress created the Industrial Commission to investigate trusts and gather information from businessmen, lawyers, and economists. Corporate leaders testified and called for a national incorporation law that enabled the federal government to charter companies to engage in interstate commerce. Gates at American Steel & Wire declared that "if necessary, I would have a manufacturing commission, the same as the Interstate Commerce Commission." He wanted to stop attacks on New Jersey corporations from "Illinois, Iowa, [and] Nebraska." He was "very much in favor of having national charters granted" to corporations worth $5 million or more, with the owners "hav[ing] to go to Washington and pay a substantial sum for that charter, and a substantial sum per annum thereafter."[10]

---

[8] John D. Archbold to Joseph B. Foraker, February 16, 1900, quoted in Peter Collier and David Horowitz, *The Rockefellers: An American Dynasty* (New York: New American Library, 1977), 56.

[9] Robert L. Bradley Jr., *Oil, Gas, and Government: The U.S. Experience*, vol. 1 (Lanham, MD, and Washington, DC: Rowman and Littlefield and the Cato Institute, 1995), 1075–77; Carosso, *Morgans*, 466–68; Ron Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (New York: Vintage Books, 1998), 429, 430–31, 548; Stephen H. Cutcliffe, "Federal Steel Company," in *Encyclopedia of American Business History and Biography: The Iron and Steel Industry in the Twentieth Century*, ed. Bruce E. Seely (New York: Facts on File, 1994), 129; John T. Flynn, *God's Gold: The Story of Rockefeller and His Times* (New York: Harcourt, Brace, 1932), 435; Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (New York: Free Press, 1963), 30–33; Naomi R. Lamoreaux, *The Great Merger Movement in American Business, 1896–1904* (New York: Cambridge University Press, 1985), 83–84, 134–35; Rothbard, *Progressive*, 97, 105–6, 216–17, 231–33; and Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877–1917* (Chicago: University of Chicago Press, 1999), 276.

[10] John Gates, November 14, 1899, quoted in US Industrial Commission,

Gates obviously left out that such a license would increase barriers to entry and make it harder for up-and-coming corporations to compete against established giants like his. A costly federal charter would privilege the biggest trusts and restrict production and raise prices in interstate markets.

Some industrialists approved of the government requiring firms to publicize prices and financial records. Coerced publicity, if it was neither probing nor motivated on antitrust grounds, made cartels easier to enforce by revealing competitors' price cuts and other business decisions. Gary of Federal Steel declared to the commission that publicity was "one of the very best remedies" and that "he did not quite agree with some of the gentlemen that the affairs of a large corporation should be kept secret."[11] While Gary claimed that his motivation was to protect the public, it is undeniable that Federal Steel, which pioneered in issuing quarterly reports, wanted to know what its competitors charged. An additional effect was that disclosure regulations imposed new costs, such as hiring more accountants, that smaller companies had a harder time affording relative to Federal Steel and other large concerns. Standard Oil, on the other hand, feared publicity because it dominated through clandestine railroad rebates; Archbold testified that he was hesitant about government "inspection of the books and affairs of each concern."[12] Privately, he confided that publicizing "receipts and expenditures, profits, and losses can only benefit the competitors."[13]

Big businessmen found common ground with corporatist economists. Cornell University's Jeremiah Jenks advised the Industrial Commission. He was eager to devise and advocate the policies businessmen desired in return for research sinecures and employment. His preliminary report for the commission in 1900 favored requiring large corporations "to publish

---

Preliminary Report on Trusts and Industrial Combinations (Washington, DC: Government Printing Office, 1900), 1022.

[11] Elbert Gary, October 19, 1899, quoted in Industrial Commission, *Preliminary Report*, 996, 1002.

[12] John Kennedy, September 8, 1899, quoted in Industrial Commission, *Preliminary Report*, 580.

[13] John Archbold, quoted in Flynn, *Gold*, 372.

annually a properly audited report, showing in reasonable detail their assets and liabilities, with profit or loss."[14] In Jenks's view, monopolization, combined with government-required public disclosure, improved the competitive marketplace because it stabilized prices and profits and eliminated depressions.[15]

In early 1901 J. P. Morgan and Stetson organized a massive corporation, US Steel. J. P. Morgan and three of his partners sat on the board, with Elbert Gary serving as chairman. The company absorbed Carnegie Steel, Federal Steel, American Steel & Wire, National Tube Company, American Tin Plate Company, and many others. It controlled nearly two-thirds of the nation's production of steel ingots and castings and planned to dominate international markets. Anticipating high earnings from US Steel's market share, J. P. Morgan & Co. capitalized it at a gargantuan $1.4 billion, which made it the world's largest private business. Gary confidently believed that US Steel could publicly announce its prices and get smaller competitors to abide by them. Along these lines, Gary issued quarterly reports that revealed cost data. Jenks would later work as a consultant and lend intellectual support to the firm's pricing policies.[16]

---

[14] Jeremiah Whipple Jenks, "Preliminary Report of the Industrial Commission," in *The Trust Problem*, rev. ed. (New York: McClure, Phillips, 1903), 264.

[15] John Howard Brown, "Jeremiah Jenks: A Pioneer of Industrial Organization?" *Journal of the History of Economic Thought* 26, no. 1 (March 2004): 76–80; Kolko, *Triumph*, 63–64; Thomas K. McCraw, *Prophets of Regulation* (Cambridge, MA: Harvard University Press, 1984), 166; Carl P. Parrini and Martin J. Sklar, "New Thinking about the Market, 1896–1904: Some American Economists on Investment and the Theory of Surplus Capital," *Journal of Economic History* 43, no. 3 (September 1983): 562; Rothbard, *Progressive*, 211–12, 214–15, 227; Edward T. Silva and Sheila A. Slaughter, *Serving Power: The Making of the Academic Social Science Expert* (Westport, CT: Greenwood Press, 1984), 100–102, 104, 121, 132, 185, 200; and Strouse, *Morgan*, 398.

[16] Carosso, *Morgans*, 465–74, 487–88; Kenneth G. Elzinga, "In the Beginning: The Creation of the Economic Expert in Antitrust," *Journal of Law and Economics* 65, no. 52 (November 2022): 522–23, 531–32, 538–39; Lambert and Stewart, *Anointed*, 49; Lamoreaux, *Merger*, 83–84; Thomas K. McCraw and Forest Reinhardt, "Losing to Win: U.S. Steel's Pricing, Investment Decisions, and Market Share, 1901–1938," *Journal of Economic History* 49, no. 3 (September 1989): 598, 603, 605, 618; and Paul Tiffany, "Opportunity Denied: The Abortive Attempt to Internationalize the American Steel Industry, 1903–1929," *Business and Economic History* 16 (1987): 230, 236.

In 1900, shortly before US Steel's formation, corporatists founded the National Civic Federation (NCF). The Republican senator and Ohio political heavyweight Mark Hanna served as president, and prominent members included Gary, Morgan partner George Perkins, and academic advisor Jenks. This Republican think tank preached a middle-of-the-road attitude, as its founder, the probusiness journalist Ralph Easley, believed that the "enemies are the Socialists among the labor people and the anarchists among the capitalists."[17]

Though the NCF emerged from a conference on trusts, it originally focused on labor issues. Over the next decade, technological change and economic progress continued to raise real wages, shorten working hours, and reduce child labor. That did not stop organized workers from trying to secure greater gains at the expense of nonunionized rivals and the public, who had to pay relatively higher prices. Notably, as Japanese and southern and eastern European immigration surged after 1897, the American Federation of Labor (AFL) proposed a literacy test for workers. Big businesses in the NCF adamantly opposed unions and the literacy test because they would raise the cost of employing low-skilled labor and thereby reduce their profits. They decided to bring the AFL into the fold as a (very) junior partner, appointing its president and founder Samuel Gompers as the NCF's vice president. The big business–labor partnership was as follows: cooperative unions would receive higher wages without receiving recognition from individual businesses. The NCF's détente with unions infuriated the National Association of Manufacturers. The NAM understood how negotiating with labor groups imposed management costs that disproportionately raised the costs of smaller firms. It feared that acceptance of unions would make it so that only the big corporations could survive.

As examples of the new labor-management arrangement, in 1900 the United Mine Workers, an immigrant-heavy union that faced continued competition from newer immigrants, initiated a strike. Hanna instructed the NCF to work with the AFL to defuse the issue, and mining companies agreed to increase wages 10

[17] Ralph Easley to Joseph Bristow, July 17, 1909, quoted in James Weinstein, *The Corporate Ideal in the Liberal State, 1900–1918* (Boston: Beacon Press, 1968), 11.

percent without recognizing the union. The next year, the Amalgamated Association of Iron, Steel, and Tin Workers went on strike against US Steel. Gary and Perkins refused to tolerate it, and Gompers and the NCF ended the strike, permanently crippling the union.[18]

By the beginning of the second McKinley administration, Wall Street had created new mergers that favored patents, federal incorporation, and compulsory public disclosure. Big business enlisted economists to articulate their policymaking goals. In establishing the NCF, large corporations brought labor unions under their thumb as junior partners to stymie labor radicalism. The new century looked fertile and promising for big business.

Roosevelt's Preferential Treatment

In September 1901, Wall Street watched in horror as President William McKinley was assassinated and his vice president became the chief executive. Theodore Roosevelt was a loose cannon whom political power brokers never intended to become president. He threatened to use the Sherman Antitrust Act against big business to benefit smaller firms and to shift compulsory publicity measures away from reducing competitive pressures and toward catalyzing antitrust lawsuits. To neutralize the threat, the Morgan concerns worked strategically with the new administration and secured preferential treatment with protection from such antitrust cases.

Roosevelt was a politician J. P. Morgan had routinely tried to buy off. In 1898 Morgan donated $10,000 to his campaign for New York governor. It didn't do much good. When Morgan tried

---

[18] Katherine Benton-Cohen, *Inventing the Immigration Problem: The Dillingham Commission and Its Legacy* (Cambridge, MA: Harvard University Press, 2018), 37–38; Briggs, *Immigration*, 57–62, 68, 71–73; Price Fishback, "The Progressive Era," in *Government and the American Economy: A New History*, by Price Fishback et al. (Chicago: University of Chicago Press, 2007), 307–8; Claudia Goldin, "Labor Markets in the Twentieth Century," in *The Cambridge Economic History of the United States*, ed. Stanley L. Engerman and Robert E. Gallman (Cambridge, MA: Cambridge University Press, 2000), 3:553, 555, 565–66, 570–74, 584; Gwendolyn Mink, *Old Labor and New Immigrants in American Political Development: Union, Party, and State, 1875–1920* (Ithaca, NY: Cornell University Press, 1986), 163–64, 169–74, 178–79, 194; Rothbard, *Progressive*, 201, 273–79; and Weinstein, *Corporate*, 10–12, 18, 26–27.

to get Roosevelt to exempt his New York Central Railroad from a proposed mortgage tax, he failed. Ironically, Roosevelt only became McKinley's running mate in the 1900 election because New York Republican Party boss Thomas Platt "want[ed] to get rid of the bastard . . . [and] bury him" in the dead-end position of vice president.[19] After the election, Roosevelt, trying to improve his rapport with business, hosted a dinner in Morgan's honor. The banker later confessed to a journalist that he was "afraid of Mr. Roosevelt because I don't know what he'll do."[20]

Morgan partners George Perkins and Robert Bacon anxiously sounded President Roosevelt out. They felt reassured after the president's first congressional address praised big business and only recommended a new department of commerce to regulate "labor and all matters affecting the great business corporations and our merchant marine."[21] Uncertainty returned in February 1902 after the president launched an antitrust lawsuit against the Northern Securities Company, a holding company Morgan had organized for the Northern Pacific and Great Northern Railways. This anti-big-business interpretation of the Sherman law pleased small-business Populists and self-styled Progressives and shocked Morgan and other corporate leaders. An angry Morgan visited Roosevelt at the White House and asked if Roosevelt planned to attack "the Steel Trust and the others."[22] "Certainly not," the president reassured Morgan, unless "they have done something that we regard as wrong."[23] This informal corporatist arrangement insulated J. P. Morgan & Co.'s investments from future federal antitrust lawsuits and allowed these corporations to make business decisions forbidden to other big businesses. This arrangement contrasted sharply with the

---

[19] Thomas Platt, quoted in Francis Russell, *The President Makers: From Mark Hanna to Joseph P. Kennedy* (Boston: Little, Brown, 1976), 79.

[20] J. P. Morgan, quoted in Alfred Lewis, "Owners of America . . . J. Pierpont Morgan," *The Cosmopolitan* 45 (August 1908): 261.

[21] Theodore Roosevelt, "Message Communicated to the Two Houses of Congress," December 3, 1901, in *Addresses and Presidential Messages of Theodore Roosevelt, 1902–1904* (New York: G. P. Putnam's Sons, 1907), 298.

[22] J. P. Morgan, quoted in Joseph Bucklin Bishop, *Theodore Roosevelt and His Time: Shown in His Letters* (New York: Charles Scribner's Sons 1920), 1:184.

[23] Theodore Roosevelt, quoted in Bishop, *Roosevelt*, 184.

strategy pursued by Standard Oil and other corporations, which coldly distanced themselves from the administration.[24]

Perkins, Morgan's "first real power broker and high-level lobbyist," performed the necessary intermediation.[25] During the rest of the year Perkins secured Roosevelt's approval of two new Morgan creations, the $120 million International Harvester, which produced farm machinery, and the $170 million International Mercantile Marine shipping trust. Perkins made further inroads by introducing Roosevelt to Elbert Gary to ensure that the president viewed US Steel in a positive light. Finally, Perkins worked with Roosevelt in 1902 to mediate another strike between the United Mine Workers and coal operators. He successfully fought for a less labor-friendly arbitration board. Typical of NCF agreements, the president's arbitration board secured the miners the same compromise as before—a 10 percent wage increase without union recognition.[26]

A crucial part of Perkins's establishing comfortable relations with the president was lobbying for Roosevelt's new pet project, the Department of Commerce and Labor, and its subsidiary, the Bureau of Corporations. Perkins professed to Roosevelt that he was "personally very anxious to see the Department of Commerce bill become a law."[27] He wanted the agency to act as a liaison between business and the federal government to minimize antitrust lawsuits against the Morgan companies. This was still a concern because the president was simultaneously pushing

---

[24] Gerard Helferich, *An Unlikely Trust: Theodore Roosevelt, J. P. Morgan, and the Improbable Partnership That Remade American Business* (Guilford, CT: Lyons Press, 2018), 34–41, 43–45, 48–56; Rothbard, *Progressive*, 207, 213–14, 218, 223–24, 226; and Strouse, *Morgan*, 418–19, 431.

[25] Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Simon and Schuster, 1990), 109.

[26] Susan Berfield, *The Hour of Fate: Theodore Roosevelt, J. P. Morgan, and the Battle to Transform American Capitalism* (New York: Bloomsbury, 2020), 194–95; Carosso, *Morgans*, 479–86; Helferich, *Trust*, 68, 92–95, 143, 145; William Kolasky, "Theodore Roosevelt and William Howard Taft: Marching toward Armageddon," *Antitrust* 25, no. 2 (Spring 2011): 99–100; Mink, *Labor*, 174–78; and Rothbard, *Progressive*, 220.

[27] George Perkins to Theodore Roosevelt, December 27, 1902, quoted in Helferich, *Trust*, 143.

to expedite antitrust cases in the federal courts and increasing appropriations for the Justice Department.

Perkins quickly instructed his lobbyist William Beer to convince congressmen of the need for such a department. When Roosevelt had the bill amended to enable him to release or withhold the Bureau of Corporations' findings, Perkins maintained his support. The president had declared that he could "separat[e] the good from the bad" trusts, and Perkins believed he could help him determine what constituted the "good" trusts that played nice in markets and the "bad" trusts that violated antitrust laws.[28] The Morgan bank's strategy clashed with Standard Oil's, which lobbied against the Roosevelt amendment. Infuriated by Standard Oil's actions, the president's vindictiveness toward it swelled—he already held Standard Oil partially responsible for his ousting from New York politics.

Early in 1903 Congress created the Department of Commerce and Labor along with passing laws that fast tracked antitrust cases and furnished the Justice Department with a $500,000 appropriation for antitrust proceedings. Perkins was so indispensable in getting Congress to create the department that Roosevelt gave him one of the pens he used to sign the law. Furthermore, Roosevelt, who knew of Perkins's "interest . . . in reference to filling the position[s]" in the new agency, appointed James R. Garfield to be the first head of the Bureau of Corporations.[29] The son of the former president was a Roosevelt loyalist, but he had also known Morgan's attorney Stetson since his years at Williams College, and Stetson was consulted on the appointment.[30]

---

[28] Theodore Roosevelt, "Message Communicated to the Two Houses of Congress," December 2, 1902, in *Addresses*, 348.

[29] Theodore Roosevelt to George Perkins, December 26, 1902, quoted in Helferich, *Trust*, 143.

[30] Chernow, *Titan*, 432; Helferich, *Trust*, 143–44; Arthur M. Johnson, "Theodore Roosevelt and the Bureau of Corporations," *Mississippi Valley Historical Review* 45, no. 4 (March 1959): 575–77; Horace Samuel Merrill and Marion Galbraith Merrill, *The Republican Command, 1897–1913* (Lexington: University Press of Kentucky, 1971), 137–43; Rothbard, *Progressive*, 214, 218–19; Sanders, *Roots*, 476; and Martin J. Sklar, *The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, the Law, and Politics* (New York: Cambridge University Press, 1988), 186.

The corporatist apparatus of the new Department of Commerce and Labor became a ready forum for businesses to obtain crony privileges from the Roosevelt administration. Some of the government assistance involved the Bureau of Manufacturers, an agency created to aid the National Association of Manufacturers and other small- and medium-sized exporters. For example, at the taxpayers' expense, the bureau subsidized exporters by compiling lists of foreign importers and publishing trade information about them and the goods they desired. This was a significant stepping stone to explicit export assistance, including export-driven trade agreements, cartels, and direct subsidies.

Big business primarily focused on the Bureau of Corporations because the president used its information-gathering functions to decide which large companies should receive government support and which should suffer scrutiny. To gather the necessary data, the bureau brought into the civil service various interventionist economists. Like Jenks, Edwin Seligman, and many other prominent academic economists, they were trained in the empirical methods of the German Historical School. The new breed of economists was keen on proving its worth to the bureau, and the government at large, by providing measurements and quantifications of business conditions to make policy proposals appear rigorous and sophisticated. Economists now ensconced in the government bureaucracy included E. Dana Durand, an instructor at Harvard and former student of Jenks, and Francis Walker, a recent doctoral graduate from Columbia University.[31]

---

[31] Becker, *Dynamics*, 113–17; Jonathan Chausovsky, "From Bureau to Trade Commission: Agency Reputation in the Statebuilding Enterprise," *Journal of the Gilded Age and Progressive Era* 12, no. 3 (July 2013): 356; Elzinga, "Beginning," 522; Sidney Fine, *Laissez Faire and the General-Welfare State: A Study of Conflict in American Thought, 1865–1901* (Ann Arbor: University of Michigan Press, 1976), 199; Thomas C. Leonard, *Illiberal Reformers: Race, Eugenics, and American Economics in the Progressive Era* (Princeton, NJ: Princeton University Press, 2016), 43–44; Theodore Roosevelt, "Executive Order, July 13, 1903," American Presidency Project, UC Santa Barbara, https://www.presidency.ucsb.edu/node/206246; and Theodore Roosevelt, "Executive Order, February 25, 1904," American Presidency Project, UC Santa Barbara, https://www.presidency.ucsb.edu/node/206790.

Roosevelt wanted the bureau to help the "good" trusts and prosecute the "bad" ones. It became apparent that the president was playing favorites with his definitions. The "good" trusts turned out to be the Morgan corporations that maintained friendly relations with the administration. Protected from antitrust attacks by the president and his bureau, Morgan concerns were able to engage in activities forbidden to others—namely, the acceptance of secret rebates, the creation of new cartels, and the acquisition of competitors. This gave them an advantage against competitors not favored by the Roosevelt administration and furthered their restrictionist goals. The "bad" trusts, on the other hand, were those the president personally opposed. He directed the bureau to initiate inquisitorial probes to fuel antitrust litigation. With their operations hampered and their attention focused on fighting antitrust battles, large businesses in Roosevelt's crosshairs became less responsive to consumer desires.

Roosevelt's first attack via the bureau against the "bad" trusts was on the much-maligned Beef Trust, at the urging of livestock interests eager to raise the prices of their cattle. However, he saved most of his ire for Standard Oil. That company was already increasingly on the defensive as smaller oil refiners in Texas and other states lobbied for state- and federal-level antitrust suits. Now, Kansas oilmen wanted the Bureau of Corporations to investigate. Smaller oil companies relished the propaganda from muckraker Ida Tarbell, who in Ron Chernow's words wrote "screed[s] masquerading as sober history."[32] This lauded progressive reformer was in league with small-oil interests: her father was an oilman whom Rockefeller had outcompeted, and her brother William worked as the treasurer of the Pure Oil Company, one of Standard Oil's biggest domestic competitors. William read and vetted his sister's manuscripts before she published them. Far from the publicly minded journalism they professed to be, Tarbell's attacks were not intended to protect the consumer but rather to keep in operation smaller companies unable to improve product quality and lower prices as much as Standard. Standard Oil chose to ignore Tarbell's work, in what proved to be a catastrophic public relations strategy.

[32] Chernow, *Titan*, 445.

In a late bid to placate the president, Standard Oil donated $100,000 to his reelection campaign in 1904. It didn't work: after his campaign had already spent the money, Roosevelt wrote a letter ordering a refund because "the letter will look well on the record" (Standard never received a refund).[33] Years later Roosevelt admitted his vindictiveness: Standard Oil "antagonized me before my election, when I was getting through the Bureau of Corporations bill," and after the election "I then promptly threw down the gauntlet."[34] Beginning in 1905 the bureau investigated Standard Oil, and the next year Roosevelt publicized the report showing that the company had received secret discounts from railroads in violation of the Elkins Anti-Rebating Act of 1903. The bureau charged it a record $29 million fine, but Standard Oil resisted, and the courts overturned the penalty. Spurred by the court loss, Roosevelt went for the jugular in 1907 and filed an antitrust suit to break up the company.

In 1911, the Supreme Court upheld a lower court's judgment and required Standard Oil to split into Standard Oil of New Jersey (SONJ), Standard Oil of Indiana, and others with separate management and operating structures. Never mind that competition had eroded Standard's share of the petroleum products market from 90 percent in 1899 to 84 percent in 1907 and then to 80 percent in 1911. Instead of capitalizing on the new oil discoveries that had chipped away at Standard's market share, smaller oil interests teamed up with Roosevelt to smash the corporation. Through the strong arm of government, they succeeded in lowering Standard Oil's market share, but without the concomitant increase in production and improvements in quality that genuine market competition would have engendered. Small oil got what it wanted without the hard work.[35]

Roosevelt and his bureau's treatment of Standard Oil contrasted sharply with their treatment of the "good" trusts: J. P.

---

[33] Theodore Roosevelt, quoted in Daniel Yergin, *The Prize: The Epic Quest for Oil, Money and Power* (New York: Simon and Schuster, 1992), 107.

[34] "Campaign Contributions," *Testimony . . . Pursuant to S. Res. 79* (62nd Congress, 2nd Session), I, 192–93, quoted in Johnson, "Bureau," 584.

[35] Chernow, *Titan*, 435–45, 519–20, 523, 538, 553–56; Helferich, *Trust*, 138–39; Johnson, "Roosevelt," 578–79, 584–86; and Rothbard, *Progressive*, 97, 226–27, 238, 288–89.

Morgan & Co.'s International Harvester and US Steel. Initially, Morgan had privately tried to induce both Grover Cleveland and Mark Hanna to run against Roosevelt in 1904, but when they declined, he and his partners decided to continue supporting the president. Morgan donated $150,000 to Roosevelt's reelection and Perkins raised an additional $450,000.

International Harvester received protection from both the Elkins Anti-Rebating and Sherman Antitrust Acts. After it was discovered that International Harvester secretly received rebates in May 1904, company president Cyrus McCormick Jr. met privately with Garfield and convinced him that the company should receive only a warning and not be penalized. Standard Oil received no such friendly slap on the wrist. Then, in December 1906, the bureau began an investigation into International Harvester. It coincided with Populist farmers who, wanting lower prices for farming implements, lobbied their states for restrictive laws against the company. Looking to defuse the situation, Perkins and Gary, himself a large stockholder, made sure that the investigation proceeded quietly and that the bureau delayed the report. Roosevelt even personally ordered the attorney general to drop the Justice Department's suit.[36]

US Steel received the greatest blessing. Perkins boasted to his superior that "Gary and I feel quite confident as to the Steel Corporation. . . . [It] is looked upon in Washington with more favor than perhaps any other one concern."[37] From 1901 to 1906, its cartelizing policy of publicly announcing prices backfired and led to undercutting by independent firms and a decline in its share of ingot production from 66 percent of the market to 58 percent. Recognizing the situation, Gary wanted to organize a new cartel, but this required the president's approval in order

---

[36] Helferich, *Trust*, 134–39, 145–49; Edmund Morris, *Theodore Rex* (New York: Random House, 2001), 360–61; Robert Ozanne, *A Century of Labor-Management Relations at McCormick and International Harvester* (Madison: University of Wisconsin Press, 1967), 71–72; Rothbard, *Progressive*, 219–21; William G. Roy, "The Politics of Bureaucratization and the U.S. Bureau of Corporations," *Journal of Political and Military Sociology* 10, no. 2 (Fall 1982): 193; and Robert H. Wiebe, "The House of Morgan and the Executive, 1905–1913," *American Historical Review* 65, no. 1 (October 1959): 52–54, 58.

[37] George Perkins to J. P. Morgan, June 25, 1906, 4, George W. Perkins Papers, Rare Book and Manuscript Library, Columbia University.

to avoid antitrust prosecution. Confident in his relationship with the president, Gary told Roosevelt that if investigated, US Steel would allow the bureau "to examine the books and records of all our companies."[38] When the bureau did investigate in 1905, Gary met with Garfield and Roosevelt at the White House. The bureau did not complete its report during the Roosevelt administration.

Roosevelt's favoritism extended to allowing US Steel to engage in activities forbidden to "bad" trusts. During the Panic of 1907, he allowed the corporation to purchase the Tennessee Coal, Iron, and Railroad Company at the distress price of $45 million, increasing US Steel's control over iron and steel in the South. Roosevelt justified permitting the takeover, to himself and later to Congress, on the grounds that it was during a financial crisis and he trusted Gary. Later in the year, Gary formed a new cartel with 90 percent of the country's iron and steel producers. At so-called Gary dinners steel industrialists publicly announced their agreed-upon prices. They openly talked of price rigidity—a US Steel official instructed his salesmen to "indulge in no cutting of any kind; maintain schedule prices absolutely."[39] This extended to propping up wage rates to make sure no company in the group could undercut its competitors by slashing labor costs. Roosevelt's Justice Department knew of Gary's cartelist activities yet did not prosecute. Although collusion failed due to the perennial problem of secret price-cutting, the Roosevelt administration's sanction of them and the purchase of Tennessee Coal reveals US Steel received special privileges that were forbidden to other corporations.[40]

---

[38] Elbert Gary, quoted in Ida Tarbell, *The Life of Elbert Gary: A Story of Steel* (New York: D. Appleton, 1925), 184.

[39] "Steel Trust Pledge to Uphold Prices," *New York Times,* November 15, 1907, 13.

[40] Dominick T. Armentano, *Antitrust and Monopoly: Anatomy of a Policy Failure*, 2nd ed. (Oakland, CA: Independent Institute, 1990), 99–100; Chernow, *Morgan*, 127–28; Helferich, *Trust*, 145–49; Kolasky, "Roosevelt," 101–2; Lamoreaux, *Merger*, 135–38; McCraw and Reinhardt, "Losing," 598, 603, 605, 612; William H. Page, "The Gary Dinners and the Meaning of Concerted Action," *SMU Law Review* 62 (Spring 2009): 602, 605–6; Rothbard, *Progressive*, 219–22; Roy, "Politics," 193; Peter R. Shergold, "Wage Rates in Pittsburgh During the Depression of 1908," *Journal of American Studies* 9, no. 2 (August 1975): 180–81; and Wiebe, "Morgan," 52, 58.

The NCF looked to codify the Morgans' preferential treatment. In fall 1907 Jeremiah Jenks, who had become the president of the American Economic Association, and Seth Low, a former president of Columbia University and former mayor of New York City and the NCF's next president, sponsored a conference for corporatist businessmen and intellectuals to draft policy proposals. The delegates called for amending the Sherman Act to allow "combinations whose objects are in the public interest." This vague statement could be interpreted to exempt larger businesses like Standard Oil, which benefited the public with reduced prices and improved quality, from the antitrust attacks. However, the vagueness of "public interest" could easily be interpreted as any companies the president favored—regardless of whether said companies embraced market innovations or cartelized through special privileges like US Steel. The latter appears to have been the intention because the conference proposal combined the antitrust provision with public disclosure requirements favorable to the maintenance of cartels—"complete publicity in the capitalization, accounts, operations, transportation charges paid, and selling prices."[41]

In early 1908 Jenks consulted with fellow academic Low, businessmen George Perkins and Elbert Gary, and lawyers Francis Lynde Stetson and Edgar Addison Bancroft (the latter International Harvester's general counsel) to devise a bill. Businessmen, intellectuals, and lawyers worked in concert to further the corporatist state. In a step toward federal incorporation, Jenks's proposal allowed corporations to voluntarily register with the Bureau of Corporations. Once they provided annual reports with detailed information about finances and operations, which the bureau would publish, they could submit trade arrangements to the bureau for potential exemption from the Sherman Act. Significantly, as an enticement to organized labor, unions could also apply to exempt their cartelization of workers.

The proposal's regulations reflected the corporatist thinking of big businessmen. First, the bureau's ability to exempt various activities from the Sherman Act reduced intrusive government intervention. Second, the publicity features reduced hidden

---

[41] *Proceedings of the National Conference on Trusts and Combinations* (New York: National Civic Federation, 1908), 455.

price competition. Third, corporations were encouraged to register to avoid antitrust lawsuits, saddling compliance costs disproportionately on smaller corporations and larger corporations not in the president's favor.

Roosevelt did not find the bill acceptable. He amended it to increase the discretionary power of the president—himself—and included a more compulsory form of registration. This weakened the NCF's support and drew a firestorm of criticism from the NAM, the Illinois Manufacturers' Association, and other organizations representing small- and medium- sized businesses. They understood that the enhanced executive authority and the increased power of unions would impose costs that hurt the smaller companies relative to the industrial giants close to the president. For these reasons, the proposal died in Congress.[42]

The defeat led the NCF to change its strategy later in the year. Instead of working through the president and the Department of Commerce and Labor's Bureau of Corporations, the new plan was to create a trade commission like the Interstate Commerce Commission, a modified version of John Gates's proposed manufacturing commission. To quote one NCF businessman, Congress needed to "establish a large Bureau of Commerce and give them the power to turn the limelight on those concerns. . . . Let us wipe out the Sherman Law and put in its place something that will strengthen . . . the examination and control of our corporations."[43] The next step in big businesses' partnership with government was about to commence.

In Restraint of Trade

The corporate power elite and their economists and lawyers spent the next several years lobbying for a trade commis-

[42] Christopher J. Calton, "Monstrous Monopolies and Vicious Competition: The General Incorporation Movement in Nineteenth-Century America" (PhD diss., University of Florida, 2023), 306–11; Christopher J. Cyphers, *The National Civic Federation and the Making of a New Liberalism, 1900–1915* (Westport, CT: Praeger, 2002), 34; Rothbard, *Progressive*, 288–90; and Sklar, *Corporate*, 203–85.

[43] Melville E. Ingalls, "1908 Annual Meeting," 214–16, quoted in Gordon Maurice Jensen, "The National Civic Federation" (PhD diss., Princeton University, 1956), 289.

sion to reduce antitrust lawsuits and enforce crony restrictions on price-cutting. In order for cartelization and monopolization efforts to succeed, it became increasingly necessary to reduce market pressures. Under the guise of promoting competition, businessmen would lobby to restrain it. With the right personnel leading a trade commission, big business would be in a commanding position.

Until the NCF devised a trade commission proposal for Congress to enact, the Morgan firms planned to continue their informal arrangements with the new president, William Howard Taft. The House of Morgan had assiduously supported Taft against the pro-antitrust Bryan, and after Taft's victory Perkins predicted to Jack Morgan that "we are going to have a more comfortable time."[44] Perkins's optimism was misplaced, for the new executive surrounded himself with lawyers who interpreted the Sherman Act broadly. An activist reading of the statute pushed businessmen to hire legal counsel to defend them in court—creating demand for lawyers who understood the law and how it was enforced. For example, Taft chose as his attorney general George Wickersham, a law partner of his brother Henry. After Wickersham's service in government, Cadwalader, Wickersham & Taft became "one of Manhattan's earliest law factories" and earned lucrative fees defending corporations from antitrust prosecution.[45] Over his four years in office the legal-minded Taft initiated nearly twice as many antitrust lawsuits as Roosevelt did in his seven and a half years.[46]

To J. P. Morgan & Co.'s dismay, the Bureau of Corporations completed their long-delayed investigatory reports, and Taft filed antitrust lawsuits against US Steel and International

---

[44] George Perkins to J. P. Morgan Jr., November 10, 1908, quoted in Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, MA: Harvard University Press, 1962), 81.

[45] Kai Bird, *The Chairman: John J. McCloy and the Making of the American Establishment* (New York: Simon and Schuster, 1992), 58.

[46] Bird, *Chairman*, 58; Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 165, 171, 194, 198; Carosso, *Morgans*, 457–58; John A. Garraty, *Right-Hand Man: The Life of George W. Perkins* (New York: Harper and Brothers, 1960), 226–27; and Kolko, *Triumph*, 159, 164–67.

Harvester in October 1911 and April 1912. Though these suits were ultimately unsuccessful, they hit J. P. Morgan & Co. at a sore time—they had lost Perkins, their Washington go-between, on bad terms in late 1910 after he began to undermine J. P. Morgan's leadership. The antitrust headache only added to US Steel's latest troubles from competition—the Gary dinners floundered after reductions in steel tariffs in 1909 incentivized small firms to furtively cut prices. Furthermore, General Electric, previously under the radar, had to dissolve its Board of Patent Control because of an antitrust lawsuit in March 1911. International Mercantile Marine escaped antitrust prosecution, but the tragic sinking of its *Titanic* in April 1912, and the difficulty of dampening competition on the ocean, caused irreparable damage.[47]

Amid the antitrust onslaught, the NCF renewed its legislative push. Throughout the second half of 1911, Gary, Perkins, and NCF president Seth Low testified before Congress. They argued that a trade commission was necessary to decrease antitrust lawsuits and control harmful price competition. Regarding the latter—similarly to how railroads sought cronyism through the elimination of secretive rebating and discriminatory price-cutting on long hauls compared to shorter routes—industrialists wanted to publicize hidden forms of price discounting, such as through discriminatory price cuts for certain individuals, firms, and locations. NCF officials did not admit that relative price discounts were harmful only to businesses; for the consumer they meant lower prices. This, of course, was all according to plan.

Gary fixated on secretive prices, a sign that this competitive behavior clearly frustrated his attempts to control markets. As Emiliano Corral Jr. puts it, he had recently created the American Iron and Steel Institute to "striv[e] for 'fair' prices and the

---

[47] Mark R. Brawley, "'And We Would Have the Field': U.S. Steel and American Trade Policy, 1908–1912," *Business and Politics* 19, no. 3 (September 2017): 426, 432–34, 436–37, 443; Josephine Young Case and Everett Needham Case, *Owen D. Young and American Enterprise: A Biography* (Boston: David R. Godine, 1982), 110–17, 119–34; Chernow, *Morgan*, 142–43, 145–47, 736; Patrick Newman, "Personnel Is Policy: Regulatory Capture at the Federal Trade Commission, 1914–1929," *Journal of Institutional Economics* 15, no. 6 (December 2019): 1042; Roy, "Politics," 193; and Peter Scott and Anna Spadavecchia, "Patents, Industry Control, and the Rise of the Giant American Corporation," *Research Policy* 52, no. 1 (January 2023): 4.

avoidance of 'destructive competition.'"[48] Despite his persistent efforts, Gary admitted to Congress that US Steel experienced difficulties because "it is not the big company that makes the market. It is the small company, disposed to cut prices, which makes the market."[49] He advocated "a corporation commission . . . similar to the Interstate Commerce Commission." This agency would enforce the "utmost publicity" for corporations engaged in interstate trade and make sure "prices should be the same to all customers without discrimination between persons or localities."[50] In other words, the commission would make it harder for firms that had developed the relevant cost efficiencies to undercut the larger firms that had become less efficient and responsive to change.

Low continued, explaining that a commission's publicity powers would make it "impossible to maintain secretly a trade agreement affecting prices and output."[51] In reality, public disclosure of pricing practices makes cartelizing easier and hurts competition. Perkins also disingenuously insisted that publicity would improve competition. Perkins, conscious of the need for the right personnel, favored "a business court or controlling commission, composed largely of experienced business men." Enforcing publicity would be "the essential feature," and each corporation would require commission approval for "all its affairs, from its capitalization to its business practices."[52]

Around the time Congress was holding hearings, Low and Jenks drafted corporatist policy recommendations for the NCF. They enlisted the help of another leading intellectual, Columbia University's eminent economics professor John Bates Clark.

---

[48] Emiliano Corral Jr., "'Morality Looms as Large as Legality': The United States Steel Corporation in the Progressive Era" (PhD diss., University of Chicago, 2011), 16.

[49] Elbert Gary, June 2, 1911, quoted in US House of Representatives, *Hearings before the Committee on Investigation of United States Steel Corporation* (Washington, DC: Government Printing Office, 1911), 80.

[50] Elbert Gary, November 29, 1911, quoted in US Senate, *Hearings before the Committee on Interstate Commerce* (Washington, DC: Government Printing Office, 1912), 694.

[51] Seth Low, November 29, 1911, quoted in Senate, *Hearings*, 522.

[52] George Perkins, December 13, 1911, quoted in Senate, *Hearings*, 1091–92.

They proposed that Congress create a new regulatory agency that would reduce anticompetitive pressures through public disclosures. Just as the Interstate Commerce Commission had been enabled "to put an end to rebating and every other unfair practice in railroading," the new trade commission would "smoke out and put an end to any unfair practice in connection with ordinary commercial business" (i.e., any welfare-enhancing price reduction that cut into cartels and monopolies). In addition, the commission would alleviate antitrust uncertainty by helping businesses "determine whether what they are doing or proposing to do, is probably lawful or unlawful."[53] The proposal was big businessmen's preferred trade commission.[54]

More and more business groups joined the clarion call. The number of trade associations established in a five-year period—business affinity organizations that facilitated cartelization among firms—had nearly doubled from thirty-four between 1905 and 1909 to sixty-three between 1910 and 1914. Businessmen and government officials founded the United States Chamber of Commerce in 1912. Associationalists were eager for a trade commission. Most notably, trade association lawyer Arthur Eddy wrote an entire book supporting the replacement of antitrust with "a Federal Commission." Eddy's commission would enforce "the frank and free disclosure of all competitive practices," require a "*uniform system . . . of cost accounting*" to prevent "intentional failure[s]" to accurately record prices, prohibit "secret rebates" and charging different prices to multiple buyers, and "revise and fix prices" of trade associations.[55] Much like the big businesses in the NCF, businesses of all sizes in trade

---

[53] Seth Low, John Bates Clark, Jeremiah Jenks, and Talcott Williams, "Cover Letter to Proposal for a Bill," December 9, 1913, quoted in Sklar, *Corporate*, 296–97.

[54] Corral, "'Morality'," 15–16; Joseph Dorfman, *The Economic Mind in American Civilization*, vol. 3, *1865–1918* (New York: Augustus M. Kelley, 1969), 188–205; House, *Hearings*, 79–80; Senate, *Hearings*, 520–22, 694–95, 703–4, 1091–92, 1103–6, 1111–12; Newman, "Personnel," 1042–43; Sklar, *Corporate*, 287–91, 295–97; and Weinstein, *Corporate*, 87–88.

[55] Arthur Jerome Eddy, *The New Competition* (New York: D. Appleton, 1912), 336–42.

associations demanded their own corporatism to decrease competitive pressures.[56]

The election of 1912 spurred a major change in strategy, as big business now faced a very Populist Democratic Party. Democratic candidate Woodrow Wilson perennially straddled the fence in election seasons. But his party championed cronyism for small businesses and unions that opposed big business and wanted government interventions that raised wages, redistributed the profits of the wealthy, and made it harder for large corporations to operate. They enlisted progressive intellectuals such as John Commons and the German-trained Richard T. Ely, two University of Wisconsin economists who helped found the American Association for Labor Legislation (AALL), a new group that advocated elevating scientific experts to oversee labor policy. Many AALL economists were close to Robert La Follette, who, as governor of Wisconsin in the early 1900s, had installed one-sixth of the university's faculty on state-level commissions that regulated working conditions and other matters. Wilson himself, a former professor and a student of Ely's, was an AALL member. His presidency augured the possibility of federal employment for AALL economists.

The Democratic-AALL labor program heavily privileged the American Federation of Labor and other Anglo-Saxon male–dominated unions that voted for the party: accident insurance for workers, minimum wages for women, labor restrictions on children, and a literacy test for immigrants. These types of policies raised the cost of employing low-skilled labor, causing firms to employ them less and instead demand higher-skilled unionized workers who were now relatively cheaper. Fittingly, after Congress had split up the Department of Commerce and Labor at the end of Taft's presidency, the new president appointed as the first ever secretary of labor William Wilson (no relation), a close AFL ally and former secretary-treasurer of the United Mine Workers.

[56] Colin Gordon, *New Deals: Business, Labor, and Politics in America, 1920–1935* (New York: Cambridge University Press, 1994), 144; Robert Himmelberg, *The Origins of the National Recovery Administration: Business, Government, and the Trade Association Issue, 1921–1933* (New York: Fordham University Press, 1976), 21–22; Kolko, *Triumph*, 180–81; and Butler Shaffer, *In Restraint of Trade: The Business Campaign against Competition, 1918–1938* (Lewisburg, PA: Bucknell University Press, 1997), 53–54.

Some firms did support prounion policies because they were already employing higher-skilled labor, unlike their competitors. The New England Cotton Manufacturers' Association aimed to hurt smaller competitors in the South that still employed children. US Steel and International Harvester had instituted their own workmen's compensation and wanted to saddle smaller competitors with similar compliance costs. Unions, however, remained the primary beneficiaries.[57]

Wilson's one olive branch to business came by happenstance. He had originally envisioned as secretary of commerce Louis D. Brandeis, his anti-big-business advisor and the AALL's legal counsel. But his other advisor, Colonel Edward House, persuaded him to pass over Brandeis. Instead, Wilson picked William Redfield, a former machine manufacturer and president of the American Manufacturers' Export Association. Secretary Redfield quickly proceeded to help create the National Foreign Trade Council (NFTC) in early 1914. The organization was controlled by US Steel, International Harvester, General Electric, Standard Oil of New Jersey, and other large corporations that dominated the 118 percent explosion in manufacturing exports (from $332 million to $725 million) that had taken place since 1900. The NFTC and Redfield favored government-privileged export cartels to combat similar European cartels. Recently, US Steel had contemplated forming an export cartel, as had Amalgamated Copper, but worries over antitrust violations postponed implementation. With Redfield, the corporations now had an ally in the administration.[58]

Redfield's appointment notwithstanding, Wilson's first legislation angered big business. Labor and farmers had increasingly lobbied for an income tax to redistribute income and strike at corporate power. They secured the Sixteenth Amendment in

---

[57] Burch, *Elites,* 2:211; Leonard, *Illiberal*, 35–38, 40–41; Mink, *Labor*, 182–228, 243–44, 249–51; Newman, "Personnel," 1043; Murray N. Rothbard, "Origins of the Welfare State in America," in Rothbard, *Progressive*, 335–40; Rothbard, *Progressive*, 279–84, 291–94; Sanders, *Roots*, 341–43, 348–53; and Wiebe, *Businessmen*, 198–99.

[58] Becker, *Dynamics*, 8, 48, 123, 133–34, 140–41; Burch, *Elites*, 2:211, 235; Leonard, *Illiberal*, 36; Sanders, *Roots*, 283–86; and Mira Wilkins, *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914* (Cambridge, MA: Harvard University Press, 1970), 81.

February 1913 to prevent the wealthy from legally challenging peacetime income taxes again. The Underwood-Simmons Tariff Act of October 1913 slashed the tariff and instituted both a 1 percent corporate income tax and a progressive personal income tax that hit only the wealthiest (the top marginal rate was 7 percent). Robert Montgomery, the president of the American Association of Public Accountants, rejoiced at the news, having previously told Congress that his profession stood "ready and glad to render every assistance in our power to further the preparation of efficient legislation."[59] As the demand for tax accountants increased in subsequent years, Montgomery published highly influential books on how to prepare income tax returns.

Large corporations and the wealthy, on the other hand, were not pleased at having to pay the government more money. Gary and other corporate leaders did not lobby against the tariff reduction because they no longer needed that form of protection. But they sharply criticized the income tax because, in the words of one businessman, "it immediately arrays ninety-seven per cent. of the people against [the] three per cent. of the people" that paid the tax.[60] If peacetime income taxes became a permanent fixture, executives proposed shifting the burden to the poor, or in the *Wall Street Journal*'s words, getting them "imposed upon every voter, however small his means."[61]

Insult was added to injury when rumors circulated that Wilson would next urge legislation prohibiting interlocking directorates, a proposal heartily supported by smaller businessmen

---

[59] Robert Montgomery, "Corporation Tax Returns," *Journal of Accountancy* 15, no. 2 (February 1913): 139.

[60] Quoted in Wiebe, *Businessmen*, 196.

[61] "A Poor Prospect for Economy," *Wall Street Journal*, April 26, 1915. W. Elliot Brownlee, *Federal Taxation in America: A History*, 3rd ed. (New York: Cambridge University Press, 2016), 83–90; Chernow, *Titan*, 566; Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (Oakland, CA: Independent Institute, 2012), 151; Irwin, *Clashing*, 337–41; Gary John Previts and Barbara Dubvis Merino, *A History of Accountancy in the United States: The Cultural Significance of Accounting* (Columbus: Ohio State University Press, 1998), 178, 181–82, 254–56, 439; Alfred Robert Roberts, "Montgomery on the Income Tax," *Accounting Historians Notebook* 16, no. 2 (Fall 1993): 11–12; Sanders, *Roots*, 227–30, 283–86; and Benjamin Sevitch, "Elbert H. Gary: Spokesman for Steel," (PhD diss., Indiana University, 1972), 114–15, 132–33.

eager to weaken their larger rivals by preventing directors from serving on multiple boards. The threat worried J. P. Morgan & Co. so much that in January 1914 it preemptively announced the resignation of its partners from thirty boards of railroads and manufacturing concerns. But this was not enough for Wilson, because they retained positions on the boards of US Steel, International Harvester, and General Electric. April's resultant Clayton bill, named after the Populist Democrat Henry Clayton of Alabama, proposed outlawing various interlocking directorates among banks and corporations. It also called for an extremely stringent ban on price discrimination that made it harder for large corporations to adjust prices across markets.

However, just as Wilson moved forward on his antitrust program, he conciliated. The deepening recession that had started in 1913 gave him anxiety about the upcoming midterm elections. Big business proceeded along two fronts. In December 1913 the NCF sent its trade commission bill to Joseph Davies, the current head of the Bureau of Corporations. Davies in turn convinced the president, who had previously believed that it was the scheme "of the very men who are to be controlled," of the usefulness of a trade commission.[62] The president now thought that a trade commission could adopt an anti-big-business and pro–Clayton bill stance if the personnel so desired, but corporate executives had other plans. For their part, throughout 1914 the NFTC and Redfield lobbied to exempt export cartels from antitrust legislation. Though Wilson refused, he supported having the proposed trade commission further study the question.

The Democrats passed the Federal Trade Commission Act and the Clayton Antitrust Act before the fall midterms in 1914, when they maintained control of Congress. The NCF had thus accomplished its main objective: getting the federal government to enact a regulatory commission that could codify the anticompetitive behaviors promoted by the Roosevelt administration and institute new restrictions on market pressures. The free-enterprise alternative of eliminating antitrust regulations and allowing businesses to openly compete and produce better-quality products at lower prices was never considered. It is true

---

[62] Woodrow Wilson, "The New Freedom," *The World's Work* 25 (April 1913): 633.

that Democrats catered to anti-big-business interests. They did not fully grasp, though, how their newfound conciliation made these progressive laws considerably vaguer than earlier proposals, and how the ambiguity provided the crucial opening for corporatists to capture the regulations.

The Federal Trade Commission Act subsumed the Bureau of Corporations and its publicity functions into a new, independent agency outside of the Department of Commerce, the Federal Trade Commission (FTC). The five-man regulatory board possessed a malleable mandate: "Unfair methods of competition in commerce are hereby declared unlawful."[63] At the same time, the Clayton Act forbade interlocking directorates and other practices along equally hazy lines: "where the effect of such acquisition may be to substantially lessen competition."[64] It was up to the trade commissioners to decide just what exactly constituted unfair methods or a lessening of competition and whether to initiate antitrust prosecution against corporations and trade associations or to aid them in restraining the competition they so detested.[65]

According to Owen Young, the vice president and general counsel of General Electric, "If ably manned and directed" the new commission could turn into a "common sense court without

---

[63] Federal Trade Commission Act (38 Stat. 717), September 26, 1914, quoted in William F. Notz and Richard S. Harvey, *American Foreign Trade: As Promoted by the Webb-Pomerene and Edge Acts* (Indianapolis, IN: Bobbs-Merrill, 1921), 412.

[64] The Clayton Act (38 Stat. 730), October 15, 1914, quoted in Notz and Harvey, *American*, 423.

[65] Becker, *Dynamics*, 141–42; Case and Case, *Young*, 139–41; George Cullom Davis Jr., "The Federal Trade Commission: Promise and Practice in Regulating Business, 1900–1929" (PhD diss., University of Illinois, 1969), 36, 55–56; Burton I. Kaufman, *Efficiency and Expansion: Foreign Trade Organization in the Wilson Administration, 1913–1921* (Westport, CT: Greenwood Press, 1974), 155–57; Newman, "Personnel," 1043; Sanders, *Roots*, 283–86; Miguel Cantillo Simon, "The Rise and Fall of Bank Control in the United States: 1890–1939," *American Economic Review* 88, no. 5 (December 1998): 1082–84; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 5, *Governance and International Relations* (New York: Cambridge University Press, 2006), 201; Weinstein, *Corporate*, 88; and Wiebe, *Businessmen*, 137–38, 155.

too much red tape or delay."[66] Young believed that with the right personnel he would have "a good deal of confidence in it" and that it would "not become prejudiced and sour as the Interstate Commerce Commission has" against the nation's railroads.[67] Wilson, who received a flood of letters containing suggestions for commissioners, made sure his appointments placated the business community. After all, his 1916 reelection was right around the corner.

Crucially, when the president made his picks in early 1915, one of them was Edward Hurley, a businessman who had supported Wilson early in his political career. Industrialists could count upon him. He was a former president of the Illinois Manufacturers' Association and according to Young was "a hard-headed business man, . . . fairly familiar with the ways of business, and . . . [we] can expect from him, I think, absolutely fair treatment."[68] Furthermore, after serving as a trade commissioner to Latin America on behalf of the Department of Commerce, Hurley had helped form the big business–dominated NFTC. Young's approval was not misplaced, as Hurley stated, "In my position on the Trade Commission I am there as a business man. . . . I try to work wholly in the interest of business."[69]

Hurley, who would become the FTC's most energetic official and its second chairman, constituted big businesses' "Benjamin Strong" at the FTC. He would exploit the FTC's vague mandate in a way favorable to industry, interpreting "unfair methods" to mean competitive behaviors that lowered prices, increased quantity, improved quality, and reduced the profits of cartelizing and monopolizing firms. Hurley would not look out for the public. Industrialists and trade associationalists eagerly awaited

[66] Owen Young to Arthur Page, January 29, 1915, quoted in Case and Case, *Young*, 144.

[67] Owen Young to E. B. Parker, June 16, 1915, quoted in Case and Case, *Young*, 145.

[68] Young to Parker, June 16, 1915, quoted in Case and Case, *Young*, 145.

[69] Edward Hurley, "Speech to National Industrial Conference Board," July 1916, quoted in Kolko, *Triumph*, 274–75.

his tenure, for the guns of war blaring in Europe opened new avenues for sizable profits.[70]

---

[70] Burch, *Elites*, 2:217; Case and Case, *Young*, 144–45; Kolko, *Triumph*, 275; Newman, "Personnel," 1044, 1047; and Stephen A. Schuker, "Owen D. Young," in *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, ed. Larry Schweikart (New York: Facts on File, 1990), 482.

CHAPTER 8

CAPTURING THE REGULATIONS

Edward Hurley's tenure at the Federal Trade Commission (FTC) brought great rewards to the big-business community. The FTC during the Hurley years provided more certainty over what constituted antitrust violations, devised new accounting rules to make pricing more public, and made significant inroads in government-enforced export cartels. The good times did not last. After Hurley resigned in early 1917, President Wilson catered to small businesses through new commissioner appointments, promoted prounion policies in new wartime agencies, and significantly raised taxes on businesses and the rich. Big business learned the hard way that they were not the only interest group trying to capture the corporatist state. However, all was not lost, for by the middle of the 1920s industrialists and their economists and accountants had recaptured the regulations through personnel changes and favorable government legislation. The Department of Commerce and the FTC returned to promoting a pro-big-business corporatist order, which included generous patent protections, export subsidies, burdensome labor and tax compliance costs on smaller firms, and government-backed cartels that restricted market competition in industry and among workers. By the end of the decade the corporatist regulations reduced the profitability of smaller companies relative to larger concerns and rigidified the price- and wage-setting process.

Big Business in the Driver's Seat

Hurley's first action at the FTC was to sanction and enforce restrictionist behavior. In the spring of 1915 the commission consulted with trade association lawyer Arthur Eddy and Morgan lawyer Victor Morawetz and adopted the practice known as "advance advice," where businessmen approached the FTC to learn what constituted "unfair" methods of competition.[1] This informal process, which the FTC's mandate did not explicitly mention, allowed businessmen to influence trade commissioners regarding what constituted unfair competition (i.e., anything that competitors were doing). In the 1920s, advance advice evolved into the FTC creating forums where individual trade associations defined anticompetitive behavior in their industry, with the FTC agreeing to prosecute noncompliant firms.[2]

Hurley's next anticompetitive initiative concerned uniform accounting standards. He declared that "a system of cost accounting uniform throughout an industry [allows] companies in the industry [to] compare their costs readily," which "produces more intelligent competition." In contrast, "the lack of adequate cost accounting systems" results in businesses "cutting prices right and left and . . . reckless competition."[3] To put it more pointedly, requiring accounting standards in each industry makes it harder for firms to sell below a given profit margin and enables businesses to collude on prices. This was intelligent competition from the perspective of the businessman, not from the public, who received fewer price discounts.[4]

Under Hurley's direction, the FTC's Cost Division worked with the American Association of Public Accountants to devise cost accounting rules, and the FTC's chief economist Francis

---

[1] Patrick Newman, "Personnel Is Policy: Regulatory Capture at the Federal Trade Commission, 1914–1929," *Journal of Institutional Economics* 15, no. 6 (December 2019): 1046.

[2] Gabriel Kolko, *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916* (New York: Free Press, 1963), 271–74; Thomas Lane Moore III, "The Establishment of a 'New Freedom' Policy: The Federal Trade Commission, 1912–1918" (PhD diss., University of Alabama, 1980), 63–64; and Newman, "Personnel," 1046.

[3] Edward N. Hurley, *Awakening of Business* (New York: Doubleday, Page, 1916), 16, 59.

[4] Gerald Berk, *Louis D. Brandeis and the Making of Regulated Competition, 1900–1932* (New York: Cambridge University Press, 2009), 125; and Butler Shaffer, *In Restraint of Trade: The Business Campaign against Competition, 1918–1938* (Lewisburg, PA: Bucknell University Press, 1997), 64–66.

Walker helped by providing his profession's increasingly quantitative precision and statistical analysis. By 1916 Hurley had sent out 230,000 accounting manuals to trade associations and issued letters of approval on their individual accounting standards. This approval set a precedent for the FTC to declare that deviations of individual firms from trade associations' publicly stated accounting practices constituted unfair competition.

To Hurley's dismay, Commerce Secretary William Redfield envied his growing informational bureaucracy and wanted it for himself. Redfield killed congressional funding for the program and absorbed the FTC's Cost Division into his agency's Bureau of Foreign and Domestic Commerce, a new subunit that had supplanted the export-minded Bureau of Manufacturers. The FTC's loss notwithstanding, Hurley's cartelizing efforts lived on in the Department of Commerce.[5]

Last but certainly not least, Hurley aided export cartels after war broke out in the summer of 1914, a great struggle that quickly encompassed Great Britain, France, and Russia on one side and Germany, Austria, and the Ottoman Empire on the other. World War I would tremendously enlarge cronyism throughout the US economy by fostering the corporatist state eagerly desired by bankers, big businesses, intellectuals, and unions.

Big business reaped its gains before America's entry three years later. The British and French needed $3 billion in explosives, firearms, ammunition, and related war materiel, and their purchasing agent J. P. Morgan & Co. distributed the lion's share of contracts to corporations affiliated with the investment bank. The Morgan firms responded by ramping up production of military-related goods. As an extra bonus, they exploited new opportunities for foreign investment: General Electric, for example, invested in Panama and ushered in the era of US light and power in South America. The gains were remarkable: the profits of US Steel, for instance, exploded by 440 percent between 1914 and

---

[5] William H. Becker, *The Dynamics of Business-Government Relations: Industry and Exports, 1893–1921* (Chicago: University of Chicago Press, 1982), 122; Berk, *Brandeis*, 28, 123–30; Newman, "Personnel," 1046–47; and Gary John Previts and Barbara Dubvis Merino, *A History of Accountancy in the United States: The Cultural Significance of Accounting* (Columbus: Ohio State University Press, 1998), 230–34.

1916, an increase much greater than the less than 9 percent rise in consumer prices and the various tax increases during this time. No wonder *Iron Age* described 1916 as "the Greatest of Steel Years."[6] The annual report for General Electric remarked on the "extraordinary demand for General Electric products" like searchlights and large electric motors.[7] Between 1914 and 1916 the real value (adjusted for price increases) of industrial stocks rose nearly 56 percent. Big business was happy, but the war exports angered Germany and German Americans and significantly increased the possibility that the United States would be drawn into the bloody conflict to help Great Britain and France.[8]

In mid-1916, Hurley spoke before the American Iron and Steel Institute and announced that he would recommend legislation that sanctioned and enforced export cartels. Elbert Gary at US Steel exuberantly praised Hurley as a "real statesman."[9] Redfield thoroughly agreed with such legislation, as did many trade

---

[6] "1916: Greatest of Steel Years," *Iron Age*, January 4, 1917, 108.

[7] Quoted in Josephine Young Case and Everett Needham Case, *Owen D. Young and American Enterprise: A Biography* (Boston: David R. Godine, 1982), 147.

[8] Stuart D. Brandes, *Warhogs: A History of War Profits in America* (Lexington: University of Kentucky Press, 1997), 127–40; Case and Case, *Young*, 147–48; Vincent P. Carosso, *Investment Banking in America: A History* (Cambridge, MA: Harvard University Press, 1970), 215–18; Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Simon and Schuster, 1990), 190; Justus D. Doenecke, *Nothing Less than War: A New History of America's Entry into World War I* (Lexington: University Press of Kentucky, 2011), 2, 20–21; Ivan Eland, *Recarving Rushmore: Ranking the Presidents on Peace, Prosperity, and Liberty* (Oakland, CA: Independent Institute, 2009), 213–16; Thomas K. McCraw and Forest Reinhardt, "Losing to Win: U.S. Steel's Pricing, Investment Decisions, and Market Share, 1901–1938," *Journal of Economic History* 49, no. 3 (September 1989): 598; R. R. Palmer and Joel Colton, *A History of the Modern World*, 8th ed. (New York: McGraw-Hill, 1995), 702–12; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 3, *Economic Structure and Performance* (New York: Cambridge University Press, 2006), 158, 757–58; Charles Callan Tansill, *America Goes to War* (Boston: Little, Brown, 1938), 37–38; Melvin I. Urofsky, *Big Steel and the Wilson Administration: A Study in Business-Government Relations* (Columbus: Ohio State University Press, 1969), 106; and Mira Wilkins, *The Emergence of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, MA: Harvard University Press, 1970), 16.

[9] *Proceedings of the American Iron and Steel Institute,* 1916, 196, quoted in Urofsky, *Steel*, 75.

associations representing smaller- and medium-sized firms. As a result, the House quickly passed the Webb-Pomerene bill, which required "every association now engaged solely in export trade" to register with the FTC.[10] Their export activities received exemption from the Sherman Antitrust Act and from the Clayton Antitrust Act's prohibitions on intercompany stockholding. Crucially, the FTC could now go after "unfair methods of competition in export trade," which could include practices like "price-cutting by free goods and premiums; price discrimination; [and] rebates and discounts conditioned on exclusive dealing."[11] In other words, the FTC could aid the cartelization of American firms in foreign markets by attacking competitive price-cutting behaviors. Though anti-big-business senators delayed its passage until 1918, the Webb-Pomerene Act constituted a sizable corporatist victory because it allowed the FTC to create government-enforced cartels in international markets.[12]

In January 1917, Jeremiah Jenks boasted that the FTC had "secur[ed] the confidence of . . . the great corporations."[13] Jack Morgan assessed the overall business situation and noted that while "the Democratic party has tried its best to cripple us in every way it could, [in] that they had Steel investigations, Pujo investigations and Clayton bills . . . we have gone ahead and got along pretty well."[14] Indeed, after years of planning and defending, big business had counterattacked by securing the right personnel and producing for the Allies' war effort. Government favors burst forth in the form of new European export subsidies

---

[10] The Webb-Pomerene Law (40 Stat. 516), April 10, 1918, quoted in William F. Notz and Richard S. Harvey, *American Foreign Trade: As Promoted by the Webb-Pomerene and Edge Acts* (Indianapolis, IN: Bobbs-Merrill, 1921), 440.

[11] Notz and Harvey, *American*, 237–38.

[12] Becker, *Dynamics*, 141–43; Burton I. Kaufman, *Efficiency and Expansion: Foreign Trade Organization in the Wilson Administration, 1913–1921* (Westport, CT: Greenwood Press, 1974), 157–59, 215–16; Newman, "Personnel," 1047; and Urofsky, *Steel*, 73–76, 84–106.

[13] Jeremiah Jenks, "Report of the Department of Regulation of Industrial Corporations, 17th Annual Meeting," January 22, 1917, quoted in James Weinstein, *The Corporate Ideal in the Liberal State, 1900–1918* (Boston: Beacon Press, 1968), 91.

[14] Jack Morgan to Edward Grenfell, August 9, 1917, quoted in Chernow, *Morgan*, 203–4.

and a friendly FTC that promoted restrictive domestic and international trade agreements.

Industry Loses Control

It was not to last. "Practically overnight," writes George Davis Jr., "the Federal Trade Commission had assumed new and controversial responsibilities in its relations with commerce and industry."[15] This revolution caused by new personnel, along with new wartime regulations, union favoritism, and higher taxes after the US entered the Great War, reduced the crony rewards big business received from the burgeoning corporatist state. As a result, the big-business community turned against the FTC they had worked so hard to create and devised new regulatory proposals.

The same month Jenks made his assessment, Edward Hurley resigned from the FTC. He returned to the private sector, telling Wilson that he had to devote "personal attention to my business affairs."[16] Unlike at the Federal Reserve Bank of New York, where Benjamin Strong's long tenure guaranteed a steady stream of rewards to Wall Street, at the FTC the reshuffling of personnel created alternating periods of regulatory capture by different special interests.

Wilson, victorious in his reelection and ensconced in the White House for four more years, returned to rewarding the Populist and Progressive interest groups who had soured on the early FTC. Due to Hurley's retirement and other vacancies, Wilson appointed opponents of big business, such as former Kansas journalist and congressman Victor Murdock. In a rapid change of course, the new commissioners investigated the Beef Trust, US Steel, Standard Oil of New Jersey (SONJ), and other corporations accused of war profiteering.

Big businesses' wartime profiteering became a much bigger concern after April 1917, when the US declared war on Germany

---

[15] George Cullom Davis Jr., "The Federal Trade Commission: Promise and Practice in Regulating Business, 1900–1929" (PhD diss., University of Illinois, 1969), 183.

[16] Edward Hurley to Woodrow Wilson, January 6, 1917, quoted in Kolko, *Triumph*, 277.

for attacking its armed merchant ships. Now the US government needed to purchase its own materiel. By June, the FTC was advocating new regulations for "the public and dependent industries in war times against unreasonable prices."[17] With inquisitional zeal, the new commissioners drastically increased cease and desist orders against businesses and trade associations: after issuing only six from 1914 to 1917, the commission issued thirty in 1918 alone. The FTC's attacks on bigness hampered businesses' use of cost efficiencies. Its calls for price controls promised to create shortages because the demand for goods was increasing as a result of the Federal Reserve's wartime monetary expansion.

By mid-1918, industrialists were attacking the commission they once considered a friend. The United States Chamber of Commerce, reflecting the sentiments of J. P. Morgan & Co., National City Bank, General Electric, Armour & Co., International Harvester, and its other large donors, declared that after showing the "promise of becoming a constructive body . . . during the past year or eighteen months [the Federal Trade] Commission's attitude and procedure have changed."[18] Recognizing that the problem lay with the new personnel, in August the US Chamber wrote to Wilson and asked for a meeting, looking to persuade him to fill two vacancies with probusiness commissioners. Instead, in 1919 and 1920 Wilson appointed anti-big-business lawyer Huston Thompson and Nelson Gaskill, his assistant attorney general while governor of New Jersey.[19]

---

[17] US Senate, *A Report Relative to the Price of Flags, June 26, 1917*, 65th Congress, 1st session, 6, quoted in Moore, "Establishment," 158.

[18] "The Case of the Federal Trade Commission," *Nation's Business*, October 1918, 9.

[19] Davis, "Federal," 182–200; Eland, *Recarving*, 215; Robert Higgs, "The World Wars," in *Government and the American Economy: A New History*, ed. Price Fishback (Chicago: University of Chicago Press, 2007), 434–37; Moore, "Establishment," 141–42, 170–72, 189, 196, 212, 230–33, 244–47, 277; Newman, "Personnel," 1046–48; Murray N. Rothbard, "From Hoover to Roosevelt: The Federal Reserve and the Financial Elites," in *A History of Money and Banking in the United States: The Colonial Era to World War II*, ed. Joseph T. Salerno (Auburn, AL: Ludwig von Mises Institute, 2005), 264–69; US Senate, "Special List of 'One Hundred,'" in *Government Control of Meat Packing Industry* (Washington, DC: Government Printing Office, 1918), 151; Marc Winerman, "The

The changes at the FTC paralleled corporations' decline in profits brought about by the flurry of wartime agencies, wartime-induced unionization, and higher taxes. US Steel's profits increased by just 41 percent between 1916 and 1918, a noticeable slowdown that was swallowed by the 38 percent rise in consumer prices. In general, the real value of industrial stocks plummeted 37 percent over these two years. During the entire span of the conflict, between 1914 and 1918, they slid roughly 2 percent.

After Congress declared war, it established the War Industries Board (WIB) to coordinate wartime production, along with similar agencies for fuel, rail, and food allocation. Corporatist businessmen and economists staffed the WIB. Bernard Baruch, a Wall Street speculator who donated $47,500 to Wilson's two elections, headed the agency. Alexander Legge of International Harvester, retired millionaire Robert Brookings, and farm equipment manufacturer George Peek joined him. Wesley Clair Mitchell of Columbia University, the German-trained dean of the Harvard Graduate School of Business Administration Edwin Gay, and other technocratic economists jumped at the government employment opportunity. Mitchell, according to his wife, adhered to "the idea of developing social statistics, not merely as a record but as a basis of planning," with the implication that this overseeing was to be administered by new philosopher kings such as himself.[20]

The WIB made enormous strides toward a corporatist state by negotiating prices, outputs, and product varieties with newly organized industrial cartels. To big businesses' delight, this occurred under a virtual suspension of antitrust enforcement. The US Chamber enthused that the new arrangement "promises to furnish the basis for a truly national organization of industry. . . . War is the stern teacher that is driving home the lesson of

Origins of the FTC: Concentration, Cooperation, Control, and Competition," *Antitrust Law Journal* 71, no. 1 (2003): 95; and Marc Winerman and William E. Kovacic, "Outpost Years for a Start-up Agency: The FTC from 1921–1925," *Antitrust Law Journal* 77, no. 1 (2010): 169–70, 172.

[20] Lucy Sprague Mitchell, *Two Lives: The Story of Wesley Clair Mitchell and Myself* (New York: Simon and Schuster, 1953), 363.

cooperative effort."[21] The crackdown on competition hurt business innovation, which in turn reduced consumer welfare: for example, in the name of instituting uniformity and eliminating waste the WIB restricted the number of styles and sizes of clothing, plow models, drills, and other products.

Industry quickly learned that the WIB prioritized the war effort and not big-business cronyism. The FTC's pricing reports informed the WIB's negotiations, and when industry committees refused the government's offers, the Wilson administration often threatened nationalization and strict price controls. This happened in the steel industry, where Baruch and Elbert Gary frequently clashed. In some cases, the WIB ordered a decline in private sector production, angering producers and the consumers who bought the goods; the most notable instance was in the emerging automobile industry. Baruch rationalized that his heavy-handed decisions protected businesses from more aggressive federal actions.[22]

At the same time, new labor regulatory agencies and policies raised costs and reduced profit margins, much to the consternation of big business. Wilson created a War Labor Administration to be headed by his secretary of labor, William Wilson. In turn, Secretary Wilson created the National War Labor Board to mediate labor disputes and the War Labor Policies Board to determine standards for wages, hours, and working conditions. American Association for Labor Legislation (AALL) intellectuals worked in these agencies—for example, Felix Frankfurter, the AALL's new legal counsel and a Harvard law professor, headed the labor

---

[21] "Putting Our Resources On Tap," *Nation's Business*, August 1918, 10.

[22] Robert D. Cuff, *The War Industries Board: Business-Government Relations during World War I* (Baltimore: Johns Hopkins University Press, 1973), 1–4, 7, 31, 73, 110, 123–33, 204–21, 222–23, 233–34; "Dr. Edwin Francis Gay," *Huntington Library Quarterly* 9, no. 3 (May 1946): 219; McCraw and Reinhardt, "Losing," 598; Murray N. Rothbard, "War Collectivism in World War I," in Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 366–72, 380–81, 385; Murray N. Rothbard, "World War I as Fulfillment: Power and the Intellectuals," in Rothbard, *Progressive*, 440, 442, 444–46, 449; Jordan A. Schwarz, *The Speculator: Bernard M. Baruch in Washington, 1917–1965* (Chapel Hill: University of North Carolina Press, 1981), 15–31, 35–36, 47, 60, 70–76, 82, 85–86, 214; and Sutch and Carter, *Historical*, 3:158, 757–58.

standards board. Many of the labor boards' rulings hurt non-unionized workers. For example, when the labor disputes board advocated equal pay "to make it no more profitable to employ women than men," it did not intend to achieve equality between the sexes.[23] Instead, the board intended to make females less economical to hire; it concurrently minimized the investigatory powers of female examiners and prevented women from serving on the commission. As one final sop to organized labor, Congress crushed less-educated and low-skilled substitutes through the Immigration Act of 1917, which banned immigration from all of Asia save for the Philippines and Japan and imposed a literacy test on all worldwide entrants.

The government's labor policies elevated the American Federation of Labor (AFL) and other unions to formidable powers in the corporatist state. Union ranks swelled by over two million between 1916 and 1920, and membership as a share of the nonfarm labor force rose from 11.2 percent to 17.6 percent. While unions received higher wages from restricting competition in their labor markets, the excess workers pushed down wages in other industries.[24]

As the last injury to big businesses' bottom line, Secretary of the Treasury William McAdoo and other redistributionist Democrats partially financed the war with taxes on the wealthy and on businesses. The rates were much higher than what was advised by Wall Street bankers and by Assistant Secretary of the Treasury Russell Leffingwell, a former lawyer at the Wall Street firm Cravath & Henderson whose clients included US Steel. The Revenue Act of 1916 raised the corporate income tax to 2 percent,

---

[23] National War Labor Board, "Industrial Justice for Women," n.d., 3, quoted in Valerie J. Conner, "'The Mothers of the Race' in World War I: The National War Labor Board and Women in Industry," *Labor History* 21, no. 1 (1979–80): 34.

[24] Vernon M. Briggs Jr., *Immigration and American Unionism* (Ithaca, NY: Cornell University Press, 2001), 57, 71, 78–79, 194; Conner, "Mothers," 31–35, 38–42, 51–52; G. William Domhoff, *The Corporate Rich and the Power Elite in the Twentieth Century: How They Won, Why Liberals and Labor Lost* (New York: Routledge, 2020), 68; Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (Oakland, CA: Independent Institute, 2012), 143–44; Thomas C. Leonard, *Illiberal Reformers: Race, Eugenics, and American Economics in the Progressive Era* (Princeton, NJ: Princeton University Press, 2016), 36; and Urofsky, *Steel*, 262–63.

increased the top marginal rate for personal incomes to 15 percent, instituted a new 12.5 percent excess profits tax on munitions makers, and created an inheritance tax that hit 10 percent on the largest estates. This was minor in comparison to the Revenue Acts of 1917 and 1918 that increased the corporate income tax to 12 percent, the top personal income tax bracket to 77 percent, the excess profits tax to between 30 and 65 percent of all industry returns classified as above average, and the top inheritance tax to 25 percent. The personal income tax's ensnaring net now extended to 15 percent of families, but the wealthiest 1 percent accounted for 80 percent of its revenue. These higher taxes crushed the incentive to work, save, and produce goods valued by consumers.

Corporations and the rich fought to lower their tax burdens. Most significantly, General Electric's Owen Young lobbied on behalf of his friend Senator Henry Hollis's contribution to the Revenue Act of 1917, which enabled individuals to deduct up to 15 percent of their taxable income if they donated it to universities and other nonprofits. Dwight Morrow, a Morgan partner and soon-to-be General Electric board member, provided Young crucial assistance. Hollis's amendment enabled big businessmen to shield their incomes from aggressive taxes and direct them to corporatist intellectuals who researched and advocated favorable policies for them. By donating to their own foundations that spent money on pet projects or to universities and new institutes, businessmen could lower their tax payments. It is no coincidence that a flurry of institutes emerged around the time of the sharp increase in taxes. Wealthy businessmen plowed money into the Rockefeller Foundation (1913), the Institute for Government Research (1916, later reorganized into the Brookings Institution), the National Bureau of Economic Research (1920), the Council on Foreign Relations (1921), and others.

In addition to engaging in foundation funneling, industrialists lowered tax payments by allocating their money into nontaxable funds earmarked for maintenance and depreciation (regardless of whether they actually spent the money for those purposes), investing in tax-exempt Liberty Bonds, and raising corporate officers' salaries. As an example of the last practice, Bethlehem Steel, one of US Steel's largest competitors, increased its president's salary through bonuses from $12,000 in 1916 to $2.9 million in 1917 and 1918 (he did pay $1.8 million in income taxes those two years, but the overall change is telling).[25]

When the war ended in November 1918, business elites prepared to recapture the regulatory environment. They wanted to preserve the wartime attack on competition but revise the regulations and the personnel who administered them to prioritize big-business profits. The US Chamber urged Congress to "complete[ly] revise" antitrust laws, pack the FTC by increasing the commissioners from five to nine, and formulate new "standards of general business conduct."[26] Big businessmen desired government-enforced cartels and monopolies, not a capitalist free-enterprise economy. One of their other pressing issues was subsidizing exports to war-torn Europe and facilitating investments on the Continent given the newfound strength of the dollar. Morgan partners Thomas Lamont and Henry Davison lobbied the Wilson administration to subsidize American exports to Europe to increase the exporting corporations' stock values and reduce the burdens of the countries who had borrowed from their bank. The main loser in this plan, unsurprisingly, was the American taxpayer.

To the frustration of the US Chamber and the Morgans, the Wilson administration and Congress rejected these proposals. But they still had Commerce Secretary Redfield. After the WIB

---

[25] Brandes, *Warhogs*, 169, 328; W. Elliot Brownlee, *Federal Taxation in America: A History*, 3rd ed. (New York: Cambridge University Press, 2016), 95–106; W. Elliot Brownlee, "Russell Cornell Leffingwell," in *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, ed. Larry Schweikart (New York: Facts on File, 1990), 218; W. Elliot Brownlee, "William Gibbs McAdoo," in Schweikart, *Encyclopedia*, 242–43; Case and Case, *Young*, 131, 136, 164–65, 182; Ron Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (New York: Vintage Books, 1998), 566; Nicolas J. Duquette, "Founders' Fortunes and Philanthropy: A History of the U.S. Charitable-Contribution Deduction," *Business History Review* 93, no. 3 (Autumn 2019): 556–64, 579; Higgs, *Crisis*, 151; Laura Phillips Sawyer, *American Fair Trade: Proprietary Capitalism, Corporatism, and the "New Competition," 1890–1940* (New York: Cambridge University Press, 2018), 175; Rothbard, "Fulfillment," 442–43, 447–48, 454, 457–61; Laurence H. Shoup and William Minter, *Imperial Brain Trust: The Council on Foreign Relations and United States Foreign Policy* (New York: Authors Choice Press, 2004), 15, 93–94; and Urofsky, *Steel*, 232–33, 283.

[26] "Has the War Doomed Competition?" *Nation's Business*, February 1919, 54.

disbanded, corporate leaders convinced him to create a new Industrial Board in the Department of Commerce. Industry's "biggest asset," according to the Industrial Board's chairman, was the board's ability to publicly back businesses' price agreements and tell other businesses that "this is as low a price as you could get." Publicly announced price floors would stabilize cartel pricing and allow businesses to "get along with half the number of salesmen and less than half the advertising."[27] This was the kind of mandated cartelization big business heartily endorsed. To their frustration, the Industrial Board lived a short life. After the board negotiated with Gary and the steel industry to prop up steel prices in March 1919, the FTC, the Railroad Administration (which purchased steel rails), and an attorney general eager to return to antitrust prosecution angrily protested. Wilson dissolved the board in May.[28]

The failure of the Industrial Board led corporatist big businessmen to regroup and craft new policy proposals on all fronts. The US Chamber's stance on the FTC influenced the Republican Party platform, which attacked the "Democratic" commission for its "persecution of honest business" and endorsed the earlier policy of advance advice.[29] Businessmen would look once more for favorable appointments at the FTC and the Department of Commerce. On the labor question, after the new labor boards were disbanded, unions fought to consolidate their gains—strikes as a share of total employment surged from 6.2 percent in 1919 to 20.8 percent in 1920. Some old liners like Gary refused to countenance unions and hired black and Mexican strikebreakers. On the other hand, Owen Young and other corporate leaders

[27] George Peek, "Meetings with the Iron and Steel Industry," March 19, 1919, quoted in Robert F. Himmelberg, "Business, Antitrust Policy, and the Industrial Board of the Department of Commerce, 1919," *Business History Review* 42, no. 1 (Spring 1968): 14.

[28] Cuff, *War*, 241, 247–52, 263; Davis, "Federal," 196–201; Himmelberg, "Business," 7, 12–16, 19–21; Kaufman, *Efficiency*, 231–33; Carl P. Parrini, *Heir to Empire: United States Economic Diplomacy, 1916–1923* (Pittsburgh: University of Pittsburgh Press, 1969), 54–55; Phillips Sawyer, *American*, 154–55, 158; Rothbard, "Collectivism," 389–94; and Schwarz, *Speculator*, 208–11.

[29] "Republican Platform of 1920," quoted in Kirk Porter and Donald Johnson, *National Party Platforms: 1840–1960* (Urbana: The University of Illinois Press, 1961), 235.

sought new ways to conciliate unions while relegating them back to junior partnership status. In terms of taxes, Assistant Secretary Leffingwell found an opening when McAdoo retired and the new secretary of the Treasury, Carter Glass, gave him wide latitude to write a proposal for tax reform. Leffingwell stressed a reduction of taxes on the rich and an "increase of the normal tax."[30] This would normalize the income tax in peacetime and shift some of the burden onto the middle class.[31]

The early years of the FTC are a testament to the importance of specific personnel for regulatory capture. Congress had enacted a trade commission that could reward either large or small firms. Initially, big business, through Edward Hurley, steered the commission in a direction favorable to its interests. Changing personnel sharply eroded these gains and turned businessmen against the FTC. Corporate elites' situation deteriorated further with new wartime regulatory agencies that controlled prices, raised labor costs, and taxed away incomes. However much industrialists may have denounced this regulatory nightmare, at no time did they seriously advocate getting rid of their corporatist system. They doubled down on their strategy and pressed forward.

Reestablishing Big-Business Dominance

The 1920s brought propitious times for corporatists. The Harding and Coolidge administrations steadily replaced commissioners until achieving a probusiness majority, and the FTC proceeded to make businessmen's wildest dreams come true by coercively enforcing domestic and international cartel agree-

---

[30] *Annual Report of the Treasury,* 1919, 23–24, quoted in Lawrence L. Murray, "Bureaucracy and Bi-partisanship in Taxation: The Mellon Plan Revisited," *Business History Review* 52, no. 2 (Summer 1978): 207.

[31] Briggs, *Immigration*, 71–72; Davis, "Federal," 212; Domhoff, *Corporate*, 71; Kim McQuaid, "Young, Swope and General Electric's 'New Capitalism': A Study in Corporate Liberalism, 1920–33," *American Journal of Economics and Sociology* 36, no. 3 (July 1977): 324–27; Murray, "Bureaucracy," 206–7; Benjamin Sevitch, "Elbert H. Gary: Spokesman for Steel" (PhD diss., Indiana University, 1972), 225; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 2, *Work and Welfare* (New York: Cambridge University Press, 2006), 354; and Urofsky, *Steel*, 283–91.

ments. Secretary of Commerce Herbert Hoover provided new informational subsidies, export assistance, and patent restrictions to reduce price-cutting and cartelize markets. Industrialists made compromises with the labor interest, accepting a diminished status for unions in return for wage rigidity and other concessions that relatively hurt smaller competitors. Congress slashed taxes on the wealthy while maintaining the broad outlines of the tax structure and the compliance costs of filing taxes. Designed by big business to benefit big business, the era of government-assisted cartels and monopolies, replete with high regulatory costs and less flexible price- and wage-setting practices, had finally arrived.

As the 1920s opened the Federal Trade Commission had few friends in the big-business community. Commissioners freely initiated antitrust investigations into General Electric, US Steel, and other giants and refused to back trade association agreements. "A scourge to the business world" and a "crusading, muck-raking body" were the respective opinions of former Commerce Secretary William Redfield and the *Wall Street Journal*.[32] Republicans aimed to appoint probusiness commissioners to rectify the situation. Yet the new president, Warren G. Harding, could only appoint new personnel when commissioners' terms expired. During his short time in office Harding managed only one appointment: Vernon Van Fleet, a former lobbyist for the National Association of Manufacturers.

The real coup came with President Calvin Coolidge's appointments, which finally tilted the five-man commission to a probusiness majority in 1925. That year he appointed William Humphrey, one of his previous campaign managers and a former lobbyist for lumber interests. Populists criticized his appointment as a "deliberate breaking down of governmental safeguards against the evils of big business" and warned that "big business has no warmer friend or defender."[33] For good rea-

[32] William Redfield, "Where the Federal Trade Commission Failed," *Nation's Business,* May 1925, 30, and *Literary Digest* (May 16, 1925): 11, quoted in George Cullom Davis Jr., "The Transformation of the Federal Trade Commission, 1914–1929," *Mississippi Valley Historical Review* 49, no. 3 (December 1962): 445.

[33] "Mr. Coolidge Makes Good," *Nation,* February 25, 1925, 202.

son: with Humphrey at the helm, big business recaptured their creation and the special privileges it could dispense. The FTC promptly announced a new policy of "'helping business to help itself' wherever and whenever it can be done."[34]

On the domestic front, both Humphrey and the Justice Department rolled back antitrust activity. This was not an across-the-board deregulation. They directed fewer of their lawsuits toward big business in favor of easy-to-win cases against smaller companies in furniture, apparel, and other trades. The result was to disproportionately saddle minor firms with the high legal costs of antitrust litigation, providing a competitive advantage to large corporations that did not have to deal with as many legal headaches.

Humphrey's major innovation at the FTC was to formalize and expand the earlier policy of advance advice to industry through new trade practice conferences. The procedure to form a trade practice conference was as follows: First, a trade association requested a meeting with commissioners. Then, at the meeting, the firms devised cartel rules that the commission coercively forced onto the entire industry. As Humphrey proudly proclaimed to the US Chamber, the conferences presented "an invitation and opportunity for the industry to clean its own house, to adopt its own rules or ethics in trade."[35] Cartel-strengthening rules included prohibitions on deviations from publicized prices, on secretive price-cutting, and on quality deviations from industry standards. These rules raised prices and decreased the product variety available to consumers. From 1926 to 1929, the FTC approved over three hundred rules in fifty industries' trade practice conferences. As an example, in 1929 the FTC approved a trade practice conference for the American Petroleum Institute that outlawed various marketing practices such as giveaways, lotteries, and deviations from posted prices.

Corporatists praised the new policy. Members of the US Chamber extolled the trade practice conference as "an expedi-

---

[34] US Federal Trade Commission, *Annual Report* (Washington, DC: Government Printing Office, 1927), 1.

[35] William Humphrey, "Presentation to the U.S. Chamber," May 7, 1928, 172, quoted in Phillips Sawyer, *American*, 193.

tious and economical means of eliminating the use of unfair methods of competition" and mandating "the rule of business conduct for [an] industry."[36] According to the Wall Street banker O. H. Cheney, Humphrey understood that "the only way to regulate business effectively is to let it regulate itself . . . and to back it up with the police power of the Commission."[37] The *Magazine of Wall Street* agreed: "More and more are objectionable trade practices disposed of by trade practice stipulations. . . . The whole trade reforms itself to comply with the law."[38] Translation: trade practice conferences replaced market-based business innovations and their consequences—greater production, improved quality, and lower prices—with business-designed cartel agreements and monopolies that resulted in the opposite.

Corporatist intellectuals lauded the arrangements because the government cartelization required data collection and increased the demand for academic experts. Harvard economists in the Graduate School of Business Administration who specialized in cost accounting, including Paul Cherington and Edwin Gay, stood out. Gay was also a founding member of the National Bureau of Economic Research, a new organization that gathered statistics on the economy and received funding from the Rockefeller Foundation. Cherington and Gay urged that trade practice conferences utilize business surveys and statistical number crunching. Accountants joined in and worked with the FTC "to aid in the cooperative effort by helping clients to gather data on costs . . . so businesses could set 'fair prices.'"[39] Leaping into their quasi-bureaucratic role, accountants ensured that individual firms complied with their industry's cost-accounting standards. Cooperative economists and accountants had found a comfortable place in the FTC's probusiness dispensation.[40]

---

[36] "The Elimination of Trade Abuses," *Nation's Business*, July 1927, 32.

[37] "The Answer to the New Competition," *Nation's Business*, October 1927, 16–17.

[38] "Making an End to Legalized Persecution of Business," *Magazine of Wall Street* 39, no. 12 (April 1927): 1066.

[39] Previts and Merino, *History*, 239.

[40] Z. Clark Dickinson, "Bureaux for Economic and 'Business' Research in American Universities," *Economic Journal* 35, no. 139 (September 1925): 398; Thomas K. McCraw, *Prophets of Regulation* (Cambridge, MA: Harvard Univer-

On the international front, Humphrey's tenure strengthened export cartels. The FTC interpreted the Webb-Pomerene Act to allow export companies to partner with foreign cartels and create worldwide restraints of trade that raised prices abroad. For example, through the counsel of Sullivan & Cromwell lawyer John Foster Dulles, Standard Oil of New Jersey informally merged with the German chemical cartel giant I. G. Farben through mutual stock ownership. SONJ also created the Export Petroleum Association with other American producers in 1929 so it could cartelize international oil markets with the British Anglo-Persian Oil Company and Royal Dutch Shell. In 1928, US Steel and Bethlehem Steel formed the Steel Export Association of America to partner with the International Steel Cartel. General Electric did not directly organize under Webb-Pomerene until 1931, but in 1925 its subsidiary, the International General Electric Company, played an important role in forming the Phoebus Agreement, whereby it forcibly controlled European lamp prices through patents.

The FTC's regulations worked in conjunction with the export subsidies in the Dawes Plan of 1924 when Owen Young, the new chairman of the board of General Electric, proposed that Wall Street bankers and other financiers loan $200 million to Germany to aid its postwar recovery. The loan would be paid back with new German taxes. In other words, Wall Street loans, encouraged by the Federal Reserve's inflation, and new German taxes would indirectly subsidize American firms that exported to or invested in German companies. US Steel and other producers did not export to or invest in Germany, but J. P. Morgan & Co. and Dillon, Read & Co. heavily financed steel companies in Germany that indirectly cartelized with American companies. General Electric and SONJ, in contrast to US Steel, directly invested and marketed in Germany. It is no coincidence that Young was the major engineer of the Dawes Plan: his company purchased stock ownership in Germany's principal electrical manufacturer throughout the latter half of the decade. Nor is it a coincidence

---

sity Press, 1984), 144–47; Newman, "Personnel," 1049–51; Phillips Sawyer, *American*, 172, 175–76, 187–88, 190–94, 216, 224–26; Previts and Merino, *History*, 239, 251–52; and Shaffer, *Restraint*, 26, 81, 82–86, 135–36, 160–62, 244.

that Young earned a hefty sum in early 1929 when he sold his entire stock portfolio for $2.2 million.[41]

While the Humphrey-led FTC was working to restrain competition and facilitate collusive agreements in domestic and foreign markets, the Commerce Department, under new management, provided its own favors. Industrialists found a sympathetic ally in Herbert Hoover, the new secretary of commerce. Hoover, a former engineer, was an unabashed Progressive who believed he could help organize and control society through corporatism. Instead of free-market competition, Hoover's ideal society involved the government encouraging business sectors and workers into medieval-style guilds that restricted prices and production. In a 1924 speech to the US Chamber that the AFL endorsed, Hoover praised trade associations and unions because they could aid in the fight against the "small minority who will not play the game"—that is, those businesses and workers who decide not to cartelize but to compete by accepting lower prices and wage rates.[42] Unsurprisingly, Hoover lauded the FTC's trade practice conferences for preventing "destructive competition" through "self-regulation."[43]

---

[41] Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World* (New York: Penguin Books, 2009), 199–208, 342; Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 251–52, 256, 260–61, 297, 299; Peter Collier and David Horowitz, *The Rockefellers: An American Dynasty* (New York: New American Library, 1977), 131–32; Jeremiah D. Lambert and Geoffrey S. Stewart, *The Anointed: New York's White-Shoe Law Firms* (Guilford, CT: Lyons Press, 2021), 121–23; Henrietta M. Larson, Evelyn H. Knowlton, and Charles S. Popple, *New Horizons: History of Standard Oil Company (New Jersey) 1927–1950* (New York: Harper and Row, 1971), 304–6; Leonard S. Reich, "Lighting the Path to Profit: GE's Control of the Electric Lamp Industry, 1892–1941," *Business History Review* 66, no. 2 (Summer 1992): 321–27; Paul Tiffany, "Opportunity Denied: The Abortive Attempt to Internationalize the American Steel Industry, 1903–1929," *Business and Economic History* 16 (1987): 237–42; Wilkins, *Maturing*, 65–69, 84–86; and Harold Williamson et al., *The American Petroleum Industry: The Age of Energy, 1899–1959* (Evanston, IL: Northwestern University Press, 1963), 530–32.

[42] Herbert Hoover, "The Relation of Government to Business," *Commercial & Financial Chronicle*, May 17, 1924, 2389.

[43] Herbert Hoover, "Address before the Chamber of Commerce of the United States," Fourteenth Annual Meeting, Washington (May 12, 1926), quoted in Ellis W. Hawley, "Herbert Hoover and the Sherman Act, 1921–1933: An Early

During his long tenure as secretary of commerce (1921 to 1928) Hoover increased his department's personnel by more than 50 percent, almost doubled its appropriations, and constructed the largest building in Washington other than the Capitol Building (where Congress met). Quite the fiefdom. Hoover's department facilitated corporatism in industry and labor in several ways. He publicized valuable data on wholesale and retail prices and other statistics in a monthly *Survey of Current Business*, which trade associations and businesses could use to cartelize and prevent cheating. In compiling these statistics, Hoover worked with the big business–financed National Bureau of Economic Research, which included on its payroll economists Mitchell and Gay, both of whom became presidents of the American Economic Association during the 1920s. Hoover promoted American exports by expanding the Bureau of Foreign and Domestic Commerce. He staffed the bureau with industry experts who cooperated with seventeen industrial advisory committees. In many cases, department officials stayed for a couple of years and then returned to the private sector for higher-paying jobs, a clear illustration of the revolving door between Washington and business.

Significantly, Hoover arranged in 1925 for the US Patent Office to be brought into his department. *Scientific American* approved the transfer, asserting, "Secretary Hoover . . . knows that the preeminent position of American industry is largely based upon the protection afforded by patents."[44] Large companies with extensive legal departments and research facilities, rather than the individual inventor, increasingly took control of the patent process—the share of new patents for inventions issued to domestic corporations exploded from 26 percent in 1921 to nearly 41 percent in 1929. Patents continued to stifle innovation by giving the holder squatting rights over competitors' use of the invention and any innovations upon it. General Electric was a major beneficiary, and Young cozied up to Hoover by advising him on

---

Phase of a Continuing Issue," *Iowa Law Review* 74 (July 1989): 1084. Murray N. Rothbard, "Herbert Hoover and the Myth of Laissez-Faire," in Rothbard, *Progressive*, 520; Shaffer, *Restraint*, 52; and Joan Hoff Wilson, *Herbert Hoover: Forgotten Progressive* (Long Grove, IL: Waveland Press, 1992), 31–40.

[44] "Herbert Hoover and the Patent Office," *Scientific American*, June 1925, 373.

personal investments and sending General Electric administrators to help develop the department. General Electric's control of tungsten-filament patents enabled it to earn profits on lamp sales that equaled a return on investment of 23–34 percent, well above average returns. It excelled in patent litigation and initiated multiple infringement lawsuits against both independent producers and purchasers of their goods. By 1927, independent producers totaled only 3 percent of the market.[45]

When it came to labor markets, Hoover encouraged new restrictions and interventions. He strongly opposed businesses cutting wages during the postwar Depression of 1920–1921 and urged that they work together to maintain wages in order to maintain purchasing power and avoid unfair competition. Hoover's position was shared by the AFL, many businessmen, and economists in the AALL and other groups.

Hoover envisioned unions as partners in the corporatist state but often made sure that businessmen were still in the driver's seat. Businessmen were largely successful, and union membership as a share of the nonfarm labor force shrank over the decade, from 18 percent in 1921 to 10 percent by 1929. Secretary of Labor James Davis was sympathetic to business concerns and largely focused on immigration matters. This pleased unions, who were eager to cut down on foreign competition in peacetime, and mollified businessmen because the Labor Department was not engaging in more intrusive interventions. The Johnson-Reed Immigration Act of 1924 instituted ethnic quotas and a statutory ceiling on immigration (roughly 165,000 immigrants a year). Hoover, angry at those unfair employers who used "the opportunities of unemployment and immigration

[45] Robert William Fogel et al., *Political Arithmetic: Simon Kuznets and the Empirical Tradition in Economics* (Chicago: University of Chicago Press, 2013), 35–39; Ellis W. Hawley, "Herbert Hoover, the Commerce Secretariat, and the Vision of an 'Associative State,' 1921–1928," *Journal of American History* 61, no. 1 (June 1974): 120–24, 136–39; McQuaid, "Young," 333; David F. Noble, *America by Design: Science, Technology, and the Rise of Corporate Capitalism* (New York: Oxford University Press, 1977), 108–9; "Past Presidents," American Economic Association, accessed July 18, 2024, https://www.aeaweb.org/about-aea/leadership/officers/past-officers/presidents; Phillips Sawyer, *American*, 165–67, 172, 178–79; Reich, "Lighting," 317–21; Rothbard, "Fulfillment," 448–49; Rothbard, "Hoover," 517–21; and Sutch and Carter, *Historical*, 3:428.

to lower wages," lauded immigration restrictions for promoting high wages.[46]

As commerce secretary, Hoover tried to act as an intermediator between business and labor. He often supported "enlightened" corporations' efforts at establishing company unions—firm-specific organizations whose bargaining power over wage rates and working conditions was more limited relative to traditional unions'. Big business favored company unions because they imposed the fixed cost of dealing with unions on smaller businesses while preventing unions from overreaching by instituting stable wages and limiting their power to strike. Corporate elites advocated the blessings of company unions through the Industrial Relations Counselors (IRC), a consulting group financed by John D. Rockefeller Jr. that sponsored probusiness labor-management centers at the University of Pennsylvania and Princeton University. Two corporate leaders sat on the board: Young of General Electric and the chairman of International Harvester, Cyrus McCormick Jr.

The IRC's efforts to relegate unions to being junior partners with some influence continued to frustrate small businesses, which had a harder time dealing with the costs of unionization. By 1929 only 4 percent of firms with fewer than 250 employees had company unions, in contrast to 8.7 percent of larger firms. That big business wanted to raise costs for their rivals can be seen in the case of the electrical industry: in 1926 General Electric unsuccessfully tried to organize with the AFL an industrywide union, one with which it "could work on a businesslike basis."[47] According to Josephine and Everett Case, this union

---

[46] Herbert Hoover, "Address on May 12, 1926," quoted in *The Memoirs of Herbert Hoover*, vol. 2, *The Cabinet and the Presidency, 1920–1933* (New York: Macmillan, 1951), 108. Briggs, *Immigration*, 97–99, 113, 204–6; Burch, *Elites*, 2:254–55, 297; Leonard, *Illiberal*, 142; Murray N. Rothbard, *America's Great Depression* (Auburn, AL: Ludwig von Mises Institute, 2008), 188–90, 193–94, 204–7; Rothbard, "Hoover," 515, 519; Richard K. Vedder and Lowell E. Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America* (New York: New York University Press, 1997), 67–68; and Robert H. Zieger, *Republicans and Labor, 1919–1929* (Lexington: University of Kentucky Press, 1969), 82–84.

[47] Gerald Swope, quoted in David Loth, *Swope of G.E.* (New York: Simon and Schuster, 1958), 168–72.

would put "pressure on GE's competitors to match its program of benefits"—that is, force competitors to raise their costs of production.[48] Big businesses sometimes wanted to raise the costs of larger competitors, too. When President Harding and Hoover successfully pressured US Steel to reduce working hours and raise wages in 1923, they were supported by President Alexander Legge at International Harvester, an IRC affiliate; International Harvester owned Wisconsin Steel Works, which had already adopted similar policies.[49]

With each passing year, corporatist actions that restricted price-cutting and wage cuts became more and more codified into business practice. Reductions in nominal prices and especially in wages, which had been the quick and normal responses to increases in supply or decreases in demand, now became business decisions fraught with potential violations of government edict. The threat of intervention replaced business dynamism with regimentation. To quote Butler Shaffer, "The employment of political sanctions . . . diminish[ed] the effectiveness of the market mechanisms as spontaneous, impersonal disciplinarians of economic behavior."[50] The result was that businesses adopted rigid and inflexible prices that increased the possibility of chronic surpluses during a downturn.[51]

---

[48] Case and Case, *Young*, 379.

[49] Domhoff, *Corporate*, 70–81; Colin Gordon, *New Deals: Business, Labor, and Politics in America, 1920–1935* (New York: Cambridge University Press, 1994), 119–20; McQuaid, "Young," 326–27; Robert Ozanne, *A Century of Labor-Management Relations at McCormick and International Harvester* (Madison: University of Wisconsin Press, 1967), 45, 137–39, 241; Rothbard, *America's*, 199–202; Rothbard, "Hoover," 519; and Robert H. Zieger, "Herbert Hoover, the Wage-Earner, and the 'New Economic System,' 1919–1929," in *Herbert Hoover as Secretary of Commerce*, ed. Ellis W. Hawley (Iowa City: University of Iowa Press, 1981), 80–114.

[50] Shaffer, *Restraint*, 96.

[51] Christopher Hanes, "Business Cycles," in *Routledge Handbook of Modern Economic History*, ed. Robert Whaples and Randall Parker (New York: Routledge, 2013), 123; Anthony Patrick O'Brien, "Were Money Wages Always Rigid? A Look at the Reliability of Survey Evidence on Changes in Wage Rates," *Industrial Relations* 39, no. 1 (January 2000): 48–61; Rothbard, *America's*, 204–6; Shaffer, *Restraint*, 35–36, 43–44, 90, 96–97; Austin H. Spencer, "Relative Downward Industrial Price Flexibility, 1870–1921," *Explorations in Economic History* 14, no. 1 (January 1977): 1–19; and Jason Taylor and George Selgin, "By

Big business was determined to make sure Congress did not tax away the profits they earned from their corporatist regulations. The new secretary of the Treasury, Andrew Mellon, was one of the country's richest men, having amassed a fortune from banking, oil, aluminum, and other investments. Assistant Secretary Leffingwell had left the government when Mellon arrived, but his "right-hand man" S. Parker Gilbert stayed on and communicated his proposals.[52] Gilbert was trusted by Mellon and most likely wrote his promotional book on taxes. Working with Price, Waterhouse & Co. accountants along with Edwin Seligman and other economists, Gilbert crafted a series of tax cuts. Over several years Republicans in Congress eliminated the excess profits tax, slashed the top marginal tax rate from 73 percent to 25 percent, and sliced the inheritance tax from 25 percent to 20 percent. To his credit, Mellon resisted Gilbert's advice to double or triple the normal tax rate to shift the burden onto lower income groups and decided to cut their taxes as well (Mellon correctly estimated that the rich would work and save more, thereby generating more revenue).

There were some harmful features of the revised tax structure. First, income taxes did not return to prewar levels or get eliminated for any group. It was official: income taxes were a permanent fixture over American society. This meant that individuals would need to continue hiring accountants to prepare tax returns (the 1924 tax law, for instance, gave accountants the right to represent clients in tax appeals). Second, the corporate income tax was maintained at around 12 percent. This meant that corporations still needed to hire tax accountants, which disproportionately hurt smaller firms unable to afford the expense. Third, the Fordney-McCumber Tariff of 1922 brought back protectionist rates, which raised the relative prices consumers paid for foreign goods and hampered exports.

Despite these downsides, the new tax system was a net benefit because it drastically reduced government intervention and encouraged individuals to work and save more. Or, as Seligman

---

Our Bootstraps: Origins and Effects of the High-Wage Doctrine and the Minimum Wage," *Journal of Labor Research* 20, no. 4 (Fall 1999): 451–54.

[52] Russell Leffingwell, quoted in Murray, "Bureaucracy," 211.

astutely pointed out, high tax rates reduce savings or "lessen the tendency to accumulate capital, . . . [which] serves to prevent what would otherwise be a rise of wages and a reduction of interest."[53] Precisely.[54]

The pro-big-business corporatism increased compliance costs, whether through trade conference practices, publicity disclosures, patent restrictions, labor-management relations, or other regulations. Higher legal fees, accounting paperwork, patent compliance, company unions, and other burdens raised operating costs and made smaller firms less competitive as business structures. The growth in the regulatory costs of doing business encouraged the combination of multiple firms into larger enterprises that could more easily handle them. From 1925 to 1929 a new merger movement developed where 1,922 manufacturing and mining firms worth $6.2 billion combined into larger companies. Leading the pack in securities issuances was, of course, J. P. Morgan & Co.[55]

Government-induced consolidation extended to the burgeoning utilities sector. Over the first three decades of the twentieth century state regulatory commissions had thoroughly reduced competition in the production of electricity and other utilities, raising prices and guaranteeing profits. After the erection of significant barriers to entry, the Morgans moved in to consolidate, creating United Corporation in 1929. This $300 million holding

---

[53] Edwin Seligman, "Tax Reduction and Tax Exemption," *North American Review* 29 (1924): 436–37.

[54] David T. Beito, "Andrew Mellon," in Schweikart, *Encyclopedia*, 267, 273; Brownlee, *Taxation*, 106–12; Burch, *Elites*, 2:256; Burton W. Folsom Jr., *The Myth of the Robber Barons: A New Look at the Rise of Big Business in America* (Herndon, VA: Young America's Foundation, 2007), 103–20; Douglas A. Irwin, *Clashing over Commerce: A History of US Trade Policy* (Chicago: University of Chicago Press, 2017), 351–53, 356, 368; M. Susan Murnane, "Selling Scientific Taxation: The Treasury Department's Campaign for Tax Reform in the 1920s," *Law and Social Inquiry* 29, no. 4 (Autumn 2004): 826–27, 830, 833–35, 838–39; Murray, "Bureaucracy," 211, 218–20; Previts and Merino, *History*, 254–56; and Gene Smiley and Richard H. Keehn, "Federal Personal Income Tax Policy in the 1920s," *Journal of Economic History* 55, no. 2 (June 1995).

[55] Carosso, *Investment*, 243–44, 256–57; Chernow, *Morgan*, 257; and Sutch and Carter, *Historical*, 3:553.

company controlled more than one-third of electricity production in twelve eastern states. Other electricity giants included Samuel Insull's empire and the Electric Bond and Share Company, owned by the Morgan affiliate General Electric.[56]

As the 1920s ended, business elites and affiliated economists, lawyers, and accountants could look with satisfaction upon their growing corporatist state. Far from championing free enterprise, big business had lobbied for state intervention after they failed to control competition. Corporations lobbied for a commerce department and a trade commission along with favorable personnel to run them. Officials administered public disclosure requirements to cripple secretive price-cutting and enforced industry-devised rules that made it harder for firms to disrupt trade association agreements. Furthermore, industrialists acquired more patent grants and secured government approval to form cartels with foreign producers. Lastly, they tamed the labor interest into a junior corporatist partner, one that would listen to big business while raising costs for smaller firms. All of these regulations hampered firms' abilities to quickly adjust prices and wages and respond to changing market conditions. Other special-interest groups had managed to wrangle control of the machinery through new personnel appointments and agencies, but only for a time. After a brief disruption, big business regained control and righted their ship.

While Wall Street and corporate interests secured the Federal Reserve and the FTC, the railroads already had the Interstate Commerce Commission (ICC), the original corporatist sanctum

[56] Robert L. Bradley Jr., *Edison to Enron: Energy Markets and Political Strategies* (Salem, MA: M&M Scrivener Press, 2011), 19–221, 493–522; Carosso, *Investment*, 296–97; Chernow, *Morgan*, 257, 308–9; Thomas J. DiLorenzo, "The Myth of Natural Monopoly," *Review of Austrian Economics* 9, no. 2 (September 1996): 46–50; Tam Kemabonta, "Condemnation for Transmission: Challenging the Power of Eminent Domain and Natural Monopoly in the Electric Power Sector" (master's thesis, Mises Graduate Program, 2024), 4–11; Rothbard, *Progressive*, 284–88; and Joel Seligman, *The Transformation of Wall Street: A History of the Securities and Exchange Commission and Modern Corporate Finance*, 3rd ed. (New York: Aspen, 2003), 127.

that other industries envied and emulated. The railroads had wanted to strengthen the ICC since the 1890s, but they faced growing opposition from shippers and unions, who sought to use it for their own advantage. Overcoming their opponents, the railroads too would solidify a favorable corporatist regulatory environment and railroad cartelization to stop competitive rate cutting.

CHAPTER 9

FIGHTING OVER RAILROAD REGULATION

The growing corporatist state also enforced new cartelizing regulations in transportation. The railroads had already established their own trade commission in the 1880s, the Interstate Commerce Commission (ICC), and at the turn of the twentieth century they wanted to give it sharper teeth. Railroads affiliated with J. P. Morgan & Co. and other Wall Street bankers donned their armor for an intense lobbying battle to enhance the ICC's power and eliminate secret rebating on the shipment of goods. As the years progressed, though, railroads had to combat increasingly powerful shipping and union interests that worked with intellectuals to acquire their own government-enforced cartels. Shippers sought lower rates for shipping goods, and unions sought higher wages: combined, these opposing interests pinched the railroads' bottom lines. Control of the ICC and new legislation would rotate between the groups, leading to one end: a corporatist system, steered by the guiding hand of an empowered ICC bureaucracy, that insulated the railroads, shippers, and unions from competition. By the 1920s the big-business railroads reigned supreme again, though with concessions to unions and with their shipping customers flocking to motor carriers—a new low-cost transportation alternative.

Consolidating the Railroads

During the McKinley administration, railroads continued to worry about under-the-table rate cutting that lowered transportation costs, increased supplies of goods, and decreased prices paid by consumers. In December 1898, the Baltimore & Ohio

(B&O) lobbied the ICC "to investigate complaints of illegal rate cutting, and to put a stop to all illegal practices" by the New York Central and Pennsylvania Railroads.[1] The B&O was trying to get out of bankruptcy and wanted to stop its competitors from lowering rates.

Alexander Cassatt, the new president of the Pennsylvania Railroad and protégé of the former president, Thomas Scott, agreed that rebating posed a problem. But railroads could no longer try to combat rebating with rate associations since the Supreme Court declared them illegal in 1897. Instead, they decided to form communities of interest by purchasing the stocks of competitors. They were cartels in a disguised form, the main difference being that railroads, instead of collaborating as independent entities, merged informally. In 1899 Cassatt proposed that his railroad and the New York Central could reduce competition if the Pennsylvania Railroad bought stock in the B&O and the New York Central in the Erie Railroad.

J. P. Morgan, the omnipresent cartelist whose firm marketed the New York Central's securities and comarketed the Pennsylvania's, heartily agreed. In addition to assisting Cassatt, he worked feverishly to produce communities of interest in other regions. In New England, Morgan-backed Charles Mellen became president of the New Haven Railroad and heavily borrowed to buy out competitors. In the Southwest, Morgan reorganized the Atchison, Topeka & Santa Fe Railroad and encouraged it to borrow money to buy rivals. He faced greater difficulty in the Northwest because of his young-gun rival, Edward H. Harriman. This influential director of the Illinois Central Railroad was busy forming his own community, purchasing stock in the Union Pacific and the Southern Pacific. Harriman, working in concert with the bankers of Kuhn, Loeb & Co., angered Morgan and his Great Northern Railway ally, James J. Hill, by brashly trying to purchase the Northern Pacific in a bitter stock market fight that raised its stock to new heights. Harriman had to settle for slightly less than majority ownership. Morgan, having narrowly retained control, begrudgingly worked

---

[1] "Receivers of the Baltimore and Ohio Railroad to the Chairman of the Interstate Commerce Commission," December 20, 1898, quoted in Albert J. Churella, *The Pennsylvania Railroad*, vol. 1, *Building an Empire, 1846–1917* (Philadelphia: University of Pennsylvania Press, 2013), 644.

with him. They formed the gargantuan Northern Securities Company, a $400 million holding company that held stock in the Great Northern and the Northern Pacific, in November 1901.[2]

The ICC sympathized with the communities of interest. The new chairman, Martin Knapp, supported pooling and declared the benefits from "railroad competition . . . to be greatly exaggerated."[3] Cassatt, however, recognized that simply forming communities of interest would not be enough: they required new legislation to reduce hidden rate slashing and make it easier for the communities to raise rates. He believed it was a "better policy to assist in passing a reasonable measure now than to have a more drastic and perhaps a seriously injurious one forced upon us."[4] Cassatt knew that shipping interests—particularly Edward P. Bacon, a Wisconsin grain merchant—were busily devising their own legislative plans. Bacon organized the Interstate Commerce Law Convention in 1900 as a lobbying arm for artificially low rates to benefit smaller shippers.

Taking the offensive in 1901, Cassatt instructed the Pennsylvania Railroad's general counsel to write a prorailroad bill that sanctioned various pooling arrangements, increased the penalties for hidden rebating from publicly posted rates, and created a commerce court that railroads could use to block proshipper ICC rate rulings. Cassatt's corporatism clearly favored railroad

---

[2] Vincent P. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, MA: Harvard University Press, 1987), 386, 474–79, 499–500, 607–8; Alfred D. Chandler Jr., *The Visible Hand: The Managerial Revolution in American Business* (Cambridge, MA: Harvard University Press, 1977), 172–74; Churella, *Pennsylvania*, 1:628, 644–49; Ari Hoogenboom and Olive Hoogenboom, *A History of the ICC: From Panacea to Palliative* (New York: W. W. Norton, 1976), 40–41; Jeremiah D. Lambert and Geoffrey S. Stewart, *The Anointed: New York's White-Shoe Law Firms* (Guilford, CT: Lyons Press, 2021), 12, 49–50; and Lloyd J. Mercer, "Edward Henry Harriman," in *Encyclopedia of American Business History and Biography: Railroads in the Nineteenth Century*, ed. Robert L. Frey (New York: Facts on File, 1988), 155, 159–61.

[3] Martin Knapp and Paul Morton, *Speeches before the National Association of Merchants and Travelers, August 7, 1899* (n.p., 1899), 7–8, quoted in Gabriel Kolko, *Railroads and Regulation, 1877–1916* (Princeton, NJ: Princeton University Press, 1965), 87.

[4] Alexander Cassatt to Theodore Roosevelt, April 1, 1901, quoted in Robert H. Wiebe, *Businessmen and Reform: A Study of the Progressive Movement* (Cambridge, MA: Harvard University Press, 1962), 52.

cartelization. Early the next year the bill landed on the desk of West Virginia senator Stephen Elkins, the new chairman of the Senate Interstate Commerce Committee and the co-owner of the West Virginia Central and Pittsburgh Railway (soon to be bought out by the B&O).[5]

Matters had taken an unexpected turn the previous September when President William McKinley was assassinated. Theodore Roosevelt, or "His Accidency," fixated on the 1904 election, worried by the fact that no vice president who succeeded a dead president ever won reelection.[6] As one contemporary observed, "If you remark to him that God is Great, he asks naïvely at once how that will affect his election. He is . . . writing letters by the ream to catch half a dozen votes anywhere out West."[7] Roosevelt believed he could win popular support if he established himself as a trustbuster who broke up a railroad community with the moribund Sherman Antitrust Act. The president singled out Northern Securities. His choice was deliberate. He had mismanaged and squandered half of his $187,500 inheritance on a failed cattle ranch in the Dakota Territory—which the Northern Pacific ran through—and his action would please swing-vote farmers and cattle ranchers in the Northwest. As a result, in February 1902 Roosevelt's attorney general filed a federal antitrust lawsuit. An astonished Morgan and other railroad leaders now worried about the very real possibility of the federal government using the antitrust mallet to break up their communities for the benefit of shippers and other opposing interests. The investment banker personally visited the White House. Though Roosevelt insisted on continuing the suit, Morgan received implicit protection for his other railroads.[8]

---

[5] Churella, *Pennsylvania*, 1:665; Kolko, *Railroads*, 87, 90–94, 97–99, 117, 198–99; Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 80–81; and Wiebe, *Businessmen*, 51–52.

[6] William Allen White, "One Year of Roosevelt," *Saturday Evening Post*, October 4, 1902, 3.

[7] Henry Adams to Elizabeth Cameron, April 10, 1904, in *The Letters of Henry Adams, 1892–1918*, ed. Worthington Chauncey Ford (New York: Houghton Mifflin, 1938), 432.

[8] Susan Berfield, *The Hour of Fate: Theodore Roosevelt, J. P. Morgan, and the Battle to Transform American Capitalism* (New York: Bloomsbury, 2020), 37,

As the Northern Securities lawsuit moved forward, railroads and shippers fought intensely over Cassatt and the Pennsylvania Railroad's proposed Elkins bill. Railroad lobbyists, including the Atchison's Paul Morton, persuaded Congress to pass the measure, but shippers succeeded in striking out the propooling provisions and the commerce court. The Elkins Anti-Rebating Act of February 1903, however, provided crony privileges to the railroads through rate publicity and secret rebate prohibitions. The published rate was mandated to be the legal rate, and railroads that granted secret rebates and the shippers that received them could be liable to prosecution. This was not in the public interest: fewer price discounts for shipping goods would mean higher freight costs, which reduced the supply of goods and raised the prices consumers paid. The railroads cheered the cartelizing law for this very reason, and the *Railroad Gazette* asked the ICC to "go ahead and catch every law-breaking rate-cutter in the country."[9] The upset Bacon, on the other hand, promised "vigorous efforts . . . at the next session of Congress" to obtain regulations that lowered rates for shippers.[10]

It was the zenith of railroad influence. "The Elkins Act," argues Albert Churella, "gave Cassatt precisely what he wanted and suggested that the railroads had captured the agencies that were supposed to regulate them."[11] Morgan even turned the Supreme Court's dissolution ruling of March 1904 to his advantage. When dissolving Northern Securities, Morgan's attorney, Francis Lynde Stetson, gave its owners stock in both the Great Northern and the Northern Pacific, regardless of which company they had originally invested in. This meant that Morgan's hated enemy Harriman, who had been close to majority ownership

---

40; Larry Haeg, *Harriman vs. Hill: Wall Street's Great Railroad War* (Minneapolis: University of Minnesota Press, 2013), 244, 258, 264; and Gerard Helferich, *An Unlikely Trust: Theodore Roosevelt, J. P. Morgan, and the Improbable Partnership that Remade American Business* (Guilford, CT: Lyons Press, 2018), 16, 30, 37, 50–51.

[9] *Railroad Gazette,* February 20, 1903, 134.

[10] Edward P. Bacon, quoted in Wiebe, *Businessmen*, 53.

[11] *Oxford Research Encyclopedia of American History*, s.v. "Railroads in US History," by Albert J. Churella, last modified August 28, 2018, https://doi.org/10.1093/acrefore/9780199329175.013.515.

in the Northern Pacific, now became a minority owner in both lines. He unsuccessfully sued Morgan, with the Supreme Court upholding Stetson's action.[12]

With the politically popular Northern Securities suit placating Roosevelt for the time being, major lines continued cartelizing under the umbrella of the government's anti-rate-cutting regulations. However, as Jim Powell remarks, "The railroads were . . . playing with fire," with the Elkins Act "help[ing] to establish the principle that the government ought to have power over prices."[13] Their political victory angered shipping and union interests and spurred them to lobby for their own corporatist legislation on the state and federal level that forced rates below market-clearing levels and raised railroad workers' wages above them. This would squeeze railroad profit margins and decrease their quality of service. Railroads, previously on the political offense, steadily shifted to the defense. At first they succeeded in minimizing the damage from harmful regulations, but they couldn't man the ramparts forever. Unlike Wall Street bankers and large corporations, the railroads neither developed lobbying organizations to combat those of shippers and unions nor hired intellectuals to dress up their cronyism in public-interest garb. Their strategic misfires became increasingly apparent over the next decade.

As the new century took hold, the environment in the states turned decisively negative toward railroads. Populist Republican governors such as Robert La Follette of Wisconsin and Albert Cummins of Iowa rode into office on antirailroad platforms and advocated taxes on railroads and proshipper rate regulation. Between 1902 and 1907, fifteen states created or remodeled railroad commissions, and nine established freight rates by statute to push down rates for local shippers. Technocratic economists in favor of planning assisted in devising and running the commissions: for instance, University of Wisconsin professor John Commons drafted the bill establishing Wisconsin's regu-

---

[12] Berfield, *Hour*, 249–50; Churella, *Pennsylvania*, 1:662; Kolko, *Railroads*, 98–101; Lambert and Stewart, *Anointed*, 51–52; Rothbard, *Progressive*, 81–82, 223–24; and Wiebe, *Businessmen*, 52–53.

[13] Jim Powell, *Bully Boy: The Truth about Theodore Roosevelt's Legacy* (New York: Crown Forum, 2006), 142.

latory commission and empowered it to directly set "reasonable rates."[14] This power pleased economist Balthasar Meyer, Commons's University of Wisconsin colleague, who served on the new commission. According to Meyer, competition as "a protector against unreasonable or unjust rates has proven itself a failure." It was through enlightened experts like himself, not through supply and demand, that "railway rates are made in a more scientific manner."[15]

The Big Four railroad unions of skilled engineers, conductors, firemen, and trainmen, who frequently complained about "the cheap negro labor and the cheap foreign labor," secured state-level special favors as well.[16] According to Churella, railroad unions "exploited public fears regarding railway accidents, inaccurately suggesting that the refusal of railroad executives to provide enough crewmen imperiled safety."[17] They lobbied states to enact full-crew laws that raised labor costs by requiring train crews to consist of an engineer, a fireman, a conductor, a brakeman, and a flagman. Safety was not the major motivation. In reality, the unions wanted additional make-work jobs and lobbied state officials to make sure only white union men qualified for positions in the full crews.[18]

On the federal level, Bacon and the Interstate Commerce Law Convention declined in influence. Other shipping organizations,

---

[14] *Wisconsin Laws of 1905*, chapter 360, quoted in Lafayette G. Harter Jr., *John R. Commons, His Assault on Laissez-Faire* (Corvallis: Oregon State University Press, 1962), 92.

[15] Balthasar Meyer, "Government Regulation of Railway Rates," *Publications of the American Economic Association* 7, no. 1 (1906): 74, 77.

[16] "Current Comment," *Locomotive Firemen's Magazine*, November 1899, 595.

[17] Albert J. Churella, *The Pennsylvania Railroad*, vol. 2, *The Age of Limits, 1917–1933* (Bloomington: Indiana University Press, 2023), 225.

[18] Eric Arnesen, "'Like Banquo's Ghost, It Will Not Down': The Race Question and the American Railroad Brotherhoods, 1880–1920," *American Historical Review* 99, no. 5 (December 1994): 1609, 1614; David E. Bernstein, *Only One Place of Redress: African Americans, Labor Regulations, and the Courts from Reconstruction to the New Deal* (Durham, NC: Duke University Press, 2001), 48–51; Churella, *Pennsylvania*, 1:684, 2:225–26; and Nicola Giocoli, "No Place for Law and Economics: The Controversy over Railroad Regulation before the Hepburn Act," *Research in the History of Economic Thought and Methodology* 34A (2016): 326, 328.

such as the National Wholesale Lumber Dealers Association, the National Live Stock Association, and the Southern California Citrus Fruit Exchange, picked up the slack. Shippers lobbied Congress to pass the Esch-Townsend bill, which proposed to grant the ICC rate-fixing powers and to pack it with proshipper regulators by increasing the number of commissioners from five to seven. Overall, the Esch-Townsend bill would divert transportation corporatism from its prorailroad path that raised rates to a proshipper dispensation that lowered them. After the House passed it in early 1905, representatives from the Great Northern, the Southern Pacific, the Baltimore & Ohio, and other lines testified before the Senate Interstate Commerce Committee in opposition to the measure. Their efforts convinced the Senate to not pass the bill, but the writing was on the wall.[19]

The railroads continued to play with fire. The dreaded rebating lingered through clandestine competition: convenient typographical errors that covered up discounts, intentional misclassification of shipment into lower class rates, and underweighing of cargoes. Moreover, railroads still wanted the government to assist pooling arrangements. To this end, Pennsylvania Railroad president Cassatt lobbied Roosevelt in late 1905, arguing that instead of being empowered to determine rates, which was the goal of shippers, the ICC should be able to set maximum rates subject to judicial review. This could benefit the railroads if a friendly ICC set the rates high and prohibited rebating from that level. If the ICC set rates too low, the railroads could protest the rulings in the courts. Cassatt subsequently endorsed the Hepburn bill, an administration-drafted proposal that granted the ICC the power to set maximum rates.

---

[19] William Doezema, "Walker D. Hines," in *Encyclopedia of American Business History and Biography: Railroads in the Age of Regulation, 1900–1980*, ed. Keith L. Bryant Jr. (New York: Facts on File, 1988), 205; Robert Fogel et al., *Political Arithmetic: Simon Kuznets and the Empirical Tradition in Economics* (Chicago: University of Chicago Press, 2013), 15–17; Hoogenboom and Hoogenboom, *History*, 47–48; Kolko, *Railroads*, 102–5, 117–18, 120; Horace Samuel Merrill and Marion Galbraith Merrill, *The Republican Command, 1897–1913* (Lexington: University Press of Kentucky, 1971), 80–81, 83–87, 212; Rothbard, *Progressive*, 82; and Richard H. K. Vietor, "Businessmen and the Political Economy: The Railroad Rate Controversy of 1905," *Journal of American History* 64, no. 1 (June 1977): 47, 49–50, 56–57, 60.

Undoubtedly, Cassatt burned himself badly. The following January Populist Democrats in the House attacked the Pennsylvania Railroad's community of interest on the grounds that it violated antitrust laws. Prodded by the lower chamber, the ICC commenced investigation of the railroad conglomerate and revealed that several Pennsylvania Railroad officials purportedly received bribes from companies for which they shipped coal. Morgan partner George Perkins privately worried that "Mr. Cassatt, as an individual, and the Pennsylvania Railroad as a holding company, so to speak, are going to be singled out for a pretty vigorous attack."[20] While the Pennsylvania's president escaped indictment, the damage had been done. Stressed and exhausted, Cassatt died at the end of the year.

The Hepburn Act, passed in June 1906, did weaken competitive rate cutting by adding further penalties for rebates and requiring railroads to file rates publicly with the ICC that would take effect after thirty days. There were strings attached, though: The legislation prohibited railroads from transporting coal and other raw materials from companies they owned. The ICC's new Bureau of Statistics and Accounts could standardize accounting practices, an ominous compliance cost if enforced by prying bureaucrats. The number of commissioners increased by two, thereby providing an opening for appointments favorable to shippers. Lastly, shippers could challenge rates, and after reviewing the claim the ICC could institute maximum rates; judicial review was limited. On net, notes Churella, "while the Hepburn Act benefited the railroads to some degree, it was not so friendly as the Elkins Act, nor was it the solution which Cassatt had envisioned."[21]

The Hepburn Act marked a milestone in the railroads' prosperity. At the time of its passage seven railroad groups controlled two-thirds of the nation's total mileage, and J. P. Morgan & Co. supervised four of these communities. From 1897 to 1906 railroad stocks soared 142 percent because fewer rate cuts brought increased revenue. The Pennsylvania Railroad's average freight

---

[20] George Perkins to J. P. Morgan, June 25, 1906, 3, George W. Perkins Papers, Rare Book and Manuscript Library, Columbia University.

[21] Churella, *Pennsylvania*, 1:675.

revenue per ton-mile, for instance, increased 26 percent between 1899 and 1906. Railroad leaders remained optimistic. Perkins believed that "while the treatment is mighty heroic, it is going to work out for the ultimate and great good of the railroads. There is no question but that rebating has been dealt a death blow."[22] Even with less-friendly regulation on the federal level and burdensome state commissions, the future still looked profitable for railroad corporatists.[23]

Shippers and Unions Take Over

"Things could not have worked out more differently from what the railroad men expected," explains Albro Martin.[24] The 1910s were far worse than the 1870s. To their horror, over the next ten years adverse legislation, antitrust suits, and commission rulings overwhelmed the communities of interest. Railroads failed to respond quickly with lobbying organizations and intellectuals who fought the policies. The ICC shifted to deliver cronyism to shippers and unions, and compliance costs and new taxes created additional burdens. Regulation trapped the railroads in a merciless cost-price squeeze, and the vice tightened with each passing year.

It started with Harriman, who heard a rumor in late 1906 that the president was contemplating filing an antitrust suit to break up his Union Pacific and Southern Pacific community. Roosevelt had burned the tycoon not once, but twice before: first in the Northern Securities follow-up lawsuit when Harriman failed

---

[22] Perkins to Morgan, June 25, 1906, 3.

[23] George H. Burgess and Miles C. Kennedy, *Centennial History of the Pennsylvania Railroad Company, 1846–1946* (Philadelphia: Pennsylvania Railroad, 1949), 461; Churella, *Pennsylvania*, 1:662, 665–78, 688, 690, 696; Churella, "Railroads," 15; Hoogenboom and Hoogenboom, *History*, 54, 57; Kolko, *Railroads*, 145; Albro Martin, *James J. Hill and the Opening of the Northwest* (Minneapolis: Minnesota Historical Society Press, 1991), 538, 541–42; Rothbard, *Progressive*, 83–86; Jean Strouse, *Morgan: American Financier* (New York: Harper Perennial, 2000), 563; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 3, *Economic Structure and Performance* (New York: Cambridge University Press, 2006), 757.

[24] Albro Martin, *Enterprise Denied: Origins of the Decline of American Railroads, 1897–1917* (New York: Columbia University Press, 1971), 124.

to get the Justice Department to intervene in the case, and then in the election of 1904 when the president broke his promise to make Harriman's friend ambassador to France following a large campaign donation. Harriman understandably attributed his refusal to donate to the Republican Party coffers in the 1906 midterms to the antitrust threat that had emerged shortly after that election. When his attorney tried to negotiate with the president in early 1907, Roosevelt curtly replied, "Well, you don't know what Morgan and some of these other people say about Harriman."[25] In early 1908, the Justice Department filed an antitrust suit against the Union Pacific for buying stock in the Southern Pacific, a major assault on Harriman's community of interest.[26]

Roosevelt's latest antitrust assault was simply more bad news for the industry. The Panic of 1907 had crushed railroad stocks—they declined 28 percent from 1906 to 1907. Reduced demand sapped profits, and their average net income fell 14 percent from 1907 to 1909. Railroads suddenly entered a period of retrenchment.[27]

The House of Morgan soon discovered that its special relationship with Roosevelt only went so far. In early 1908, George Perkins organized a cartel agreement between the New York Central and other railroads to jointly raise rates. To his dismay, the secret leaked out, and Roosevelt warned him that higher rates would hurt Taft in the upcoming election. He threatened to have the ICC investigate. Railroads had gotten rid of rebates all right, but price increases were much harder to achieve than they thought; Perkins and the railroad elites had failed to perceive Roosevelt and the commission's increasing favoritism toward the shippers. In point of fact, the president had recently filled the two new slots on the ICC from the Hepburn Act and one vacancy with antirailroad men: California Democrat Franklin Lane, a staunch friend of his state's shippers and a bitter foe of the Southern Pacific; James Harlan, son of a distinguished

---

[25] "Statement by Maxwell Evarts," 7–9, quoted in Maury Klein, *The Life and Legend of E. H. Harriman* (Chapel Hill: University of North Carolina Press, 2000), 396.

[26] Berfield, *Hour*, 249–50; Klein, *Harriman*, 362–71, 392–93, 395–401, 404, 408–9; Martin, *Enterprise*, 85, 118, 120; and Rothbard, *Progressive*, 225.

[27] Martin, *Enterprise*, 129, 133; and Sutch and Carter, *Historical*, 3:757.

Supreme Court justice who had an antirailroad record; and union man Edgar Erastus Clark, the grand chief conductor in the Order of Railway Conductors.[28]

Perkins's attempted rate hike incensed Chicago businessmen so much that they organized the National Industrial Traffic League, yet another influential lobbying front. This shipper organization devised new legislation that allowed the ICC to suspend railroads' proposed rate increases and establish rates. The newly elected president Taft welcomed their demands. Sensing the political winds, in early 1910 J. P. Morgan arranged a meeting between Taft and the heads of the New York Central, Pennsylvania, Union Pacific, New Haven, and other railroads. Though initially swayed to their cause of railroad pools, the president dispatched his attorney general to draft a bill with congressmen in league with the shippers. The railroads did not help their case, filing for rate increases while Congress debated the legislation. Taft, prodded by the Illinois Manufacturers' Association, intimidated them into backing down by threatening to file an antitrust suit.

In Congress, few railroad leaders testified before the Senate Interstate Commerce Committee they had once controlled. The mortally sick Elkins could not fend off the administration's bill, which was augmented by Senator Albert Cummins and others' amendments that made it even more antirailroad. Triumphant, western Republicans and southern and western Democrats passed the Mann-Elkins Act in June 1910. The National Industrial Traffic League heartily supported it. This Populist measure shifted the burden of rate increases onto railroads by requiring them to prove to the ICC the reasonableness of their rates. As a consolation prize, railroads at least received something they had desired in the original Elkins bill: a Commerce Court where they could appeal ICC refusals to grant rate increases. The Mann-Elkins Act would have seriously deleterious consequences. As increases in demand pushed up overall prices in the economy, rate ceilings would starve railroads of adequate revenue and lead to shortages and reductions in service.[29]

---

[28] Hoogenboom and Hoogenboom, *History*, 37, 48, 54–55, 58; Martin, *Enterprise*, 143–45, 178–80, 182; and Wiebe, *Businessmen*, 85.

[29] Churella, *Pennsylvania*, 1:687–88; Kolko, *Railroads*, 188, 192–93, 198–99; Martin, *Enterprise*, 140, 146, 180–93; Elizabeth Sanders, *Roots of Reform:*

The railroads believed that even with the Mann-Elkins Act they could secure approval to raise rates; to them, a rate increase was reasonable because rates had not risen since before the panic, and operating costs were rising. Once Taft appointed Martin Knapp, still chair of the ICC, as its head, the Commerce Court promised to adhere to the railroads' perspective. But Knapp's shift to the court proved a double-edged sword. The railroads' already declining influence in the ICC weakened further as Taft filled Knapp's slot with the chair of the Wisconsin railroad commission, the aspiring philosopher-king Balthasar Meyer (Taft filled another vacancy with the chair of the Kentucky railroad commission). The new commissioner appointments put railroads in an incredibly precarious position later in the year when they filed for rate increases.

At the ICC hearings, the presidents of the New York Central, Pennsylvania, B&O, and Atchison railroads stood on one side. On the other side were the National Industrial Traffic League, the Illinois Manufacturers' Association, and the Traffic Committee of the Commercial Organizations of the Atlantic Seaboard. In contrast to the railroads, the shippers hired a premier progressive intellectual to argue their case: Louis D. Brandeis of Boston, a millionaire who called himself the "people's lawyer."[30] Previously, this Harvard Law graduate had defended a state's ability to limit the working hours of women in *Muller v. Oregon* (1908), much to the delight of male-dominated unions that supported maximum-hour laws to make female competition less economical to hire. Now, Brandeis advanced the cause of shippers—which meant he advanced the cause of his family, for his father was a Louisville merchant who had regularly fought railroads, and his brother, Alfred, was one of Louisville's major grain shippers. Brandeis skillfully argued that railroads did need money but could get it by lowering costs through the currently fashionable scientific management theories of Frederick Taylor and other intellectuals. Adopting such technocratic theories that meticulously routinized business operations, Brandeis argued,

---

Farmers, Workers, and the American State, 1877–1917 (Chicago: University of Chicago Press, 1999), 202–9; and Wiebe, *Businessmen*, 85–87.

[30] Louis D. Brandeis, "The Opportunity in the Law," May 1905, in *Business—A Profession* (Boston: Small, Maynard, 1914), 337.

would save the railroads $1 million a day. Never mind that Brandeis completely fabricated the number and the techniques did not apply to companies without factory production—his theatrics and argumentative style stole the show. To the delight of shippers, in February 1911 the ICC blocked the rate increases.[31]

The stunned railroad magnates awakened to the noose they had helped put around their necks. In their zeal to stop price-cutting, they had neglected to make sure the regulations wouldn't prevent them from raising rates, particularly in a world where rising prices raised their costs. Concluding that they had fallen out of the commission's graces, the railroads belatedly turned to hiring their own apologists and establishing prorailroad associations. The Pennsylvania hired noted journalist Ivy Lee to combat proshipper regulations, and the New Haven made Arthur Twining Hadley, a railroad economist and president of Yale who favored pooling, a director. Railroads also secured a favorable ICC appointment: Winthrop Daniels, economics professor at Princeton. To better argue their position, the heads of the New York Central, B&O, Atchison, and other railroads established the Bureau of Railway Economics, with Professor Frank Dixon of Dartmouth College in charge of its statistical collections. And the railroads finally created a major lobbying front, the Railroad Executives' Advisory Committee. Frank Trumbull of the Chesapeake & Ohio Railway led this outfit.[32]

The new manpower did not matter. Shippers convinced Congress to abolish the Commerce Court, and the Supreme

---

[31] Louis D. Brandeis, *Before the Interstate Commerce Commission, Docket No. 3400* (Boston, 1911), 180; John Braeman, "'The People's Lawyer' Revisited: Louis D. Brandeis versus the United Shoe Machinery Company," *American Journal of Legal History* 50, no.3 (July 2008–10): 284; Churella, *Pennsylvania*, 1:697; Price Fishback, "The Progressive Era," in *Government and the American Economy: A New History*, by Price Fishback et al. (Chicago: University of Chicago Press, 2007), 308; Hoogenboom and Hoogenboom, *History*, 62–66; Thomas C. Leonard, *Illiberal Reformers: Race, Eugenics, and American Economics in the Progressive Era* (Princeton, NJ: Princeton University Press, 2016), 170–84; Martin, *Enterprise*, 194–230; Thomas K. McCraw, *Prophets of Regulation* (Cambridge, MA: Harvard University Press, 1984), 82, 87–88, 91–93; and Wiebe, *Businessmen*, 87.

[32] Churella, *Pennsylvania*, 1:642, 679–83, 698; Giocoli, "Place," 308–10; *Encyclopaedia Britannica*, 12th ed. (1922), s.v. "Hadley, Arthur Twining"; Hoogenboom and Hoogenboom, *History*, 72; and Martin, *Enterprise*, 164, 256–57, 269.

Court ruled that the Union Pacific must divest ownership in the Southern Pacific. No community of interest seemed safe—the ICC began investigating the poorly run New Haven railroad, which Jack Morgan strained to save from bankruptcy. In early 1913 Congress passed the Valuation Act, which enabled the ICC to assess the value of railroads for rate-setting purposes. Senator La Follette, who wrote the bill with economist John Commons, insisted the assessment would cost only a few million dollars over a couple of years. But in the real world, government accountants, lawyers, and clerks spent nearly two decades sifting through records. By 1927, the law had turned into a financial albatross that cost taxpayers $30 million and railroads $90 million. In addition, the Clayton Antitrust Act of 1914 forbade bankers who issued a railroad's securities from sitting on its board, weakening communities' relationships with Wall Street investment banks J. P. Morgan & Co. and Kuhn, Loeb & Co. and making it harder for them to attract funds. State taxes increased, and the compliance costs for 166 railroads of adhering to state regulations totaled $28 million in 1914 alone. Railroad stocks experienced zero growth from 1907 to 1914, and the *Commercial & Financial Chronicle* considered railroad securities to be in "a desperate plight."[33]

When the railroads, led by President Daniel Willard of the B&O, pleaded with the ICC to grant rate increases from mid-1913 to early 1914, they were just trying to generate enough revenue to stay afloat. They employed the reliable monetary economist Charles Conant to explain to the commission how the dollar had depreciated over the past decade. But the ICC had already stacked the deck by paying Brandeis, who continued to trumpet scientific management theories, nearly $14,000 to serve as a special counsel. The ICC decided to give the railroads some crumbs, approving a couple of minor rate increases. This was not the kind of corporatism railroads had envisioned; shippers

[33] "Retrospect of 1914," *Commercial & Financial Chronicle,* January 9, 1915, 84. Vincent P. Carosso, *Investment Banking in America: A History* (Cambridge, MA: Harvard University Press, 1970), 220; Carosso, *Morgans*, 608–9, 612; Hoogenboom and Hoogenboom, *History*, 81; Maury Klein, *Union Pacific*, vol. 2, *1894–1969* (Minneapolis: University of Minnesota Press, 2006), 195–96, 206–7, 254, 281; Kolko, *Railroads*, 165, 218; Martin, *Enterprise*, 260; Rothbard, *Progressive*, 87; and Sutch and Carter, *Historical*, 3:757.

had captured the commission and used it to block rate increases.[34]

But for the railroads, Murray Rothbard notes, “there was no turning back. They were strongly committed to federal government regulation.”[35] In April 1913, New York Central president William Brown spoke in front of the Economic Club in New York City and declared that the ICC had originally benefited the railroads because it decreased competitive rebates. Although shippers now ran the show, Brown insisted there wasn’t “a railroad president in the United States today who . . . would repeal the Interstate Commerce Law.”[36] Far from advocating deregulation, the railroads doubled down, favoring an ICC that encouraged pooling and furnished federal incorporation as a way to supersede state regulatory commissions. They sought to replicate the stalwart cronyism of the Federal Reserve System: Trumbull declared that “what the United States has done for its banking system it can and ought to do for its railroads.”[37] President E. P. Ripley of the Atchison maintained similar sentiments and called for government rate regulation to guarantee profits and “do away with the enormous wastes of the competitive system.”[38] The Railroad Executives’ Advisory Committee lobbied Congress and President Wilson to enact such proposals.[39]

Drawing up new corporatist proposals was one thing; getting Congress on board was another because of the Big Four railroad unions, whose power grew with each passing year. The Big Four had gotten more astute in their wage campaigns, employing academic experts like University of Pennsylvania instructor Frank Warne and William Lauck, an economist

---

[34] Hoogenboom and Hoogenboom, *History*, 71–75; and Martin, *Enterprise*, 267–94, 299–311.

[35] Rothbard, *Progressive*, 87.

[36] “Railroads to Ask for Better Rates,” *New York Times*, April 30, 1913, 2.

[37] Frank Trumbull, quoted in Wiebe, *Businessmen*, 202.

[38] *Traffic World* (October 31, 1914): 798, quoted in Rothbard, *Progressive*, 88.

[39] K. Austin Kerr, *American Railroad Politics, 1914–1920: Rates, Wages, and Efficiency* (Pittsburgh: University of Pittsburgh Press, 1968), 22–23; Klein, *Union*, 2:204–5, 211; Martin, *Enterprise*, 265; and Rothbard, *Progressive*, 88–90.

trained at the University of Wisconsin. The Big Four had supported railroads' campaigns for higher rates because the higher rates would finance larger labor expenditures. But by 1916 they decided to demand higher wages regardless of whether railroads had the revenue. In the summer they threatened to strike for an eight-hour day with no corresponding decrease in income. Wilson sided with the unions. When the railroads protested, the former professor lectured them with a story about when he told a student it was his own fault for failing a course. "If a strike comes," the president admonished the businessmen, "the public will know where the responsibility rests. It will not be upon me."[40] The Adamson Act mandated an eight-hour day, and by the following year the annual compensation of the average railroad worker was 27 percent higher than that of the average manufacturing worker.[41]

The railroads, now locked into fixed rates and soaring labor costs, lacked the funds to invest in and upgrade their facilities and careened toward bankruptcy. Adding insult to injury, the combination of artificially low rates to shippers and increased demand from transporting munitions exports due to the outbreak of war in Europe caused pervasive shortages. A somewhat sympathetic Senate Interstate Commerce Committee began hearings on whether railroads should be incorporated at the federal level, but US entry into the war in 1917 postponed further action. Willard of the B&O, the railroads' premier spokesman, organized the Railroads' War Board. It was a pooling attempt to cartelize transportation efforts and lobby the ICC for rate increases. Willard's efforts were for naught. The Justice Department opposed the war board on the grounds that it violated antitrust laws, and western agricultural shippers and smaller oil producers persuaded the ICC to once again vote down rate increases. The situation was getting desperate: adjusted for overall price increases, railroads' revenue per ton-mile and stock prices both collapsed by around 40 percent from 1915 to 1917.

---

[40] Quoted in Klein, *Union*, 2:215.

[41] Kerr, *American*, 33–36; Klein, *Union*, 2:212–18; John F. Stover, *American Railroads*, 2nd ed. (Chicago: University of Chicago Press, 1997), 177; and Paul Michel Taillon, *Good, Reliable, White Men: Railroad Brotherhoods, 1877–1917* (Chicago: University of Illinois Press, 2009), 159–60.

Against Willard and other railroad leaders' new pleas for subsidies and loans from federal credit facilities and a suspension of antitrust laws, shippers and unions recommended an old William Jennings Bryan proposal: nationalization. This was bad news for the public because nationalized companies are funded through taxpayer funds, which reduces their ability to follow profit-and-loss signals and efficiently produce goods and services. Regardless, in December 1917 Wilson, acting under the 1916 Army Appropriation Act that enabled the president to seize private property, brought the railroads under the government's stewardship and mollified them by promising an adequate (taxpayer-financed) return. Congress retroactively codified the takeover in March 1918. It was official: Washington was going to centrally plan over 230,000 miles of railroad track worth more than $17.5 billion and the two million workers employed on them.[42]

Robert Higgs concludes that railroads' drive for a commission and antirebating legislation "gave birth to an unmanageable offspring. . . . like Dr. Frankenstein's monster."[43] Railroads initially seized the offensive and secured additional privileges. Shippers and unions counterattacked and pushed for their own cartels through legislation and personnel changes at the ICC. Railroads shifted to defense and tried to recapture the ICC before becoming overwhelmed by the onslaught. They played a poor hand and failed to develop strategic lobbying fronts or hire intellectual apologists until it was too late. In little more than a decade their position shifted from one of strength to astonishing weakness. They would not secure a Benjamin Strong or an Edward Hurley at their regulatory commission. Instead, they

---

[42] Churella, *Pennsylvania*, 2:36–37; Robert Higgs, *Crisis and Leviathan: Critical Episodes in the Growth of American Government* (Oakland, CA: Independent Institute, 2012), 129; Hoogenboom and Hoogenboom, *History*, 77–83, 86; Kerr, *American*, 46, 50–52, 57–68; Merrill and Merrill, *Republican*, 231; Anthony Patrick O'Brien, "The ICC, Freight Rates, and the Great Depression," *Explorations in Economic History* 26, no. 1 (January 1989): 75; Murray N. Rothbard, "War Collectivism in World War I," in Rothbard, *Progressive*, 379–80; John F. Stover, "Daniel Willard," in Bryant Jr., *Encyclopedia*, 482; and Sutch and Carter, *Historical*, 3:158, 758.

[43] Robert Higgs, "Regulatory Harmonization: A Sweet-Sounding, Dangerous Development," in *Against Leviathan: Government Power and a Free Society* (Oakland, CA: Independent Institute, 2004), 76.

desperately looked to government-managed operation as their salvation.

Extending the Regulatory Net

The next fifteen years saw continued intense fighting among the transportation interest groups. The main change was that the railroads, starting from a position of weakness, experienced a dramatic reversal of fortune in the early 1920s after lobbying for a new regulatory apparatus to encourage pools and institute minimum rates. Congress overhauled the ICC, enabling both railroads and unions to better cartelize markets. After this success, railroads shifted to demanding that Congress reduce new forms of transportation competition by bringing nonrailroad rivals into the ICC's domain.

When Wilson announced the government takeover of the nation's railroads in late 1917, their stocks advanced between 5 and 10 percent. Many investors hoped the momentous policy would stop the regulatory onslaught against the transportation giants. It was technically not nationalization but rather federalization: the government promised to temporarily operate the railroads in return for compensation based on the past three years of low earnings.

Wilson made his son-in-law, Treasury Secretary William McAdoo, the director general of the new Railroad Administration. The former head of the Hudson & Manhattan Railroad understood the railroads' perspective. His top assistant, who in many respects ran the show, was Walker Hines, the chairman of the Atchison's board and a bitter opponent of the Mann-Elkins and Adamson Acts. McAdoo recognized that if the government attempted to centrally plan the nation's transportation system, then at least one special interest had to receive the short end of the stick.[44]

[44] Churella, *Pennsylvania*, 2:36–37, 44; Douglas B. Craig, "'Don't You Hear All the Railroad Men Squeak?': William G. McAdoo, the United States Railroad Administration, and the Democratic Presidential Nomination of 1924," *Journal of American Studies* 48, no. 3 (August 2014): 789–81; Kerr, *American*, 72–80, 83–84; and Wallace P. Mullin, "Railroad Revisionists Revisited: Stock Market Evidence from the Progressive Era," *Journal of Regulatory Economics* 17, no. 1 (February 2000): 39.

McAdoo decided not to penalize the unions. The director general harbored presidential aspirations and expected he could build his candidacy around an industry that employed two million voters. Rising prices increasingly ate away at the unions' recent gains, and at the end of 1917 the brotherhoods demanded a 40 percent wage increase. Workers from the Northern Pacific wrote a jingle that implored McAdoo to "give us the promised raise" and in return they would send him "to the Whitehouse as our next PRESIDENT."[45] Consequently, in May 1918 the Railroad Administration raised average compensation 41 percent and continued hiking for a total 81 percent increase from 1917 to 1920. These were quite munificent raises: in 1920, the average railroad worker's compensation was one-third higher than that of manufacturing workers. Overall, the Railroad Administration provided a hearty sop to railroad unions and doubled their cartelized workers (from approximately four hundred thousand to eight hundred thousand), particularly in the weaker unions representing occupations such as way employees, telegraphers, and clerks.

It is true that the Railroad Administration instituted an equal pay order that reduced disparities between whites and blacks, the railroads having historically paid the latter less because of their relatively less experience. Not well understood, notes David Bernstein, is that this order "reduced the railroads' incentive to employ African Americans" because it made blacks more costly to hire than their equally paid and more experienced white counterparts.[46] The Big Four railroad unions had a record of supporting equal pay. In 1909, the Brotherhood of Locomotive Firemen and Enginemen struck against the Georgia Railroad. In response to union calls to eliminate all black employees, the railroad announced equal pay. Union men cheered the decision: "If this course is followed by the company, and the incentive for employing negroes thus removed, the strike will not have been in vain."[47] The Railroad Administration promoted the Big

---

[45] Clerks of the Northern Pacific Head of the Bay Freight Office to William G. McAdoo, May 11, 1918, quoted in Craig, "McAdoo," 784.

[46] Bernstein, *Redress*, 52.

[47] "The Georgia Railroad Strike," *Brotherhood of Locomotive Firemen and Enginemen's Magazine* 47, no. 2 (August 1909): 255.

Four's antipathy toward blacks in other ways: it instituted rules requiring applicants for various positions to pass written examinations, prohibited blacks from working as conductors and baggagemen, and made it harder for blacks to serve as porters and brakemen. Railroad unions codified their gains by lobbying for more discriminatory full-crew laws on the state level. The labor cartels still wanted to crack down on their competitors.[48]

If the Railroad Administration was to hand out special privileges to unions, that left shippers and railroads on the chopping block. The jacking up of wages required new revenue—Congress had provided only $500 million for total expenses. The shippers were the most vulnerable since the Railroad Administration had convinced Congress to reduce the rate-setting authority of the ICC, which still remained in shippers' hands. This allowed Hines to implement an across-the-board 28 percent increase in rates. Furthermore, the Railroad Administration eliminated locomotive and equipment diversity along with shippers' choices over routes—all restrictions that reduced competitive services to shippers. Railroads no longer had to compete by tailoring their services to shippers' desires; government-mandated uniformity prohibited it. While these rulings brought a reprieve to railroads and "ended the shipper-dominated Progressive phase of railroad regulation," they only compensated for past denials of rate increases and did not match wartime price increases.[49] As a result, railroad stocks continued to disappoint investors. In addition, in a manner all too typical of government-run enterprises, the rate increases did not cover costs, and the Railroad Administration racked up a $1.2 billion deficit. The taxpaying public would have to cover the difference and reduce their spending elsewhere, further funneling resources away from consumers' wants for government's needs. The shippers, the railroads, and

[48] Bernstein, *Redress*, 50–53; Churella, *Pennsylvania*, 2:82, 228–32; Craig, "McAdoo," 782–84; Sterling D. Spero and Abram L. Harris, *The Black Worker* (New York: Columbia University Press, 1931), 289–91; Stover, *American*, 176–77; Walter E. Williams, *South Africa's War against Capitalism* (New York: Praeger, 1989), 74; and Leo Wolman, *The Growth of American Trade Unions, 1880–1923* (New York: National Bureau of Economic Research, 1924), 53–55, 116–17.

[49] Hoogenboom and Hoogenboom, *History*, 85.

the public all suffered at the hands of a now union-dominated corporatism.[50]

When the war ended in November 1918, McAdoo advocated that Congress extend federal control through 1923. To his dismay, Congress refused to stretch his czarist powers into peacetime. Despite the railroad unions' support McAdoo never became president—he failed to receive Wilson's blessing in 1920 because his father-in-law contemplated running for a third term, and the Ku Klux Klan's endorsement of him in 1924 alienated Catholics.[51]

With the Railroad Administration on its way out, the Republican-controlled Congress commenced hearings on postwar regulation. Naturally, the special interests descended upon Washington with their corporatist proposals. This time, railroads would not be caught off guard: their new lobbying organization, the Association of Railway Executives (ARE), stood ready to represent their interests. Thomas Cuyler, a director of the Pennsylvania Railroad and chairman of the ARE, proposed supplanting the shipper-controlled ICC with a new department of transportation. Railroads would submit their rate proposals to its secretary, who would then get the ICC to rubber-stamp them. In addition, the department and the ICC could encourage pooling agreements, grant federal incorporation, and institute minimum rates. Lastly, the department would possess the power to outlaw strikes. In stark contrast, oil, grain, and livestock shippers, represented by attorney Clifford Thorne, advocated returning to the prewar status quo. Their experience with nationalization had turned them into bitter foes of government ownership, and they wanted to bring back the old shipper-dominated ICC. For their part, the unions, led by the general counsel of the Big Four, Glenn Plumb, argued that the government should outright purchase the railroads and administer them through a presidentially appointed council.

---

[50] Higgs, *Crisis*, 146–47; Hoogenboom and Hoogenboom, *History*, 86–88; Kerr, *American*, 84–87, 113–14; Rothbard, "Collectivism," 381–82; and Sutch and Carter, *Historical*, 3:158, 758.

[51] Craig, "McAdoo," 785–95; and Linda Gordon, *The Second Coming of the KKK: The Ku Klux Klan of the 1920s and the American Political Tradition* (New York: Liveright, 2017), 166–71.

Into the legislative meat grinder each proposal went. Worries that unions fomented communism in America made the Plumb plan dead on arrival, and the blatantly prorailroad transportation department similarly stalled. While the shippers worked on their own legislative bill, the ARE shifted its support to the Cummins bill. It was named after Iowa senator Albert Cummins, the formerly Populist politician who increasingly fell under the influence of the Railroad Administration's newly ascended director general, Walker Hines. The Cummins bill, written in consultation with Hines and B&O president Daniel Willard, called for a transportation board, mandatory consolidation of weaker lines into stronger lines, a profit guarantee with any excess going toward weaker lines, a labor board to arbitrate between railroads and unions, and the outlawing of strikes. Willard especially wanted the guaranteed profit clause to subsidize the B&O and other weaker lines. However, stronger railroads bitterly protested, and shipper groups and unions lobbied Congress to nix the transportation board and the strike prohibition.

The compromise Transportation Act passed in February 1920. Importantly, it stipulated that the ICC could enforce pooling agreements and institute minimum rates—the railroads had finally fulfilled their long-standing anticompetitive desires. The ICC would set rates to guarantee a 5.5 to 6 percent rate of return, though railroads needed to send excess profits to the ICC for redistribution to weaker railroads. The ICC did not possess the power to compel mandatory consolidation, but railroads had to receive approval for mergers and acquisitions. This requirement not only weakened railroads' encroachment on each other's territories but also protected against antitrust restrictions. Lastly, the law created a new Railroad Labor Board to handle worker disputes.

In sum, the Transportation Act significantly enhanced the powers of the ICC and augmented railroad corporatism. Railroads could form explicitly government-backed cartels and monopolies, shippers could still register complaints with the ICC, and unions possessed a peacetime agency to fight for wage hikes. The eleven-man commission oversaw the two thousand-odd civil-service bureaucrats manning the ramparts and supervised railroad administration, finance, rates, car service, cases and disputes, valuation, statistics, and safety. The federal government had created a massive regulatory apparatus that organized railroads, shippers, and unions into different cartel bodies to make pricing and production decisions outside the market process. However, whether the new system would furnish more crony privileges to railroad, shipper, or union interests remained an open question.[52]

Although many of the ICC's personnel remained neutral or hostile to the railroads, to big businesses' delight, the new rules caused the agency to act "in a manner that greatly resembled the operation of a cartel being run in the interests of the railroads."[53] Unlike in the Federal Reserve System, the Federal Trade Commission, or the Department of Commerce, personnel did not exert as much impact in the new ICC. The Transportation Act created so much overlapping bureaucratic bloat that the ICC failed to effectively enforce its myriad regulations. This opened the door for railroads to capture the rules for their own ends, securing substantial rate increases, disobeying excess profits redistribution, and ignoring ICC guidelines regarding new communities of interest. During the 1920s railroads' average rate of return rose from 3.7 percent to 5.7 percent and their stocks soared 118 percent, with the largest lines disproportionately accruing the profits.

The ICC's pricing policies primarily benefited the railroads. It is true that the Railroad Labor Board quickly ordered wage increases. But the ICC raised rates by 25 to 40 percent, more than covering the higher labor costs. While the ICC did decrease rates soon after the Depression of 1920–1921, the commission did not sufficiently recognize that overall prices had fallen even further, which caused real revenue per ton-mile to increase 70 percent between 1920 and 1922. Despite farmers' repeated calls for lower rates, the ICC, in the name of rate stability, froze rates

[52] Churella, *Pennsylvania*, 2:54–58, 513; Robert F. Holzweiss, "Politics, Profits, and the Public Interest: Government, Railroads, and Interest Groups, 1827–1976," PhD diss., Texas A&M (2001), 63–65; Hoogenboom and Hoogenboom, *History*, 91–99, 109; Kerr, *American*, 149–55, 206, 215, 218; Klein, *Union*, 2:231–38; Rothbard, "Collectivism," 395–96; and Richard Sutch and Susan B. Carter, *Historical Statistics of the United States*, vol. 5, *Governance and International Relations*, ed. (New York: Cambridge University Press, 2006), 201.

[53] O'Brien, "ICC," 74.

during the decade. This stabilized nominal and real revenue per ton-mile for the rest of the decade but dealt a crippling blow to competitive rate cutting and flexible pricing. The ICC failed to devote enough time and resources to taking the excess profits their rate policies helped generate—of $300 million in recapturable profits railroads returned less than $10 million.[54]

Railroads did not delay in exploiting the ICC's consolidation provisions. In 1920 the ICC hired Harvard economist William Ripley to devise a voluntary consolidation plan. After a year and a half of research, Ripley and the ICC proposed reorganizing the nation's railroads into nineteen regional combinations, which Commerce Secretary Herbert Hoover backed. Leading railroads balked at the consolidation scheme—they wanted to remain in the driver's seat. Railroads instead repeatedly requested that the ICC approve interlocking directorates and stock purchases in competing lines to create their preferred monopoly systems. The agency, unable to institute its preferred consolidations, agreed and approved almost five thousand requests for individuals to sit on multiple boards and allowed combinations involving 51,000 miles of track (20 percent of the nation's total mileage). The Pennsylvania Railroad, for example, replenished its community of interest by purchasing significant stakes in the Pittsburgh & West Virginia Railway and the New Haven. Commissioner Thomas Woodlock, an appointee of President Calvin Coolidge and a financial writer who had served as a director of the Pere Marquette Railroad in Michigan, approved many consolidation requests. Woodlock's appointment, note Ari and Olive Hoogenboom, signaled an "ascending big-business influence" that reminded railroads of the good old days of the commission at the turn of the century.[55]

---

[54] Robert A. Emery, "Middle-Aged Agility: The ICC and Unregulated Trucking in the 1920's and 1930's," *Journal of Transportation Law, Logistics, and Policy* 75, no. 1 (Winter 2008): 37; Hoogenboom and Hoogenboom, *History*, 99–105; O'Brien, "ICC," 75; and Sutch and Carter, *Historical*, 3:758.

[55] Hoogenboom and Hoogenboom, *History*, 111. Churella, *Pennsylvania*, 2:508, 514–24, 564–68, 791; Holzweiss, "Politics," 92; Hoogenboom and Hoogenboom, *History*, 105–11; Mark H. Rose, Bruce E. Seely, and Paul F. Barrett, *The Best Transportation System in the World: Railroads, Trucks, Airlines, and American Public Policy in the Twentieth Century* (Philadelphia: University of Pennsylvania Press, 2006), 22–25; and Stover, *American*, 205.

Wall Street investment banks returned to their time-honored business. From 1920 to 1933 J. P. Morgan & Co. marketed nearly $2 billion of railroad securities. Most notably, the investment bank channeled over $150 million to Oris and Mantis Van Sweringen in Cleveland. The brothers set out to build a railroad empire centered around their New York, Chicago & St. Louis Railroad. Using borrowed money, the Van Sweringens established holding companies to bypass various ICC restrictions and purchased controlling interests in the Erie, the Chesapeake & Ohio, and other railroads. They moved in on Missouri Pacific Railroad stock; once consummated, the deal would enable the creation of a railroad conglomerate that stretched from the Atlantic to the Pacific. By 1929 their wealth surpassed $100 million, and they commanded the fifth largest railroad system in the United States. Their newly formed holding company, the Morgan-constructed Alleghany Corporation, listed Morgan partners Jack Morgan and Thomas Lamont; the president of National City Bank, Charles Mitchell; and the chairman of Chase National Bank, Albert Wiggin, as prominent owners. The Wall Street partnership with the railroads was alive and kicking.[56]

Lest the railroad unions think that they would receive no new favors, Congress passed the corporatist Railway Labor Act in 1926. Two union attorneys connected to Glenn Plumb, with the help of the omnipresent labor cartelist Hoover, had drafted a bill that created new labor boards packed with union representatives. To defeat this prounion measure, the general counsel of the Association of Railway Executives, Alfred Thom, got Congress to pass a substitute measure. The Railway Labor Act created a multistep process of mediation and arbitration through presidentially appointed boards that replaced the older Railroad Labor Board. Both railroads and unions gained. Railroads

---

[56] Carosso, *Investment*, 256; Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Simon and Schuster, 1990), 257, 308–10; Churella, *Pennsylvania*, 2:524–52; Harold van B. Cleveland and Thomas F. Huertas, *Citibank, 1812–1970* (Cambridge, MA: Harvard University Press, 1985), 311; James Grant, *The Forgotten Depression, 1921: The Crash That Cured Itself* (New York: Simon and Schuster, 2014), 109; Edward M. Lamont, *The Ambassador from Wall Street: The Story of Thomas W. Lamont, J. P. Morgan's Chief Executive* (Lanham, MD: Madison Books, 1994), 225, 253–54; and Rose, Seely, and Barrett, *Transportation*, 25–26.

received a law that prolonged and rigidified the wage-negotiating process, which weakened radical labor leaders and delayed strikes. Churella writes that "the negotiations seemed interminable, but that was precisely the point" from the railroads' point of view.[57] The labor cartels secured compulsory arbitration, which required the railroads to go to the negotiating table. Unions used the new legislation to reduce labor competition: by the end of the decade unions had reached new agreements with railroads that eliminated many blacks from train, shop, and rail employment. The railroads and unions might have been happy, but the major downside of this bureaucratization of the wage-setting process was that wage rates in the railroad industry became inflexible downward.[58]

During the 1920s the railroads had finally achieved their cartelist goals through the Transportation Act. The ICC's rules setting minimum rates, guaranteeing profits, and allowing consolidations restored railroad earnings, encouraged consolidations, and reduced competition from other railroads. Prohibitions on rate cutting and arbitration processes did not only reduce competitive pressures; like the industrial giants, railroads increasingly adopted rigid rates and wages. The rapid rate cutting and competition of the past had given way to administered pricing and regimented markets.

Yet railroads did not totally succeed in eliminating market pressures because transportation competition reappeared in another form. Into the railroads' idyll crashed a new menace—truckers. Automobile firms had experienced meteoric growth over the previous two decades. The greater freedom to travel generated incredible benefits for the public, who rapidly purchased the new technology. The assets of Ford and General Motors (the latter taken over by the Morgans in the early 1920s) mushroomed nearly 2,000 percent, from a combined $94 million in 1913 to $1.94 billion in 1929 (as a reference, the Pennsylvania Railroad's assets increased only 120 percent, from $940

---

[57] Churella, *Pennsylvania*, 2:178.

[58] Bernstein, *Redress*, 57–58; Churella, *Pennsylvania*, 2:174–82; Murray N. Rothbard, *America's Great Depression* (Auburn, AL: Ludwig von Mises Institute, 2008), 203–4; and Murray N. Rothbard, "Herbert Hoover and the Myth of Laissez-Faire," in Rothbard, *Progressive*, 519–20.

million to $2.07 billion, over the same period). Enterprising firms in the industry constructed private roads to encourage the adoption and use of trucks and cars. Henry Ford gifted land and money to develop roads in Michigan, and Goodyear Tire & Rubber, smaller car manufacturers, and cement producers raised millions to help construct roads such as the Dixie Highway (Detroit to Florida) and the Lincoln Highway (New York to San Francisco).[59]

By and large, though, markets would not get to decide how many resources to allocate to road construction. Being born into a corporatist state, auto interests quickly sprouted. The American Automobile Association, the National Brick Paving Manufacturers Association, the Rubber Association of the United States, the American Association of State Highway Officials, and others lobbied for federal and state cronyism that subsidized the construction of roads and highways at taxpayer expense. Congress agreed to their demands when it passed the Federal Aid Road Act of 1916 and granted $75 million to states for road construction over a five-year period. In the 1920s, federal, state, and local governments spent nearly $8 billion on highway projects. While 58.5 percent of the costs came from states' gasoline taxes and vehicle fees, the rest fell to the general taxpayer, regardless of whether they were part of the motoring public. This meant that governments directed more factors of production to roadmaking than the market deemed economical.

With such government munificence, trucking and busing zoomed ahead, cutting into railroad profits from freight shipments and passenger travel. The technology provided many relative advantages, especially the ability of truckers to deliver door-to-door service. With few barriers to entry, 65 percent of trucks belonged to one-man firms, and the proliferation of such competition lowered shipping costs. Commissions regulated

[59] James T. Bennett, *Highway Heist: America's Crumbling Infrastructure and the Way Forward* (Oakland, CA: Independent Institute, 2022), 106–09; Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 132, 202; Philip H. Burch Jr., *Elites in American History*, vol. 3, *The New Deal to the Carter Administration* (New York: Holmes and Meier, 1981), 14–15; Chernow, *Morgan*, 223–24; and Burton W. Folsom Jr., *Empire Builders: How Michigan Entrepreneurs Helped Make America Great* (Traverse City, MI: Rhodes and Easton, 1998), 153.

trucks on the state level, but the ICC, oblivious to the rapid innovation, did not touch motor vehicles.[60]

The Pennsylvania, the Chicago, Burlington & Quincy, and other railroads complained about the competitive invasion. They vented at how governments subsidized truckers by building roads—conveniently forgetting their own government-bestowed land grants and loans decades ago. When the Supreme Court weakened state commissions in 1925 and 1926 by declaring interstate trucking regulation the federal government's exclusive purview, the ICC held hearings on the subject and Congress started debating proposals. The railroads sprang into action.

The ARE maintained two regulatory aims. First, it advocated granting railroads the ability to branch into the trucking business. Railroads wanted their own truck fleets, a deregulation that independent truckers vigorously opposed. Second, general counsel Alfred Thom asked "that the terms of competition shall be fair."[61] This was code for extending the ICC's anti-price-cutting and antientry regulations to truckers. The railroads denied truckers' accusations that this was their intention, but the evidence is on the truckers' side. For example, at ICC hearings in 1926, the vice president of the Union Pacific, H. M. Adams, testified that because new railroad construction and acquisitions required the permission of the ICC, "to protect the revenues of the railways . . . similar restrictions [should] be placed upon bus and truck lines."[62] In other words, railroad revenue needed to be protected by regulating automobile competition. Spotting the regulatory dragnet that awaited them, truckers defensively lobbied to remain on the outside. The ICC and Congress failed to reach a conclusion, and the railroads had to bide their time for a more propitious legislative environment.[63]

---

[60] Bennett, *Highway*, 76, 91–92, 99–100; William R. Childs, *Trucking and the Public Interest: The Emergence of Federal Regulation, 1914–1940* (Knoxville: University of Tennessee Press, 1985), 15, 31–39; and Rose, Seely, and Barrett, *Transportation*, 42, 44–45.

[61] Alfred P. Thom, "The Railroads and the Public," *Railway Age*, October 23, 1926, 785.

[62] "Motor Transport Hearings Ended," *Railway Age*, October 30, 1926, 839.

[63] Childs, *Trucking*, 53, 70–73; Klein, *Union*, 2:264–68; "Motor," 839–40; Dorothy Robyn, *Braking the Special Interests: Trucking Deregulation and the Politics*

By the end of the 1920s the corporatist state was thoroughly and completely embedded in the railroad industry. Railroads' control of the ICC had varied considerably before then. Initial success at acquiring laws that fostered cartelization and reduced rebating provoked a hostile backlash from shippers and unions. These interests lobbied Congress to shift power away from the railroads until the transportation companies faced bankruptcy by the advent of World War I. The railroads desperately worked with the new Railroad Administration to bypass the ICC and minimize the power of shippers, though unions accrued most of the gains. It was not until the 1920s that the railroads achieved a satisfactory corporatism that explicitly fostered pools and protected profits. Changes in commissioners only partially explain this turnaround; the main reason lies in railroads' capturing the legislative changes to the ICC's powers that enabled it to set minimum rates and guarantee profits.

Thus, in developing and defending their preferred regulatory systems, the major elements of big business—banking, manufacturing, and railroads—had ushered in the Corporatist Era. The same could be said for the food and drug interests that had branched off from the nation's manufacturing interests in the late nineteenth century. Meatpackers, food processors, and even doctors eagerly sought to restrict competition through commissions that enforced health and safety standards. Like the others, they would achieve cartelizing success.

of Policy Reform (Chicago: University of Chicago Press, 1987), 13; and Rose, Seely, and Barrett, *Transportation*, 31–32, 46–47, 52–53.

CHAPTER 10

PURIFYING THE COMPETITION

Early twentieth-century banking, industry, and railroad regulations: all were restrictionist measures designed by corporatist interests to enrich said interests. The same can be said for the meat, food, and medical regulations of the time. Many economic historians hold these government interventions as exemplary progressive reforms that corrected severe informational problems, the result of public-interested activists triumphing over entrenched firms.[1] The reality is practically the reverse: businesses lobbied for cartelizing compliance costs and other barriers, bureaucrats desired bigger budgets to increase their power and influence, and professional agitators coveted a chance in the spotlight and the ability to micromanage the economy. Typical of the Corporatist Era, contending interests entered acrimonious fights to establish their preferred regulatory systems.

Big Meat

This was evident in meatpacking, where the Beef Trust defensively lobbied against health regulations that threatened their profits and turned the rules into favorable industry cartelization. The Beef Trust's regulatory drive began during the Spanish-American War, when Philip Armour lobbied the McKinley administration to acquire contracts for military meat provisions.

---

[1] George A. Akerlof and Robert J. Shiller, *Phishing for Phools: The Economics of Manipulation and Deception* (Princeton, NJ: Princeton University Press, 2015), 84–85; and Alan L. Olmstead and Paul W. Rhode, *Arresting Contagion: Science, Policy, and Conflicts over Animal Disease Control* (Cambridge, MA: Harvard University Press, 2015), 172–218.

The increased revenue from this subsidy was outweighed by an unexpected cost courtesy of General Nelson Miles. This army official had had an axe to grind ever since the Pullman strike of 1894, when his troops encountered serious difficulties in suppressing Beef Trust workers on strike near the railroads. After the war Miles accused the Chicago packers of selling unsanitary meat products that killed soldiers in Cuba. Although testimony uncovered that monotonous diets, poor storage, filthy water, and disease from the tropical climate caused the illness-related casualties, the bad publicity damaged the Beef Trust.[2]

Antitrust setbacks added insult to the public relations injury. Like other industry cartels, the Beef Trust embraced mergers as a way of controlling market competition. In 1902, Armour & Co. heir J. Ogden Armour and officials of Beef Trust members Swift & Co. and Morris & Co. arranged with Kuhn, Loeb & Co. and National City Bank's James Stillman to create a massive merger with a $550 million market capitalization. Unfortunately for the meatpackers, the Northern Securities antitrust imbroglio caused the bankers to back out. Wall Street perceptively predicted that Theodore Roosevelt would oppose the large meatpacking combination: the former cattle rancher had served as a colonel during the Spanish-American War and testified with Miles against the packers. Moreover, retail meat prices were rising during Roosevelt's first term. Not the result of rapacity on the part of meatpackers, these price increases were due to simple supply and demand: growing population increased demand, and tight livestock supplies—partially caused by the Bureau of Animal Industry's (BAI's) strict condemnations of animal carcasses—limited supply. The resultant high meat prices angered the public and jeopardized Roosevelt's reelection bid in 1904.

Not one to hide his biases, Roosevelt called the Beef Trust "evil."[3] Ranchers continued to insist that the Beef Trust held down cattle prices and therefore lobbied for new antitrust investigations to cripple the largest purchaser of their products. The

---

[2] Patrick Newman, "Playing the Defense: The Beef Trust, Cronyism, and the 1891 and 1906 Meat Inspection Acts," *Independent Review* 29, no. 1 (Summer 2024): 41–42.

[3] Quoted in Mary Yeager, *Competition and Regulation: The Development of Oligopoly in the Meat Packing Industry* (Greenwich, CT: JAI Press, 1981), 186.

Bureau of Corporations, Roosevelt's investigatory agency, initiated antitrust probes before the election. To the dismay of the ranchers and of Roosevelt, the bureau's report, which came out after the election, revealed that the Beef Trust slaughtered only 45 to 50 percent of the nation's cattle—a clear refutation of their accusation that the packers controlled the entire industry. Despite the exoneration, the costly investigation damaged the Beef Trust.[4]

To make matters worse, a new powerful interest group was emerging. Progressive activists, settlement-house workers, and muckraking journalists who championed socialism and nationalized industry, attacked the Beef Trust. Professing to enhance the general welfare, these men and women desired fame, fortune, and taxpayer-funded employment that would provide job security and the power to plan the economy. Or, as one critical congressman put it, they "search[ed] out things to criticize in order that they may employ themselves in the endeavor to reform them."[5] One example was Florence Kelley of Chicago's Hull House. A translator of Marxist literature into English, Kelley lobbied in 1893 for an Illinois law that regulated working conditions of women and children. After drafting the legislation she became the state's first chief inspector of labor standards in factories, triumphantly writing to Karl Marx's coauthor Friedrich Engels that her subordinates are "outspoken Socialists and active in agitation."[6]

The self-interested reformer who inflicted the most damage on the Beef Trust was the failed novelist Upton Sinclair. After briefly visiting Chicago's facilities, he wrote *The Jungle*, a novel about wage slavery that included stories of workers falling into cooking vats and poisoned rats getting ground into meat products. Taken as fact among the public and politicians, the picture he painted was far from the truth: the Beef Trust had improved meat quality through refrigeration and canning that reduced

---

[4] Newman, "Defense," 41–42; Yeager, *Competition*, 138–45, 166.

[5] Frank Mondell, quoted in "Congressmen Denounce the Neill Report," *National Provisioner*, June 16, 1906, 16.

[6] Florence Kelley to Friedrich Engels, November 21, 1893, quoted in Kathryn Kish Sklar, "Hull House in the 1890s: A Community of Women Reformers," *Signs* 10, no. 4 (Summer 1985): 671–72.

spoilage; pioneered in sanitary innovations including brick cattle pens, sewage systems, and electrical motor power that minimized dust; and opened their slaughterhouses to the public through guided tours. But Isaac Marcosson, editor at Doubleday, Page & Co., knew a sensationalist hit when he saw one. In 1905 he had aggressively promoted Thomas Dixon Jr.'s *The Clansman*, a race-baiting polemic that inspired the 1915 film *The Birth of a Nation*. Events proved Marcosson right: *The Jungle* hit the shelves in February 1906, and by the end of the year it was estimated that more than one million people had read it. Worried about Sinclair's accusations, consumers decreased their purchases of meat and sales sank. Internationally, hysteria over *The Jungle* caused American meat exports to drop 11 percent, from $115 million in 1906 to $102 million by 1908.[7]

Seizing his moment, Roosevelt directed the US Department of Agriculture (USDA) to investigate the Beef Trust. BAI officials, perennial advocates of bigger appropriations, could have used the opportunity to paint a dark picture to justify a larger budget and build up their bureaucratic power. Yet even they admitted that Sinclair "willfully closed his eyes to establishments where excellent conditions prevail[ed]" and engaged in "willful and deliberate misrepresentations of fact."[8] Fortunately for Roosevelt, he sent another inspection team consisting of Charles Neill, a former economics professor at the Catholic University of America in Washington, DC, turned commissioner of labor, and Assistant Secretary of the Treasury James Reynolds. Both men had previously toured the Chicago facilities without complaint. Now, eager to please their boss, they reported disgusting working conditions.[9]

---

[7] Michael Lesy and Lisa Stoffer, *Repast: Dining Out at the Dawn of the New American Century, 1900–1910* (New York: W. W. Norton, 2013), 37–40, 46–47; Newman, "Defense," 34–36, 42–43; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 5, *Governance and International Relations* (New York: Cambridge University Press, 2006), 551.

[8] "Supplemental Report," in US House of Representatives, *Hearings before the Committee on Agriculture* (Washington, DC: Government Printing Office, 1906), 349–50.

[9] Joseph P. Goldberg and William T. Moye, *The First Hundred Years of the Bureau of Labor Statistics* (Washington, DC: Government Printing Office, 1985), 45–46; and Newman, "Defense," 43–44.

The publicity nightmare for the Beef Trust turned into a legislative nightmare as Republican senator Albert Beveridge of Indiana worked on an inspection bill. Historian John Braeman describes Beveridge as "always eager to bask in the spotlight" and garner "personal glory"; writing legislation against the unpopular Beef Trust suited his purposes.[10] Beveridge's bill required inspection of meat intended for interstate markets, stipulated that the packers must pay for inspection, and empowered the USDA to mandate strict sanitary regulations. The provisions would significantly raise costs of operation for both large and small meatpackers, resulting in further reduced supplies and higher consumer prices. The Senate passed Beveridge's inspection bill in May 1906.

The Beef Trust did not oppose new regulations if inspections were taxpayer-funded and health regulations raised smaller competitors' costs but were not too onerous for the large firms. In other words, if they promoted their desired cronyism. As with countless other privilege-seeking firms, the Beef Trust fixated on raising their rivals' costs. J. Ogden Armour announced that the Chicago packers supported federal inspection because it "puts the stamp of legitimacy" on their products, in contrast to those of smaller rivals who sold their meat "without having been inspected by government" and purportedly "with little or no concern."[11] Louis Swift of Swift & Co. said he "would be glad to make any changes . . . that experts might consider necessary," even though his business "was [already] conducted in a proper and sanitary manner."[12] The Chicago meatpackers in general proclaimed their support for sanitary "regulations which are reasonable, rational, and just"—according to the Beef Trust, of course.[13]

---

[10] John Braeman, "The Square Deal in Action: A Case Study in the Growth of the 'National Police Power,'" in *Change and Continuity in Twentieth-Century America*, ed. John Braeman, Robert H. Bremner, and Everett Walters (Columbus: Ohio State University Press, 1964), 54.

[11] J. Ogden Armour, *The Packers, the Private Car Lines, and the People* (Philadelphia: Henry Altemus, 1906), 66, 378.

[12] "Cannon to Back Beveridge Plan," *Minneapolis Journal*, May 28, 1906, 2.

[13] Obion Dyson, "Letters," in *Hearings*, 97. Lesy and Stoffer, *Repast*, 53–54; and Newman, "Defense," 43–44.

In June, after J. Ogden Armour left for Paris to escape the bad publicity, Louis Swift strategized with Thomas Wilson, Morris & Co.'s general manager. They decided to turn to the Republicans who controlled the House's Committee on Agriculture: Chicago's "blond boss" William Lorimer and New York's James Wadsworth, a wealthy rancher who found *The Jungle* "most costly to my foreign trade."[14] They were politicians the Beef Trust could count on—ones with a vested interest in the matter. Lorimer and Wadsworth worked with Swift and Wilson to draft a pro–Beef Trust bill that restored taxpayer-funded inspection. Shortly thereafter, they held hearings on their bill where the Chicago packers could defend themselves publicly.

Wilson represented the Beef Trust before the House committee, defending taxpayer-funded inspection and advocating bringing smaller firms into regulatory compliance. The Beef Trust had "no objection" to the government "putting on as many inspectors as they want, provided we do not have to pay for them." "It is to our advantage," Wilson reassured Congress, "to have good inspection . . . from the hoof to the can." Smaller firms "have no losses for condemnation; they have no expense for this inspection." For this reason, they possessed "a tremendous advantage . . . in disposing of their meat products," an advantage Wilson wanted Congress to eliminate.[15]

Thanks to the Beef Trust's defensive lobbying, the Senate yielded to the House bill in late June. To the frustration of Sinclair and others, the Meat Inspection Act of 1906 provided more, not fewer, special privileges to the Beef Trust: taxpayer subsidies for the mandatory inspection of meat products intended for export and interstate markets, along with favorable sanitation standards. Unsurprisingly, Armour & Co. boasted that "nobody in this country will give the law heartier support than we will."[16] Morgan partner George Perkins wrote to J. P. Morgan that for the Chicago meatpackers the law "will certainly be a very great advantage when the thing once gets into operation and they are

---

[14] Quoted in Braeman, "Square," 61; and James W. Wadsworth to Matilda Gay, August 5, 1906, quoted in Braeman, "Square," 61.

[15] "Conditions in Chicago Stock Yards," in *Hearings*, 30–31, 88.

[16] "Packers Approve Meat Law," *National Provisioner*, July 7, 1906, 16.

able to use it all over the world, as it will practically give them a government certificate for their goods."[17]

Smaller meatpackers complained loudly about the new compliance costs thrust upon them. According to meatpacker George McCarthy, requiring "plants in absolutely sanitary condition from top to bottom" forced upon "the smaller class of packer" great "expense in reconstructing and fixing up his plant." This included "hav[ing] separate machinery . . . instead of using one machine for several things," such as separate facilities for making pure and compound lards.[18] The Beef Trust, with its already advanced factories, did not have to make as many adjustments. In addition, the smaller meatpackers now suffered the condemnations that the Beef Trust had faced since the 1890s. The *Journal of Commerce* reported how "small slaughterers and meatpackers" complained that inspectors' incentives to meet quotas caused an "immense amount of meats [to be] wasted by wholesale condemnation" and restricted the meat variety they could offer to consumers.[19] Even the commission of doctors and veterinarians reviewing BAI condemnation regulations admitted that "several sections (for instance, the sections on hog cholera, swine plague, actinomycosis, tuberculosis, and tapeworm cysts) could be made less stringent without any danger to the health of the consumer."[20] These fastidious health regulations severely hampered the ability of small firms to operate.

As a result of the restrictions, interstate meatpackers declined from 923 in 1906 to 300 in 1910. The meatpacking industry estimated that the regulations added 3 to 5 cents to the price of a pound of beef and pork, or roughly 25 percent of the total price. At a time when consumers were already complaining about price increases from a growing population, the new

---

[17] George Perkins to J. P. Morgan, June 25, 1906, 3, George W. Perkins Papers, Rare Book and Manuscript Library, Columbia University. Newman, "Defense," 44–46.

[18] "Meat Packers on Witness Stand," *National Provisioner*, March 26, 1910, 18–19.

[19] *Journal of Commerce*, quoted in "Complain of Inspection Effect," *National Provisioner*, August 8, 1908, 42.

[20] *Twenty-Fourth Annual Report of the Bureau of Animal Industry, for the Year 1907* (Washington, DC: Government Printing Office, 1909), 362.

regulations added to their woes. While small packers and the general public suffered, the Beef Trust reaped the rewards. As a percentage of its net worth, Armour & Co.'s profits grew from 6 percent in 1906 to over 9 percent in 1910. These earnings allowed J. Ogden Armour to secure loans from Kuhn, Loeb & Co. and National City Bank to expand facilities in the United States and Argentina.[21]

The outbreak of World War I turned into a bonanza for the Chicago packers. Fallout from *The Jungle* had caused meat exports to fall from $115 million in 1906 to $68 million in 1914; by 1916 they had shot up to $198 million. US entry into the Great War in 1917 exploded meat exports further to an astounding $698 million by 1919. The wartime Food Administration, led by Herbert Hoover, coordinated Allied purchases through a packers' committee that Thomas Wilson chaired. The Food Administration ostensibly restricted large meatpackers' profits to around 10 percent. However, the Beef Trust secretly understated its profits by manipulating the value of its inventories, buying from subsidiaries at artificially high prices, selling to subsidiaries at artificially low prices, shifting profits to less regulated avenues, breaking off part of their business into international entities, and treating interest-bearing obligations as capital according to Food Administration guidelines.[22]

The Chicago packers rode high as government subsidization of demand and restriction of competition continued to increase their market share and profits. The Beef Trust's share of federally inspected slaughtered animals rose from 60 percent in 1908 to 69 percent in 1919. Armour & Co.'s actual (rather than reported) profits climbed to 20 percent of net worth in 1917.

---

[21] Harold van B. Cleveland and Thomas F. Huertas, *Citibank, 1812–1970* (Cambridge, MA: Harvard University Press, 1985), 56, 354; Newman, "Defense," 46–47.

[22] Linda J. Bradley and Barbara D. Merino, "Stuart Chase: A Radical CPA and the Meat Packing Investigation, 1917–1918," *Business and Economic History* 23, no. 1 (Fall 1994): 193–96; "Meat Packing Grows Up," *National Provisioner*, January 26, 1952, 105–8; Thomas Lane Moore III, "The Establishment of a 'New Freedom' Policy: The Federal Trade Commission, 1912–1918" (PhD diss., University of Alabama, 1980), 267–68; Newman, "Defense," 47; and Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, MA: Harvard University Press, 1974), 26.

In terms of assets the company moved from the ninth largest industrial concern in the nation in 1909 to the third largest by 1919. To further expand operations, it aggressively borrowed $120 million by 1919 to expand on the West Coast, open new plants in Brazil, diversify into fruits and vegetables, and build state-of-the-art meat coolers and freezers in Chicago. J. Ogden Armour reaped the rewards. In 1918 contemporaries estimated his rapidly increasing wealth at $125 million—making him tied for sixth wealthiest man in the country. He lived lavishly outside of Chicago at his one-thousand-acre property, Mellody Farm, complete with three reflecting pools, five man-made ponds, and a private railroad spur—a palace one historian called "the most pretentious of all" in the area.[23]

The Beef Trust's good times did not last as livestock and grocer interests counterattacked with their own corporatism. After the Chicago meatpackers defeated antitrust lawsuits in the early 1910s, the American National Live Stock Association lobbied for new antitrust proceedings in an attempt to boost cattle prices. Then the soaring cost of food during World War I enraged consumers, and President Wilson looked to blame anyone besides the government. Populists in Congress demanded an investigation by the Federal Trade Commission (FTC), but big-business commissioner Edward Hurley blocked their attempts. After Hurley left in early 1917 Wilson directed the agency to investigate.

The FTC pulled out all the stops, including paying famous prosecutor Francis Heney $2,500 a month—a hefty sum relative to the $10,000 annual salary commissioners received. The FTC's 1919 report did uncover the Beef Trust's hidden profits and enlarged market share but neglected the government's role in creating the barriers to entry and wartime contracts that led to such steep rewards. Instead, in 1920 Wilson's attorney general forced on the Chicago packers a consent decree that divested their ownership in stockyards, stopped them from producing

[23] Edward Arpee, *Lake Forest, Illinois: History and Reminiscences, 1861–1961* (Lake Forest, IL: Rotary Club of Lake Forest, 1964), 188. Arpee, *Lake*, 188–90; N. S. B. Gras and Henrietta M. Larson, *Casebook in American Business History* (New York: Appleton Century Crofts, 1939), 635, 637–38; and Newman, "Defense," 47.

various nonmeat foods, and prohibited the companies from entering the retail business. The edict cartelized the stockyards, the production of nonmeat food, and retail meat businesses by blocking out the largest competitor—the Beef Trust. Congress codified the consent decree a year later in the Packers and Stockyards Act of 1921.

It should come as no surprise that the rancher and grocer interests lobbied for these restrictions on their competitors. Ranchers wanted the Chicago packers out of the stockyards: Senator John Kendrick of Wyoming, one of the major politicians involved, served concurrently as the president of the American National Live Stock Association. Grocers wanted to prohibit the Beef Trust's entry into retail. The Southern Wholesale Grocers' Association hired Lewis Haney, a former economist at the FTC, to write research that criticized the Beef Trust and promoted the Packers and Stockyards legislation.[24]

While the Beef Trust successfully postponed enforcement of the law for over a decade through court battles, the Depression of 1920–1921 proved far more disastrous. As with agriculture in general during the war, overproduction rapidly turned into massive excess inventory. Meat exports collapsed from $698 million in 1919 to $157 million in 1921, Armour & Co. suffered a 15 percent loss, and Armour himself reportedly hemorrhaged $1 million a day for 150 days until Albert Wiggin of Chase National Bank and other bankers took over his company.

Technological change then dealt the killing blow. The rise of refrigerated trucking inaugurated a decades-long process that moved slaughtering away from Chicago and closer to the farmer and rancher. The rise of grocery stores that bought directly from small packers and not from the Beef Trust's wholesale warehouses further cut into profits. As a result of these changes, during the 1920s the Beef Trust's share of federally inspected

---

24 Daniel T. Gresham, "Reshaping the U.S. Cattle Industry: Producers and Packers, 1914–1933" (PhD diss., Kansas State University, 2023), 32, 38–47; 68, 91; "Meat," 110–12; Moore, "Establishment," 257–81; Newman, "Defense," 47–48; and Patrick Newman, "Personnel Is Policy: Regulatory Capture at the Federal Trade Commission, 1914–1929," *Journal of Institutional Economics* 15, no. 6 (December 2019): 1047–48.

slaughtered animals declined to 58 percent, and Armour & Co. fell from the third to the fourteenth largest industrial firm.[25]

Wealthy cattlemen, flexing their newfound power, now lobbied the government to grade standards of high-quality beef so they could earn more for their Angus and purebred cattle. Not only that: they also wanted to restrict the supply of purebred cattle. Former Wall Street banker and Angus breeder Oakleigh Thorne, a main organizer behind the new National Better Beef Association, wanted to "lessen as much as possible the production of the quality of beef," a clear attack on competition.[26] In May 1927, the USDA inaugurated the taxpayer-subsidized grading of prime and choice meats by the Bureau of Agricultural Economics. The average price of cattle increased sharply, and by December high-end hotels and other establishments threatened a boycott. The USDA defused the situation by defending the cattlemen.

Meatpackers also tried to raise the price of meat products through an FTC-style trade practice conference. This was becoming common practice in food distribution. The grocery stores, for example, still wanted more barriers into the retail food industry. In 1928, the American Wholesale Grocers' Association and others organized the Grocery Trade Conference with the FTC to propose that the "terms of sale shall be open and strictly adhered to" and prohibit "secret rebates or secret concessions or secret allowances of any kind[,] . . . free deals, . . . offering premiums, gifts or prizes[,] . . . price discrimination" and other competitive price-cutting behaviors.[27] The meatpackers followed suit. In 1929 the Institute of American Meat Packers, the industry's trade association, lobbied the USDA to call its own trade practice

---

[25] Gras and Larson, *Casebook*, 638–41; Thomas Ferguson, "From 'Normalcy' to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression," in *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems* (Chicago: University of Chicago Press, 1995), 139; Harper Leech and John Charles Carroll, *Armour and His Times* (New York: D. Appleton-Century, 1938), 355–57; and Newman, "Defense," 47–49.

[26] Oakleigh Thorne to R. C. Pollock, December 18, 1926, quoted in Gresham, "Reshaping," 80.

[27] Resolutions of Grocery Trade Conference, October 1928, quoted in Carl F. Taeusch, *Policy and Ethics in Business* (New York: McGraw-Hill, 1931), 327.

conference. The USDA dutifully agreed to enforce cartel provisions that prohibited "secret rebates, concessions or allowances of any kind," and "obscuring the sales price by granting secretly unusual discounts or terms." The *National Provisioner* boasted that this "code of fair trade practices provid[es] for self-regulation of the industry" and heralded a new era of cartelization.[28]

The Beef Trust's government-promoted cartel experienced a sharp rise and fall. Since the late nineteenth century the Chicago packers had improved consumers' ability to purchase affordable and better quality meat. They of course aimed to monopolize markets, but competition prevented them from doing so. Making matters worse, rival interests that included ranchers and progressive crusaders schemed to hurt the Beef Trust through antitrust and other regulations. When a groundless public health scare arose in 1906, the Beef Trust defensively lobbied to ensure that the Meat Inspection Act disproportionately hurt the smaller packers. Under the guise of health regulations they consolidated the industry and raised prices, a cartelization that continued during World War I. The rewards did not last long. Rival ranchers and grocers weakened the companies, and the postwar downturn devastated them. By the end of the 1920s a corporatist apparatus existed to benefit the cartels of smaller and medium-sized meatpackers, ranchers, and grocers. Though the special privileges had changed hands, the public still lost, suffering from coerced reductions in product variety and from price hikes. Cronyism in meatpacking was alive and well.[29]

Crusading against Adulteration

On the same day President Roosevelt signed the Meat Inspection Act of 1906, he also signed the Pure Food and Drug Act. Under the guise of increasing quality and eliminating the use of

---

[28] Quoted in "Meat," 129, 131.

[29] Gresham, "Reshaping," 75–82, 99–101; "Meat," 129, 131; Butler Shaffer, *In Restraint of Trade: The Business Campaign against Competition, 1918–1938* (Lewisburg, PA: Bucknell University Press, 1997), 85, 184; and Taeusch, *Policy*, 326–27, 364.

substitute ingredients, known as adulteration, a coalition of food and medical producers eager to handicap their competitors lobbied for the law. The "generalissimo of the pure-food coalition" was Harvey Washington Wiley, who advocated such a law to aggrandize his own influence in the Department of Agriculture and control what other people consumed.[30]

By the early twentieth century the pure food and drug alliance contained many special interests. Sugar producers wanted to hamper the production of artificial glucose, an increasingly popular and cheaper substitute made from potatoes and corn. Old Taylor, a manufacturer of straight whiskey aged in oak barrels, desired labeling restrictions on the whiskeys most consumers preferred—the cheaper rectified and blended whiskeys made differently and mixed with other liquors. The Royal Baking Powder Company, a maker of cream-of-tartar baking powder used in bread, sponsored fake health organizations and lobbied state legislatures to prohibit alum baking powders that sold for a fifth of the price. The H. J. Heinz Company was inventing a ketchup that did not rely on sodium benzoate, in contrast to smaller competitors that made ketchup with marginal tomatoes and cheaper preservatives. The firm, desirous of stopping what it called "bargain counter mania," wanted the federal government to ban preservatives in ketchup.[31]

The American Medical Association (AMA) and the American Pharmaceutical Association (APA) criticized the patent medicines that small drug companies made on the grounds that they contained addictive drugs and were advertised with misleading labels. What they really had in mind was their own interest: in the words of one druggist at an APA convention, peripheral firms "divert[ed] money which rightfully belongs to the retail drug trade, in the way of prescriptions and regular drugs."[32] The

---

[30] James Harvey Young, *Pure Food: Securing the Federal Food and Drugs Act of 1906* (Princeton, NJ: Princeton University Press, 1989), 121.

[31] National Association of State Food and Dairy Officials, *Proceedings* (Washington, DC, 1904), 185, quoted in Clayton A. Coppin and Jack High, *The Politics of Purity: Harvey Washington Wiley and the Origins of Federal Food Policy* (Ann Arbor: University of Michigan Press, 2002), 65.

[32] American Pharmaceutical Association, *Proceedings, 1893*, 41 (Philadelphia, 1893), 287, quoted in James Harvey Young, *The Toadstool Millionaires: A Social*

Woman's Christian Temperance Union had long fought for a pure food and drug law because "adulterated food predisposed individuals to alcoholism and vice."[33] As anti-immigrant evangelists, they worried about ethnic, un-American food like Italian cuisine and French margarine.[34]

Food and drug privilege seekers faced two difficulties. First, the average consumer valued their pocketbook over quality. As A. T. Holmes, the editor of the *Inland Grocer*, complained, "Perhaps with the majority of food buyers, quality is less a consideration than price. . . . The public cares not a particle for" pure food and drug legislation.[35] Second, use of cheaper alternatives did not cause a health crisis. Refrigeration and canning reduced spoilage, borax and other preservatives applied in limited quantities increased shelf life without requiring excessive salt, processed foods increased variety in diets, and adulteration enhanced flavor and texture. Consumers discovered reputable brands through repeat purchases, cookbooks, and food fairs. Patent medicines did in fact improve consumers' well-being by numbing pain. Doctors and pharmacists also prescribed the addictive cocaine, opium, whiskey, other alcohols, and morphine contained in patent medicines because they were the only effective pain relievers

---

History of Patent Medicines in America before Federal Regulation (Princeton, NJ: Princeton University Press, 1961), 208–9.

[33] Lorine Swainston Goodwin, *The Pure Food, Drink, and Drug Crusaders, 1879–1914* (Jefferson, NC: McFarland, 1999), 89.

[34] Benjamin R. Cohen, *Pure Adulteration: Cheating on Nature in the Age of Manufactured Food* (Chicago: University of Chicago Press, 2019), 147–71; Coppin and High, *Politics*, 22–23, 25–26, 52–54, 65–67; Ronald Hamowy, *Government and Public Health in America* (Cheltenham, UK: Edward Elgar, 2007), 109–11, 115–16, 126, 242; Jonathan Rees, *The Chemistry of Fear: Harvey Wiley's Fight for Pure Food* (Baltimore: Johns Hopkins University Press, 2021), 43, 110, 144–46, 165–67; Daniel J. Smith and Macy Scheck, "Examining the Public Interest Rationale for Regulating Whiskey with the Pure Food and Drugs Act," *Public Choice* 196, no. 1–2 (July 2023): 85–122; and Peter Temin, *Taking Your Medicine: Drug Regulation in the United States* (Cambridge, MA: Harvard University Press, 1980), 26, 223.

[35] National Association of State Food and Dairy Officials, *Proceedings*, 104, quoted in Coppin and High, *Politics*, 64–65.

aside from the newly discovered aspirin (1897). Individuals chose between physicians' services and cheaper patent medicines.[36]

Beset with these problems, champions of government food and drug standards had one ace up their sleeve: the indefatigable efforts of Harvey Washington Wiley. He remains the canonical example of a bureaucrat interested in crony regulations to increase his agency's control, enrich business allies, and line his own pockets. A model bureaucrat in the emerging corporatist state!

Wiley, like many of his fellow intellectuals who sought comfortable and prestigious jobs in government, studied in Germany, where he learned how to detect purported impurities in food and drink. He then organized the Association of Official Agricultural Chemists and later became the head of the USDA's Division of Chemistry, which officially turned into the Bureau of Chemistry in 1901. Wiley ardently advocated "natural" food-making processes and opposed lab-made food and the use of preservatives. This fit his penchant for dining at expensive restaurants and social clubs whose customers could afford his preferred food. Wiley justified his antipreservative stance with "Poison Squad" experiments where he fed test subjects food with preservatives to show how they got sick. The studies lacked scientific validity because there was no control group and the participants had an incentive to complain so they could be temporarily released and eat food not prepared in the USDA. "Political concerns, rather than efforts to methodically collect scientific data," writes Jonathan Rees, explained Wiley's procedure.[37] Making a little something on the side also appears to have played a role: in 1902, before Wiley began his experiments, he purchased an interest in a salicylic acid plant. Salicylic acid became the only preservative his Poison Squad studies approved of. Thus, Wiley's vituperative

---

[36] Coppin and High, *Politics*, 19–31, 66, 135; Robert J. Gordon, *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War* (Princeton, NJ: Princeton University Press, 2016), 66, 71–76, 83; Hamowy, *Government*, 8, 105–8, 110–11, 126, 242–43; Rees, *Chemistry*, 89, 160; Temin, *Medicine*, 25–26; and Young, *Food*, 143.

[37] Rees, *Chemistry*, 89.

stance against all other preservatives would increase both the demand for salicylic acid and his own profits.[38]

Wiley maintained close connections with interests that would benefit from antipreservative and purity regulations. After urging the USDA to subsidize the production of cane, beet, and sorghum sugar, Wiley worked with the Louisiana Sugar Producers Association and the American Beet Sugar Association. He also befriended sugar and coffee entrepreneur John Arbuckle and worked as a consultant for his sugar laboratory. As a connoisseur of straight whiskey who bought it for the elite Cosmos Club in Washington, Wiley discussed his alcohol standards with Old Taylor and frequently accepted gifts of straight whiskey. Wiley could call upon several good friends at Royal Baking Powder Company and had even asked one “to get up some scheme to get me into an office where I can make some money.”[39] He corresponded with H. J. Heinz Company officials and stepped up attacks on sodium benzoate once he knew about their new ketchup. Wiley served on the AMA’s Council on Pharmacy and Chemistry, and APA member Dr. Lyman Kebler ran the Bureau of Chemistry’s drug laboratory. Lastly, Wiley could count upon a trusted female acolyte, Alice Lakey of the General Federation of Women’s Clubs, who heralded him as “a Moses given to the people by God.”[40]

Between 1897 and 1906 Congress debated roughly forty pure food and drug bills that restricted various ingredients and instituted new labeling costs. Wiley made sure Congress defeated bills that vested regulatory authority outside his Bureau of Chemistry. For example, Wiley deep-sixed Wisconsin congressman Joseph Babcock’s bill because it called for the creation of a

---

[38] Coppin and High, *Politics*, 55–56; Rees, *Chemistry*, 6–7, 76, 86–91, 94–95, 191; and Murray N. Rothbard, *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 243–46, 249.

[39] Harvey Wiley to J. LeDow, April 20, 1892, quoted in Rees, *Chemistry*, 283.

[40] Alice Lakey to Harvey Wiley, February 1909, quoted in Oscar E. Anderson Jr., *The Health of a Nation: Harvey W. Wiley and the Fight for Pure Food* (Chicago: University of Chicago Press, 1958), 223. Anderson, *Health*, 58–65, 103, 116, 155–56, 169–70, 179, 317; Coppin and High, *Politics*, 35–36, 52, 54, 57–58, 61–62, 75, 78–79, 85–86, 124, 162; and Rees, *Chemistry*, 32, 51–55, 61–62, 73, 76, 111, 144, 150, 190.

new enforcement bureau in the USDA (this bill was at the urging of former Wisconsin governor William Hoard, a champion of his state's dairy interests who wanted to oversee the new bureau).

On the other hand, Wiley pulled out all the stops for bills that enhanced the Bureau of Chemistry. Using sensationalism without evidence, he claimed soothing syrups and impure milk killed more infants in the previous fifty years than soldiers were killed in the Civil War. He called upon former AMA president Charles Reed to testify about how doctors should prescribe only straight whiskey, not other whiskeys. He dispatched the shock troops in the General Federation of Women's Clubs to the front lines and asked them to bombard congressmen with letters.

It was not to be for Wiley. Each time, enough opposing interests feared the competitive disadvantage rivals hoped to foist upon them and defensively lobbied against the bills. By early June 1906 a pure food and drug law still appeared distant. Congress only passed such legislation because of hysteria from *The Jungle*, which blew "the smoldering fire into flame," according to *Outlook* magazine.[41] Wiley, for his part, rejoiced that the purported meat crisis resulted in legislative victory, but he did not care about meat inspection since enforcement would reside in the rival Bureau of Animal Industry. His chief concern was self-promotion.[42]

The Pure Food and Drug Act prohibited adulterated and misbranded food and drugs in interstate commerce. Patent medicines had to add labels noting the amount of alcohol, opium, cocaine, and other drugs in their formulas, though no limit existed on how much they could contain. The law, as with so many other regulations, was extremely vague and subject to wide interpretations. Wiley's Bureau of Chemistry could determine what classified as adulteration or mislabeling and seize samples. It could also warn companies that their sanitary standards increased the chance of adulteration, a dubious stretch because adulteration referred to what was put in food and not to the conditions food

---

[41] "Against Poison and Fraud," *Outlook* 83, June 30, 1906, 496.

[42] Anderson, *Health*, 169, 179; Coppin and High, *Politics*, 57, 76–78; Hamowy, *Government*, 124–26, 131–32, 245–46; Rees, *Chemistry*, 102, 105; Rothbard, *Progressive*, 249–50; and Young, *Food*, 184–86, 253–55.

was made in. The major downside for Wiley's bureau was that final authority regarding what constituted adulteration rested with the secretaries of agriculture, the treasury, and commerce and labor. If a company was prosecuted, the court system would determine its guilt and punishment. Nevertheless, the law tremendously increased Wiley's authority and gave him the ability to institute massive compliance costs in the form of relabeling, adjusting recipes, and restructuring factories.

No surprise, then, that he considered the so-called Wiley Law "a splendid foundation on which to erect a more perfect structure in the future."[43] Its vagueness and interpretative malleability were an opportunity to augment his own power, and he eagerly told his subordinates that whatever they were trying to do, "we must read it into the law!"[44] And with this great power came a bureaucracy far larger than what legislators were promised. During the law's passage Wiley assured Congress there would be "very little, if any, increase in expenditure" for chemical analysis, not even "one additional inspector," and a budget of only $150,000 to $200,000, which was "a very large estimate."[45] After the law's passage, Wiley unloaded the true cost onto the taxpayer and demanded new chemists and clerks, fifty new federal inspectors, and $750,000 in appropriations. With each passing year Wiley's requests grew. From 1906 to 1912 the Bureau of Chemistry's budget mushroomed from $155,000 to $964,000, and its staff increased from 110 to 546. The agency soon boasted a new six-story building in the nation's capital that issued directives to sixteen branch laboratories.[46]

---

[43] Harvey Wiley, 1906, quoted in Young, *Food*, 271.

[44] Frederic Linton, "Its Distinguished Administrators," *Historic Meeting* 42, quoted in James Harvey Young, "Food and Drug Enforcers in the 1920s: Restraining and Educating Business," *Business and Economic History* 21 (1992): 119.

[45] *Hearings before the Committee on Interstate and Foreign Commerce of the House of Representatives*, 59th Congress (Washington, DC: Government Printing Office, 1906), 341–42, quoted in Coppin and High, *Politics*, 89–90.

[46] Anderson, *Health*, 212, 237; Coppin and High, *Politics*, 90–93; Hamowy, *Government*, 133; Rees, *Chemistry*, 97–99; Rothbard, *Progressive*, 250; and Young, "Enforcers," 120.

In a speech, Wiley stated that he wanted to help businessmen by first letting violators off with a warning: “Like the bad boy he is spanked by his fond father and given another chance to be good.”[47] Wiley neglected to mention that he would spank hardest the competitors of the firms he leagued with. Indeed, Wiley spent the rest of his career falsely accusing certain companies of producing unsafe food or drugs. Due to his combative personality, other government officials grew irritated and worked to restrain his influence.

Wiley brought the most special privileges to sugar interests. The Corn Products Refining Company had recently innovated in the glucose market by selling it straight to the consumer under the name of corn syrup (they did not use the term “glucose” because the average consumer associated it with glue). Wiley insisted that the term “corn syrup” could only describe juice that came from corn, an extremely literal and restrictive definition, and that companies had to label it as glucose. Wiley clearly had other sugar producers in mind: “The glucose industry has been a positive injury to agriculture,” and “the maple grove, the sorghum field and the cane field are ready to furnish all the table syrups that we need.”[48] Eventually, the relevant cabinet secretaries sided against Wiley, ruling that the product could be called corn syrup. This was still a competitive burden because sugar did not have to be on a product label at all, and corn syrup could not be labeled as sugar. Thus, “natural” sugar secured a twofold advantage in the eyes of consumers—it held a monopoly on the term, and products did not have to inform consumers about its presence.

Wiley tried to ban another competitor of sugar, saccharin. Many scientists declared it harmless, but Wiley insisted something was wrong with it because it was artificially made in a lab. Due to the opposition of President Roosevelt, whose doctor gave saccharin to him, and his successor, Taft, Wiley failed to get it

---

[47] Harvey Wiley, “Speech in Chicago,” December 14, 1906, quoted in Anderson, *Health*, 200.

[48] “Hearing on the Subject of Labeling of Corn Products,” December 5, 1907, 16, quoted in Coppin and High, *Politics*, 138; *Washington Evening Star*, March 13, 1908, 2.

banned. Still, costly litigation from 1907 to 1912 was a competitive disadvantage for the producers of the sugar substitute.

Wiley had gone on the record stating that "childhood without candy would be Heaven without harps."[49] He did not concern himself with added sugar in foods or the tooth decay that sugar consumption caused. He did, however, obsess over added caffeine and found a target in the Coca-Cola Company, which, coincidentally, had recently switched sugar suppliers from Wiley's friend John Arbuckle to the American Sugar Refining Company. As a regular drinker of coffee, which contained more caffeine than Coca-Cola, Wiley showed his bias here especially. After seizing some of Coca-Cola's wares he trapped the business in costly litigation until December 1917. Coca-Cola agreed to reduce caffeine in its beverages, forfeit claims to seized goods, and pay for the costs of trial. The case misled people into believing that caffeine in tea and coffee was healthier than in soda beverages.[50]

Wiley secured some victories for the AMA and APA by hurting patent medicine makers, particularly the producer of the popular Cuforhedake Brane-Fude (Cure-for-Headache Brain-Food). The patent medicine contained acetanilid, caffeine, alcohol, and other ingredients. After the Pure Food and Drug Act passed, the company changed its label to conform and indicate that the patent medicine contained 30 percent alcohol, sixteen grains of acetanilid, and no poison. Wiley found these changes insufficient and charged that the formula contained only 24 percent alcohol, that acetanilid was a poison, and that the medicine did not cure headaches. In court, the company had witnesses testify on its therapeutic value, including a pharmacy professor who defended the moderate use of acetanilid. Another expert emphasized that Cuforhedake Brane-Fude advertised 30 percent alcohol because it was referring not to absolute alcohol but to commercial alcohol, the standard for patent medicines. The jury still found the company guilty.

[49] Harvey W. Wiley, "Sorghum; Its Success and Value," in *Thirty-Second Annual Report of the Indiana State Board of Agriculture* (Indianapolis, IN, 1883), 170.

[50] Coppin and High, *Politics*, 135–36, 141–42, 144–46, 168; Hamowy, *Government*, 134, 140–41, 248–49; and Rees, *Chemistry*, 140–42, 180–82, 185–89.

During Wiley's tenure the Bureau of Chemistry directed its lawsuits primarily against smaller makers of patent medicines instead of the larger firms, smaller firms having less money and being able to put up less resistance in court. The Proprietary Association, a trade association of larger patent medicine producers that previously opposed the 1906 law, grew very comfortable with Wiley's discriminatory enforcement. Between 1902 and 1912, these patent medicine companies increased their production by 60 percent to take advantage of the reduction in output of the smaller firms.[51]

In other controversies Wiley faced setbacks, though not without raising the costs of businesses that opposed him. To the dismay of the H. J. Heinz Company, Wiley failed to obtain a lasting prohibition on sodium benzoate. The Royal Baking Powder Company experienced a similar defeat in restricting alum baking powders. Not every pet interest of Wiley's could get what it demanded.

His whiskey crusades didn't fare much better. In a multiyear campaign Wiley and Old Taylor sought to prohibit rectified and blended whiskey firms from calling their products whiskey. Costly debates continued until 1910, when the Taft administration ruled against straight whiskey manufacturers. Irate, Wiley in later years decided that the prevalence of alternate whiskeys meant that no one should be able to drink, and he became an ardent prohibitionist. Ironically, the Eighteenth Amendment, ratified in 1919, which prohibited the production, sale, and transfer of alcoholic beverages, led to the proliferation of whiskey mixed with dangerous industrial alcohol on the black market. Between 1914 and 1929, alcohol consumption rose from 4 percent to 5 percent of gross domestic product. As the nation consumed more black-market alcohol, annual deaths due to alcohol poisoning increased, from a little over one thousand in 1920 to more than four thousand by 1925.[52]

---

[51] Hamowy, *Government*, 138–39, 142–43; and Temin, *Medicine*, 32–34.

[52] Anderson, *Health*, 208–9, 221, 228–30, 262; Coppin and High, *Politics*, 94, 96, 101–4, 111–19, 122–39, 161–63; Gordon, *Growth*, 71; Rees, *Chemistry*, 116–19, 146, 169; and Reid Mitenbuler, *Bourbon Empire: The Past and Future of America's Whiskey* (New York: Penguin Books, 2015), 165–66, 168–69, 177.

Wiley left the Bureau of Chemistry in 1912 to become head of the laboratories of *Good Housekeeping* magazine. By this time his net worth reportedly reached $300,000, which was impressive considering that he earned a government salary of $5,000 and professed in a magazine article that "I have never tried to make money. . . . No man of my age has spent as little money on himself."[53] In reality, Wiley had amassed a fortune by consulting for food and drug companies he regulated and owning lucrative investments in Washington, DC, and Maryland real estate. During his tenure Wiley also basked in the glory of being a prominent bureaucrat, receiving the prestigious Elliott Cresson Medal and delivering speeches at Harvard and Columbia Universities. He anonymously wrote a statement advocating that he receive the Nobel Prize in Chemistry, but alas, his bid was for naught. *Good Housekeeping* doubled his salary to $10,000 and allowed him to write paid articles for other magazines. Wiley earned additional income by speaking on the lecture circuit of Chautauqua, a prominent adult-education movement. In one nine-day tour of the Midwest, he collected $1,575. Wiley's tenure at the bureau not only increased his power over what other people ate but enabled him to make significant amounts of money during and after his time in public office.[54]

The revolving door between the Bureau of Chemistry and the businesses it regulated continued after Wiley's departure. By the 1920s bureau scientists and inspectors routinely left government service for higher-paying jobs in trade associations and industries, where they advised businesses on how to conform to the law. Or more accurately, they *continued* to advise businesses: the bureau openly endorsed "cooperation rather than conflict with industry," an "attitude of appreciation, cordial cooperation and enthusiastic assistance," and "assist[ing] a manufacturer [with] timely suggestions to produce a legal and therefore a more profitable product."[55] Now, in addition to its cartelizing work, the

---

[53] Arthur Dunn, "Dr. Wiley and Pure Food," pt. 2, *World's Work* 23 (November 1911): 40.

[54] Anderson, *Health*, 240; Hamowy, *Government*, 136; and Rees, *Chemistry*, 190–93, 199, 215–18, 226.

[55] Walter Campbell, "A New Departure in Federal Food-Law Enforcement," quoted in Young, "Enforcers," 121; and *Food and Drug Review* (February 1927):

bureau subsidized certain companies and trade associations with valuable information. For example, food companies close to the bureau offloaded research costs involved with developing new technologies for storing and transporting certain foods. Drug companies also secured research assistance from the bureau regarding the composition of their formulas and how to label products.

In 1927, Congress created the Food, Drug, and Insecticide Administration, a new agency that assumed the regulatory functions of the bureau's work. In 1930 it shortened the name to the Food and Drug Administration (FDA). The next year, the FDA could boast a budget of $1.6 million and staff of over five hundred employees. This was twice the budget of and slightly more employees than the entire Bureau of Chemistry in 1908.[56]

The 1920s merger movement extended to the combination of food and drug companies into larger firms. One of the most notable instances was Standard Brands, a J. P. Morgan & Co. creation consisting of the Royal Baking Powder Company and other concerns. A major reason for the trend toward larger food and drug firms was that only these companies could handle the compliance costs associated with adhering to government-dictated adulteration and sanitation standards. According to Elaine McIntosh, "Giant corporations replaced the many smaller companies who could not afford the investments necessary for the equipment and monitoring required to comply with the new 'pure food laws.'"[57] The laws, therefore, forced local businesses to either accept a buyout or merge with other companies.[58]

4–5, quoted in Young, "Enforcers," 122.

[56] Hamowy, *Government*, 146–49; Marc T. Law, "How Do Regulators Regulate? Enforcement of the Pure Food and Drugs Act, 1908–38," *Journal of Law, Economics, and Organization* 22, no. 2 (October 2006): 484–86; Temin, *Medicine*, 35, 40; and Young, "Enforcers," 121–25.

[57] Elaine N. McIntosh, *American Food Habits in Historical Perspective* (Westport, CT: Praeger, 1995), 101.

[58] Vincent P. Carosso, *Investment Banking in America: A History* (Cambridge, MA: Harvard University Press, 1970), 340; and Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Simon and Schuster, 1990), 309.

The Pure Food and Drug Act and the establishment of the FDA reflected the general trend of corporatism developing throughout the economy. The Bureau of Chemistry did not restrict the consumption of food and drugs considered unhealthy by the standards of the day; it merely played favorites. The bureau's actions reflected the whims of favor-seeking businesses and budget-maximizing bureaucrats who sought anticompetitive barriers and outsized influence. There were, of course, differences between the groups, and interests sometimes lobbied to defeat other groups' proposals, but they all agreed on government regulation and enforcement. The cartelist mindset had become fully interwoven into the production and sale of the nation's food and drugs.

Monopolizing Medical Care

In the early 1900s the American Medical Association entered the drive for pure food and drugs to reduce competition from patent medicines. It was no coincidence that the trade organization launched concurrent campaigns to hamper rival doctors and to capture research subsidies from the government. Of course, the AMA professed that its corporatist proposals, which reduced access to medical care and boosted doctor salaries, promoted the public weal. As St. Louis doctor W. G. Moore boasted, "If the American Medical Association be a trust, it . . . [is] a good trust."[59] A more caustic appraisal came from Chicago physician G. Frank Lydston: AMA officials were "impertinent porcine trust-monopolists who have besmirched the alma maters and discredited the diplomas of thousands of decent and capable physicians."[60]

---

[59] "Address of Welcome on Behalf of the Medical Profession of St. Louis," *Journal of the American Medical Association* 54, no. 24 (June 11, 1910): 1989.

[60] "G. Frank Lydston on 'Spinelessness,' Etc.," *Eclectic Medical Journal* 74, no. 4 (April 1914): 192. James G. Burrow, *Organized Medicine in the Progressive Era: The Move toward Monopoly* (Baltimore: Johns Hopkins University Press, 1977), 45; and Ronald Hamowy, "The Early Development of Medical Licensing Laws in the United States, 1875–1900," *Journal of Libertarian Studies* 3, no. 1 (Spring 1979): 94.

The AMA had long advocated restricting the supply of doctors, including doctors practicing similar kinds of medicine at lower prices and heterodox homeopaths and eclectics. AMA doctors practiced what these competitors called allopathic medicine, which used pain-killing alcohol, morphine, cocaine, and other drugs to reduce suffering. In contrast, homeopathic doctors matched symptoms with remedies made from diluted natural substances to stimulate healing, while eclectic doctors gave patients botanical herbs to alleviate pain and improve health. Consumers judged these alternatives therapeutic, and the AMA considered this a problem. In the late nineteenth century, the trade association lobbied for medical licensing boards at the state level to curtail what the *Journal of the American Medical Association* called "unrestricted competition."[61] The AMA managed to restrict the supply of allopathic doctors but, lacking the necessary political clout, had to settle for either a single board system that included homeopaths and eclectics or a system of separate boards for those groups. Both cases allowed more competition than the AMA desired. By 1901, all states and territories except Alaska and Oklahoma had instituted licensing boards that required potential doctors to pass an examination, earn a diploma in medicine, or both.

This was not enough. The supply of physicians per one hundred thousand in population barely dropped from 171 in 1880 to 166 in 1890 before climbing to 173 in 1900. Most physicians earned a middling salary of around $1,000 a year. Continued competitive pressure occurred for two reasons. First, degree-granting medical schools, which were largely allowed to form unimpeded by regulation, multiplied from 100 in 1880 to 160 in 1901. Approximately 20 percent matriculated homeopaths and eclectics. Some of the graduates included aspiring blacks, females, and Catholic and Jewish immigrants, whom the AMA found especially undesirable. Second, competing schools of medicine continued to enter the market. Osteopaths and chiropractors began treating patient pain with adjustment of the spine and joints, a remedy Dr. Morris Fishbein, longtime editor of the *Journal of the American Medical Association*, castigated

---

[61] "Competition, Supply and Demand, and Medical Education," *Journal of the American Medical Association* 11, no. 1 (September 15, 1888): 382–83.

as a “malignant tumor” and a “cult,” one “so simple that even farm-hands can grasp it.”[62] Optometrists, one of the “pretensions of quackery [that] deceive the very elect,” according to the president of the Ohio State Medical Association, increasingly cut into regular physicians’ eye-care revenue.[63]

Instead of pulling up their bootstraps through greater efficiencies, doctors in the AMA decided in the beginning of the twentieth century to regroup and mount another lobbying assault for more crony impediments on their competitors. This cartelization paralleled other professions’ efforts to forcibly cut down on rivals and restrict consumer choice: the American Pharmaceutical Association lobbied for restrictive licenses to control the pharmacy profession; the American Psychological Association advocated state subsidies for mental asylums to increase the demand for mental-health professionals and restrict alternative competition; accounting organizations sought to require increased standards for certified public accountants and degree-granting universities; the American Bar Association devised state laws restricting the legal profession and injecting lawyers’ services into arbitration proceedings; the National Education Association insisted on professional training requirements for schoolteachers; and local bureaucrats overhauled school boards to kick out elected officials in favor of appointed and allegedly nonpartisan experts. “Increasingly formal entry requirements” into medicine and

---

[62] Morris Fishbein, *The Medical Follies* (New York: Boni and Liveright, 1925), 61.

[63] David R. Silver, “President’s Address,” *Ohio State Medical Journal* 5 (June 15, 1909): 343. David E. Bernstein, *Only One Place of Redress: African Americans, Labor Regulations, and the Courts from Reconstruction to the New Deal* (Durham, NC: Duke University Press, 2001), 41–44; Burrow, *Organized*, 53–56, 58, 175, 178; Hamowy, “Development,” 79, 83–84, 102–3, 108; Hamowy, *Government*, 2–5, 7–9, 21, 108–9, 428–29; Gerald E. Markowitz and David Karl Rosner, “Doctors in Crisis: A Study of the Use of Medical Education Reform to Establish Modern Professional Elitism in Medicine,” *American Quarterly* 25, no. 1 (March 1973): 87; Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 2, *Work and Welfare* (New York: Cambridge University Press, 2006), 541; and Howard Wolinsky and Tom Brune, *The Serpent on the Staff: The Unhealthy Politics of the American Medical Association* (New York: G. P. Putnam’s Sons, 1994), 10, 45, 69, 123–25.

other professions, writes Robert Wiebe, "protected their prestige through exclusiveness."[64] That was exactly the point.[65]

The AMA commenced a thorough overhaul of its operations. In 1904 the association created the Council on Medical Education, which consisted of five medical professors from major universities, to agitate for reform. This group focused on lobbying for a doctor-controlled corporatism: strengthening licensing requirements for doctors by instituting single board systems staffed entirely by allopathic physicians; requiring harder examinations for would-be doctors; and ensuring applicants came only from AMA-approved schools that stipulated tougher entrance exams, longer academic years, more training, and higher tuition fees.[66]

The attitude was extremely elitist. The AMA considered its preferred medical practices the only legitimate ones and wanted to force consumers to purchase the costlier services of doctors who graduated from top-tier universities. In 1903 the president of the AMA sneered at those colleges where "medical education was prostituted . . . [and] enabled the clerk, the street-car conductor, the janitor and others employed during the day to obtain a medical degree."[67] Translation: these schools produced a lower-quality but more affordable output that a sizable portion of the

---

[64] Robert H. Wiebe, *The Search for Order, 1877–1920* (New York: Hill and Wang, 1967), 113.

[65] Bruce L. Benson, "How to Secede in Business without Really Leaving: Evidence of the Substitution of Arbitration for Litigation," in *Secession, State and Liberty*, ed. David Gordon (New Brunswick, NJ: Transaction, 1998), 265–81; Vincent Geloso and Raymond J. March, "Rent Seeking for Madness: The Political Economy of Mental Asylums in the United States, 1870–1910," *Public Choice* 189, no. 3–4 (December 2021); Hamowy, *Government*, 429; Patrick Newman, "Taking Government Out of Politics: Murray Rothbard on Political and Local Reform during the Progressive Era," *Quarterly Journal of Austrian Economics* 22, no. 1 (Spring 2019): 161–62; Gary John Previts and Barbara Dubvis Merino, *A History of Accountancy in the United States: The Cultural Significance of Accounting* (Columbus: Ohio State University Press, 1998), 188–96, 242, 257–59, 442; Temin, *Medicine*, 22; and Wiebe, *Search*, 113–21.

[66] Burrow, *Organized*, 32–35, 58; Markowitz and Rosner, "Doctors," 93, 95–97; and Paul Starr, *The Social Transformation of American Medicine*, 2nd ed. (New York: Basic Books, 2017), 117–19.

[67] Frank Billings, "Medical Education in the United States," *Science* 17, no. 457 (May 15, 1903): 763.

public preferred. One doctor teaching at such a medical school in Tennessee eloquently protested against the epithets the AMA hurled:

> True, our entrance requirements are not the same as those of the University of Pennsylvania or Harvard; nor do we pretend to turn out the same sort of finished product. Yet we prepare worthy, ambitious men who have striven hard with small opportunities and risen above their surroundings to become family doctors to the farmers of the south, and to the smaller towns of the mining districts. . . . Can the wealthy who are in a minority say to the poor majority, you shall not have a doctor?[68]

This was in fact exactly what the AMA wanted to say to the poor majority: only the best doctors could practice, and only those who could afford their fees could have access to medical care.

The Council on Medical Education achieved remarkable success, much to the enmity of homeopaths, eclectics, osteopaths, chiropractors, and less prestigious allopaths. From 1900 to 1907, under the purported justification of improving the public's well-being and the quality of health care, thirty states and territories instituted AMA-style corporatism by replacing multiple boards systems with single boards that had less representation of heterodox doctors. These cartel boards now required difficult tests in an average of nine fields and mandated that license applicants could graduate only from AMA-approved schools. Many smaller schools, facing a profit squeeze if they increased their standards for applicants, revamped curriculums, and built AMA-style laboratories, decided to close or merge with other institutions. The creation of more restrictive medical boards thus caused the number of medical colleges to decline by almost one-fifth and the number of physicians per one hundred thousand in population to fall 5 percent between 1900 and 1910.[69]

The council was not satisfied. By 1907 it had visited every medical school in the country and concluded that only half maintained tolerable standards. The rest needed to change to meet

---

[68] Quoted in Starr, *Social*, 125.

[69] Burrow, *Organized*, 32–35, 37–42, 58–70, 84; Markowitz and Rosner, "Doctors," 93, 95–97; Starr, *Social*, 117–19; and Sutch and Carter, *Historical*, 2:541.

AMA guidelines or fall by the wayside. The AMA, however, withheld the publication of the council's restrictionist report because it feared that state legislatures, medical schools, and the public would view its proscription as blatantly self-serving. The AMA needed an equivalent report written by someone who lacked any connection with the association. For this reason, according to the chairman of the council, Dr. Arthur Bevan, the council moved to "obtain the publication and approval of our work by the Carnegie Foundation for the Advancement of Teaching [because it] would assist materially in securing the results we were attempting to bring about."[70] The Carnegie Foundation and similar institutions were funded with large endowments. They enabled Andrew Carnegie, John D. Rockefeller, and other elites to insulate their wealth from state and local taxes and use it to finance various causes their kin considered important. In the case of medicine, Rockefeller's son, John D. Rockefeller Jr., used the family's wealth to crush all forms of medical dissent. This was ironic considering that Rockefeller Sr. utilized homeopathic services.[71]

President Henry Pritchett of the Carnegie Foundation, a former president of the Massachusetts Institute of Technology, chose Abraham Flexner to spearhead the AMA's covert study. Flexner was a secondary school teacher who had little knowledge of medical matters. He was, however, the brother of Dr. Simon Flexner, a professor at the University of Pennsylvania turned director of the Rockefeller Institute for Medical Research. Simon supported the AMA model for education and was a protégé of Dr. William Welch. A close advisor to Rockefeller Jr., Welch served as the first dean of the Johns Hopkins University Medical School and would become president of the AMA in 1910. Welch firmly

---

70 Arthur Dean Bevan, "Cooperation in Medical Education and Medical Service," *Journal of the American Medical Association* 90, no. 15 (April 14, 1928): 1175.

71 Thomas Neville Bonner, *Iconoclast: Abraham Flexner and a Life in Learning* (Baltimore: Johns Hopkins University Press, 2002), 73–74; Burrow, *Organized*, 34–37, 42; Peter Collier and David Horowitz, *The Rockefellers: An American Dynasty* (New York: New American Library, 1977), 60–61, 97–98; Reuben A. Kessel, "The A.M.A. and the Supply of Physicians," *Law and Contemporary Problems* 35 (Spring 1970): 269; Reuben A. Kessel, "Price Discrimination in Medicine," *Journal of Law and Economics* 1 (October 1958): 27; and Ferdinand Lundberg, *America's Sixty Families* (New York: Halcyon House, 1939), 346–56.

believed that science must begin and remain concentrated in the laboratory, in contrast to others, such as Johns Hopkins's Dr. William Osler, who argued that science should proceed from the bedside of the sick patient.

Abraham Flexner agreed with his brother, Welch, Rockefeller Jr., and the AMA. He praised the heavily subsidized educational system of Germany, where many American doctors had obtained graduate degrees, because it was "on an aristocratic plane," unlike the numerous smaller, for-profit colleges in the United States.[72] He thought every American medical university needed to be patterned on Johns Hopkins and require full-time students to engage in extensive research in clinical facilities and laboratories. Moreover, Flexner believed there was no room for heterodox doctors or lower-quality traditional doctors. He opined that the "'poor boy' has no right . . . to enter upon the practice of medicine unless it is best for society that he should."[73] His overtly elitist attitude made no room for disadvantaged communities unable to afford top-tier medical practitioners.

The Carnegie Foundation worked very hard to cover up how the AMA dictated its report. When Flexner and Pritchett attended a Council on Medical Education meeting in late 1908, Pritchett, with astonishing transparency, stated that the report of "the foundation would be guided very largely by the Council's investigations" but would not mention the council, so it would "have the weight of an independent report of a disinterested body."[74] In other words, the foundation would conceal the connection to prevent the public from realizing that the AMA was behind a report that would greatly increase its doctors' incomes.

In 1909, much like the AMA had in previous years, Flexner began to visit the country's medical institutions of higher learning.

---

[72] Abraham Flexner, "Aristocratic and Democratic Education," *Atlantic Monthly* (December 1911), 388.

[73] Abraham Flexner, *Medical Education in the United States and Canada: A Report to the Carnegie Foundation for the Advancement of Teaching* (Boston: D. B. Updike, Merrymount Press, 1910), 42–43.

[74] "Council on Medical Education, AMA Minutes of Meeting, December 28, 1908," quoted in Howard Berliner, "New Light on the Flexner Report: Notes on the AMA-Carnegie Foundation Background," *Bulletin of the History of Medicine* 51, no. 4 (Winter 1977): 606.

Some visits lasted only a couple of hours. In one three-month span Flexner inspected sixty-nine schools in twenty-two states. The pace of Flexner's inspections did not really matter because he already had the verdict in his pocket and was simply following the council's recommendations. As Pritchett cheerfully wrote to council chairman Bevan, "We have been hand in glove with you and your committee. . . . When our report comes out, it is going to be ammunition in your hands." But Pritchett stressed that the relationship had to remain secret, for it was desirable "to maintain in the meantime a position which does not intimate an immediate connection between our two efforts."[75]

The Flexner Report of 1910 went beyond the earlier council report, recommending that only 31 of the nation's 131 medical colleges remain open. Such draconian closures would have deprived twenty states of such institutions entirely. For his good work on behalf of the AMA, the Carnegie Foundation bumped Flexner's salary from $3,000 to $5,000. He soon left to work at the Rockefellers' General Education Board, an institution that quickly channeled a $1.5 million grant to the Johns Hopkins Medical School for the establishment of endowed chairs.[76]

The homeopathic *Clinical Reporter* argued that unless "authority is to flow from an unlimited access to the pocketbook of a multimillionaire," Flexner was unqualified to review the nation's medical institutions.[77] The *Eclectic Medical Journal* charged that the Rockefeller and Carnegie interests were engineering a massive restriction in the supply of doctors to benefit

---

[75] Henry Pritchett to Arthur Bevan, November 4, 1909, quoted in E. Richard Brown, *Rockefeller Medicine Men: Medicine and Capitalism in America* (Los Angeles: University of California Press, 1979), 152.

[76] Bonner, *Flexner*, 78, 113–14, 318; Brown, *Rockefeller*, 53, 103–8, 152; Burrow, *Organized*, 42–44, 47–48, 183; Ron Chernow, *Titan: The Life of John D. Rockefeller, Sr.* (New York: Vintage Books, 1998), 473; Raymond B. Fosdick, *John D. Rockefeller, Jr.: A Portrait* (New York: Harper and Brothers, 1956), 112–15, 122–24; Hamowy, "Development," 94; Hamowy, *Government*, 5–6, 355–56; Starr, *Social*, 115, 118–19, 121–23; Sutch and Carter, *Historical*, 2:541; A. I. Tauber, "The Two Faces of Medical Education: Flexner and Osler Revisited," *Journal of the Royal Society of Medicine* 85 (October 1992): 599–601; and Martin Wooster, *Great Philanthropic Mistakes*, 2nd ed. (New York: Hudson Institute, 2010), 3, 6–9, 12–13.

[77] Unidentified issue of the *Clinical Reporter*, quoted in "Bulletin No. IV!" *National Eclectic Medical Association Quarterly* 2, no. 1 (September 1910): 62.

the AMA. Their efforts were for naught. Pritchett was right: the *Flexner Report*, skillfully camouflaged as a disinterested muckraking piece in the name of the public's health, provided much "ammunition" for the AMA's cartelization drive. By World War I single boards existed in forty-three states, with seventeen excluding alternative doctors completely. Homeopaths and eclectics suffered a sharp drop in representation. Chiropractors and osteopaths were also restricted, and where they could receive licenses, the AMA lobbied for restrictions on what services they could provide. Optometrists fared the best: they joined the medical cartel and acquired licensing laws in thirty-nine states and two territories by 1917.

The *Flexner Report* hastened the decline in medical colleges. The AMA became a de facto accreditation agency and exerted considerable influence over educational standards. The total number of institutions fell to eighty-five in 1920 and then to seventy-six by 1929. Homeopathic and eclectic schools, as well as those catering to black and female students, were hit the hardest. The total decline from 1901 to 1929 reached 52.5 percent, less than what Flexner had hoped but exactly in line with the AMA's original report.[78]

At the same time the guillotine fell on poorer schools, the nation's elite institutions received generous endowments. From 1913 to 1919, Rockefeller Sr. transferred $183 million to the Rockefeller Foundation. In 1920, Rockefeller Jr. put Flexner in charge of $50 million of this sum to plow into Johns Hopkins, the University of Chicago, and other top universities. Crucially, Flexner envisioned this money as but a fraction of the $200 million needed to overhaul the nation's medical education because "taxation will certainly supply the absolute essentials."[79] Rockefeller Jr. expected that his donations to state universities, such as the University of Iowa, would be matched by taxpayer funds.

---

[78] Bernstein, *Redress*, 43–44; Burrow, *Organized*, 44, 59–61, 78–81, 87, 162; Hamowy, "Development," 119; Hamowy, *Government*, 61; Starr, *Social*, 120–21; and Sutch and Carter, *Historical*, 2:541–42.

[79] Abraham Flexner to John D. Rockefeller Jr., "Confidential: Memorandum Regarding Mr. Rockefeller's Gift to Be Devoted to the Improvement of Medical Education in the United States," December 1919, quoted in Wooster, *Philanthropic*, 16.

In this way, the taxpayer would subsidize the Rockefeller Foundation and the AMA's overhaul of the nation's medical industry.

To the delight of Welch and other academic doctors, the Rockefeller and taxpayer slush fund enabled them to spend less time teaching and practicing medicine and instead to concentrate on highly specialized and technical research. This was to the detriment of the graduate student, who was deprived of hands-on experience, and the public, which lost access to academics' part-time medical services. Dissenting doctors such as Osler colorfully lamented the shift as creating "a set of clinical prigs, the boundary of whose horizon would be the laboratory, and whose only human interest was research."[80]

The tightening licensing standards and accreditation vice grip around colleges created a significant doctor shortage. The number of physicians per one hundred thousand in population decreased 24 percent, from 164 in 1910 to 125 in 1929, making the total decline since the turn of the century 28 percent. Poorer rural communities bore the brunt of the shortage. Flexner's own study at the General Education Board showed that from 1906 to 1923, the number of people per doctor in large cities increased by 9 percent while in smaller towns it skyrocketed 54 percent. It is no wonder that Bevan found the council's handiwork good: "We had anticipated this [decline] and felt that this was a desirable thing. We had an over-supply of poor and mediocre practitioners."[81] The AMA raked in the cash. Physicians' average salaries soared from roughly $1,000 in 1900 to $6,354 in 1928, a 535 percent increase, well above other price rises.[82]

The burgeoning cost of medical services led many to advocate for compulsory health insurance that the federal government would partially cover. Initially, in the 1910s, the AMA supported such a bill from the American Association for Labor Legislation (AALL) because it believed that the taxpayer-funded program

---

80 William Osler to Ira Remsen, September 1, 1911, quoted in "Sir William Osler: On Full-time Clinical Teaching in Medical Schools," *Canadian Medical Association Journal* 87 (October 6, 1962): 763.

81 Bevan, "Cooperation," 1176.

82 Brown, *Rockefeller*, 142, 165, 176–87; Chernow, *Titan*, 566; Starr, *Social*, 125–26; Sutch and Carter, *Historical*, 2:541–42; Wolinsky and Brune, *Serpent*, 45; and Wooster, *Philanthropic*, 10–17, 20–30.

would increase the demand for doctors and hence their salaries. After the AMA failed to persuade the AALL to guarantee doctor representation on the administrative boards overseeing payment to physicians, the organization changed its tune: in the 1920s it adamantly opposed and successfully defeated taxpayer-funded health insurance.[83]

Far more promising for the AMA was the drive at the end of the 1920s for a National Institute of Health, something that had been advocated since the Roosevelt administration. Such a government organization could furnish civil-service jobs for the medical profession, grant subsidies for research interests, and enforce restrictive regulations to crack down on medical competition. The AMA lobbied to make sure that its doctors would control the institute and its research funds—it fought against the American Chemical Society, which preferred to funnel research assistance to drug manufacturers and related chemists. Instead, the AMA and the Rockefeller Foundation lobbied for their preferred entity, which Congress created in May 1930. The National Institute of Health was equipped with $750,000 for a building and research fellowships for the medical profession. A far cry from the $15 million appropriation the AMA envisioned, the new institute was still a step in the desired direction.[84]

Food, drug, and medical regulation in the early twentieth century, typically advocated as promoting the nation's health, was not above the sordid interests of the day. In each case the relevant groups lobbied for subsidies, restrictions on rivals, and the defeat of regulatory proposals that would harm them. Bureaucrats joined in, working with some of the groups to increase their own budgets, control, and influence. The end point was always the same—a cartel protected by the government, to the benefit of

[83] Hamowy, *Government*, 445–49, 490; and Wolinsky and Brune, *Serpent*, 18–19, 47.

[84] Hamowy, *Government*, 343–46, 355–65; and Victoria A. Harden, *Inventing the NIH: Federal Biomedical Research Policy, 1887–1937* (Baltimore: Johns Hopkins University Press, 1986), 81–82, 117, 125, 152.

the cartelists and bureaucrats at the expense of the consumer and excluded firms.

Corporatism had arrived in food and medicine, just as it had in manufacturing and railroads. The major instigators of each lobbying drive were Wall Street bankers—with J. P. Morgan & Co. playing the lead. It was Wall Street, after all, that financed the large corporate and transport titans. Though New York City financial elites were not as prevalent in the food and drug industry, even here they managed to exercise influence through the Rockefeller Foundation and other organizations. Wall Street was the commodore of the corporatist ship, and its leadership role extended to the banking industry's regulatory commission and premier money machine: the nation's central bank.

CHAPTER 11

WALL STREET'S WORLD RESERVE CURRENCY

In 1927, thirteen years after its creation, Paul Warburg wrote that the Federal Reserve System "has been functioning admirably and that, in some respects, it has surpassed all expectations."[1] As a former member of the Federal Reserve Board who then became the head of his own private bank that the Fed purchased acceptances from, he certainly had no reason to complain. Nor did the partners of J. P. Morgan & Co., who above all assumed unquestioned financial dominance during the 1920s. The reason is simple: Wall Street's dominance of the Federal Reserve Bank of New York is the defining example of regulatory capture during the Corporatist Era. As World War I opened, Wall Street realized that, with the help of their trusty ally, New York Fed governor Benjamin Strong, they could exploit the conflict to open international branches and make money by selling the Allies' government securities. Both would increase bankers' balances and transform New York City into one of the world's leading financial capitals. Wartime success begot postwar gains when Strong's expansionary monetary policy enriched New York City bankers and reconstructed the worldwide financial system in their favor. By the end of the 1920s, the Wall Street banking cartel reigned undisputed, and the dollar rivaled the British pound as the world's reserve currency—with dire consequences for the US economy and the world.[2]

---

[1] Paul M. Warburg, "Looking Forward," spring 1927, in *The Federal Reserve System: Its Origin and Growth* (New York: Macmillan, 1930), 1:456.

[2] Benjamin J. Klebaner, "Paul M. Warburg," in *Encyclopedia of American Busi-*

An Imperial Banking System

The great conflict that commenced in mid-1914 wrecked Europe's finances. Many nations reneged on the gold standard so they could print money to pay for war expenditures, leading to significant rises in prices. The disruption of trading and investment patterns stunted production and economic growth. Great Britain, previously the world's foremost lender, now needed to borrow heavily. The door opened for the former colony to overtake its parent in European and South American markets.

The Wall Street power elite stood ready. Morgan partner Thomas Lamont proclaimed that the US could dominate "South America and other parts of the world, which up to date have been commercially financed by Great Britain, France, and Germany." This "would certainly tend to bring about the dollar, instead of the pound sterling, as the international basis of exchange."[3] Lamont understood that the war would provide new investment and banking opportunities and increase the demand for the dollar at the expense of the British currency. Similar comments came from Federal Reserve Board member Warburg, who declared while speaking in Argentina that "the United States now is and from now on will be one of the world bankers."[4] Columbia University also trumpeted the Wall Street perspective, with economist Edwin Seligman explaining how the war would force the United States out of its "shell of isolation" and transform it into a major lender and exporter that could compete with Britain.[5]

---

ness History and Biography: Banking and Finance, 1913–1989, ed. Larry Schweikart (New York: Facts on File, 1990), 446–48.

[3] Thomas Lamont, "The Effect of the War on America's Financial Position," *Annals of the Academy of Political Science* 60 (July 1915): 110.

[4] Paul Warburg, Speech of May 3, 1916, quoted in Ron Chernow, *The Warburgs: The Twentieth-Century Odyssey of a Remarkable Jewish Family* (New York: Random House, 1993), 158.

[5] Edwin Seligman, "The Economic Prospects of the United States after the War," *Scientia*, XXI (1917): 233, quoted in Joseph Dorfman, *The Economic Mind in American Civilization*, vol. 3, *1865–1918* (New York: Augustus M. Kelley, 1969), 486. Benjamin M. Anderson, *Economics and the Public Welfare: A Financial and Economic History of the United States, 1914–1946* (Indianapolis, IN: Liberty Fund, 1979), 25–33; Chernow, *Warburgs*, 161–62; R. R. Palmer and Joel Colton, *A History of the Modern World*, 8th ed. (New York: McGraw-Hill, 1995),

With the keenest foresight, Frank Vanderlip, the president of National City Bank, envisioned the grand fortune awaiting his firm: "The way is open to us to become the most powerful, the most far-reaching world financial institution that there has ever been."[6] The displacement of European investment encouraged Vanderlip to open branches worldwide to promote the exports of US Steel, International Harvester, Standard Oil, Armour & Co., and other corporations that deposited with the bank or whose officials served as its directors. National City would possess a virtual monopoly on foreign branches because the Federal Reserve Act restricted such branches to large banks.

National City expanded the Wall Street banking empire into South America and made a beachhead in Europe. In November 1914, National City opened the first foreign branch of any national bank and turned it into the ninth largest bank in Argentina. Branches in Brazil, Cuba, Chile, Italy, and Russia followed, and by 1917 the bank boasted thirty-five foreign branches. In part due to its monopoly privileges, National City's profits soared 65 percent from 1914 to 1917, substantially more than the 27.5 percent rise in consumer prices. With the backing of William Rockefeller and Kuhn, Loeb & Co., National City established the American International Corporation in 1915. As its chairman, Vanderlip steered this $50 million investment company to follow his bank's branches into new international markets and purchase debt and equity around the world.[7]

702–12, 718–22; Melchior Palyi, *The Twilight of Gold, 1914–1936: Myths and Realities* (Chicago: Henry Regnery, 1972), 26–29; and Carl P. Parrini, *Heir to Empire: United States Economic Diplomacy, 1916–1923* (Pittsburgh: University of Pittsburgh Press, 1969), 41–42.

[6] Frank Vanderlip to James Stillman, December 31, 1915, quoted in Nomi Prins, *All the Presidents' Bankers: The Hidden Alliances That Drive American Power* (New York: Nation Books, 2014), 44.

[7] Vincent P. Carosso, *Investment Banking in America: A History* (Cambridge, MA: Harvard University Press, 1970), 215–16; Harold van B. Cleveland and Thomas F. Huertas, *Citibank, 1812–1970* (Cambridge, MA: Harvard University Press, 1985), 76–81, 83–84, 91–94, 311, 365; Parrini, *Heir*, 58, 60–64, 95–96, 109; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 3, *Economic Structure and Performance* (New York: Cambridge University Press, 2006), 158.

The Great War markedly increased Wall Street elites' influence in European politics. The House of Morgan, because of its affiliates Morgan, Grenfell & Co. in Great Britain and Morgan, Harjes & Co. in France, firmly supported the Allies. In August 1914, Morgan partner Henry Davison saw immense profits on the horizon and cryptically cabled to Lamont that the war opened the door to "great possibilitys [*sic*]."[8] That same month the Rothschilds contacted J. P. Morgan & Co. about marketing a $100 million loan for the French government in the United States. The Morgans ran the request by Secretary of State William Jennings Bryan, who shot it down. Bryan worried that bankers making loans or firms selling war materiel to any of the belligerents would be viewed as aiding those countries and increase political pressure for the United States to intervene in the war itself.

The French had also contacted National City Bank about the loan. Using shrewder tactics with Bryan in October, National City officials pointed out that the US was in a serious economic contraction and exports would encourage recovery. Bryan relented and approved a combined National City and J. P. Morgan & Co. loan of $10 million. Then he equivocated—he allowed American banks to extend their own credit but prevented them from selling foreign loans to the US public. He also permitted American firms to export war materiel. The problem with Bryan's approach, which he recognized all too well, was that the British naval blockade of the continent ensured that any American loans and exports would overwhelmingly go to the Allies. Wall Street would play favorites with its loans. In a war that divided the American public, politicians from midwestern cities with large German populations proposed banning all war exports to Europe to maintain American neutrality. Their efforts failed, and what they and Bryan feared came to pass: between 1913 and 1915 US exports to the Allies increased from 63 percent to 82 percent of total exports, while those to the Central Powers plummeted from 15 percent to 1 percent.[9]

---

[8] Henry Davison to Thomas Lamont, August 1914, quoted in Ron Chernow, *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance* (New York: Simon and Schuster, 1990), 185.

[9] Carosso, *Investment*, 212, 214–15; Chernow, *Morgan*, 186; Roberta A. Dayer, "Strange Bedfellows: J. P. Morgan & Co., Whitehall and the Wilson Adminis-

Once Bryan acquiesced, the Morgans lobbied the British and French to be granted a monopoly on their purchases of American war materiel. Roberta Dayer explains that their main goal was to earn a lucrative fee: "The evidence suggests that the bankers' primary motivation was making a profit rather than defending freedom."[10] In November 1914, Davison cabled Teddy Grenfell in London that J. P. Morgan & Co. should try to "act for all Allies and to dovetail their purchases."[11] Thanks to connections with key British officials, the Morgans secured the contract in early 1915, even though National City had proposed a lower commission. They quickly reached a similar agreement with the French. Having acquired a veritable cash cow, the investment bank used Allied money to purchase $3 billion in American war materiel. They raked in a 1 percent commission, equal to $30 million.

The Morgans' near monopoly on purchases benefited the Wall Street cartel in bankers' balances and increased demand for the dollar. The reason was simple: in order to have J. P. Morgan & Co. purchase war materiel, the Allies and related financial institutions needed to accumulate dollar balances in New York City. For example, from June 1914 to June 1917 foreign bankers' balances at National City Bank rocketed up 671 percent. This coincided with an increase in domestic bankers' balances because banks all across the country increasingly needed balances in New York to pay for foreign exchange transactions and collections of foreign checks. Between 1912 and 1916, as a share

---

tration during World War I," *Business History* 18, no. 2 (July 1976): 128; Justus D. Doenecke, *Nothing Less than War: A New History of America's Entry into World War I* (Lexington: University Press of Kentucky 2011), 20–21; Benjamin O. Fordham, "Revisionism Reconsidered: Exports and American Intervention in World War I," *International Organization* 61, no. 2 (Spring 2007): 286; Martin Horn, "A Private Bank at War: J. P. Morgan & Co. and France, 1914–1918," *Business History Review* 74, no. 1 (Spring 2000): 97; Priscilla Roberts, "The First World War as Catalyst and Epiphany: The Case of Henry P. Davison," *Diplomacy and Statecraft* 18, no. 2 (2007): 319–20; Priscilla Roberts, "Willard D. Straight and the Diplomacy of International Finance during the First World War," *Business History* 40, no. 3 (July 1998): 24–25; and Charles Callan Tansill, *America Goes to War* (Boston: Little, Brown, 1938), 36–42, 53–54, 70–78.

10 Dayer, "Morgan," 128.

11 Henry Davison to E. C. Grenfell, November 16, 1914, quoted in Tansill, *America*, 80.

of bankers' balances in all central reserve city banks, New York bankers' balances increased from 57.5 percent to 72.1 percent. Their share of central reserve city deposits rose from 72.7 percent to 77.6 percent.[12]

More momentously for Wall Street profits, the Morgans enlisted their central banker, Benjamin Strong, to provide inflationary credit expansion. The commanding leader was certainly up to the task. In late 1914 he and the other governors of the Federal Reserve regional central banks participated in an extralegal governors' council to discuss monetary policy. Strong quickly assumed control so he could coordinate the purchases of bank assets, much to the consternation of the Federal Reserve Board in Washington. Jack Morgan and Davison now wanted him to use his power to purchase acceptances—financial instruments that the Federal Reserve Act had legalized which allowed banks to guarantee payment to exporters so importers could purchase goods. If banks sold their acceptances to the Federal Reserve, they could then turn around and issue more. With this liquidity racket in mind, Davison wrote to Strong, urging him to persuade the board to approve "the purchase by Federal Reserve Banks of bills drawn . . . on United States acceptors, proceeds to be used for export materials."[13] The Fed's purchase of war-related acceptances would doubly enrich Wall Street, making it easier for Europe to import American war materiel arranged by J. P. Morgan & Co. and increasing the profits and reserves of Wall Street banks that held acceptances.[14]

---

[12] Chernow, *Morgan*, 187–88; Cleveland and Huertas, *Citibank*, 83, 365; Dayer, "Morgan," 128–29; Martin Horn, *J. P. Morgan & Co. and the Crisis of Capitalism: From the Wall Street Crash to World War II* (New York: Cambridge University Press, 2022), 58; Ross M. Robertson, "St. Louis: Central Reserve City, 1887–1922," *Federal Reserve Bank of St. Louis Monthly Review* 36, no. 8 (August 1954): 89; and Tansill, *America*, 79–84, 133.

[13] Henry Davison to Benjamin Strong, April 9, 1915, quoted in Priscilla Roberts, "'Quis Custodiet Ipsos Custodes?': The Federal Reserve System's Founding Fathers and Allied Finances in the First World War," *Business History Review* 72, no. 4 (Winter 1998): 596.

[14] Allan Meltzer, *A History of the Federal Reserve*, vol. 1, *1913–1951* (Chicago: University of Chicago Press, 2003), 76–80; Priscilla Roberts, "Benjamin Strong, the Federal Reserve, and the Limits to Interwar American Nationalism Part I: Intellectual Profile of a Central Banker," *Federal Reserve Bank of Richmond*

Strong's task would not be easy. The ardent backer of the Allied cause faced two pro-German members on the Federal Reserve Board who wanted to minimize the central bank's purchases as a way of maintaining neutrality. One was Adolph Miller, a former economics professor at the University of California, Berkeley, who frequently clashed with Strong. Miller's long-lasting animosity stemmed from anger at Strong's accretion of power and envy toward a central banker who never went to college yet received praise from Irving Fisher and other high-profile economists. The second obstacle was none other than Paul Warburg. Ironically, the Wall Street lieutenant and German émigré who had staunchly advocated the creation of a central bank and an American acceptance market wanted to prevent the Federal Reserve from purchasing Allied acceptances now that it could harm Germany during a war.

In the spring of 1915 Warburg and Miller prevented Federal Reserve banks from buying acceptances that facilitated the exportation of munitions. But the indefatigable Strong persistently requested the board to revisit the issue. He recruited a powerful ally in Secretary of the Treasury McAdoo with the siren song that acceptance purchases would boost American trade. By September Miller and Warburg lay defeated.

The New York Fed quickly splurged on acceptances, while the Chicago Fed and other regional Fed banks restricted their purchases. The Federal Reserve's credit creation would start in Wall Street hands. By December 1916 the Fed's acceptance portfolio had surged to $129 million. Such an increase in member bank reserves encouraged Wall Street banks to expand credit. In a profound sense, J. P. Morgan & Co.'s desire for profits inaugurated expansionary monetary policy at the Fed. The monetary effects of the Fed's credit easing paled in comparison to those of the $1 billion of gold imports that American banks stored at the Fed, but it was a significant first step for Wall Street's money machine.[15]

Economic Quarterly 86, no. 2 (Spring 2000): 70; Roberts, "Founding," 592–96; Murray N. Rothbard, "The Federal Reserve as a Cartelization Device: The Early Years, 1913–1930," in *The Progressive Era*, ed. Patrick Newman (Auburn, AL: Mises Institute, 2017), 484, 501–2; and Tansill, *America*, 87–88.

[15] Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics, 1914–1941* (Washington, DC: Federal Reserve System, 1943), 373;

During this gold avalanche, J. P. Morgan & Co. realized that Great Britain and France would need to borrow from US institutions to continue purchasing munitions. To this end, Morgan lobbyists convinced the Wilson administration to rescind the ban on floating foreign loans to the public. Britain and France then negotiated with Morgan, Davison, and Lamont. For marketing $500 million in bonds, the Morgan banking consortium earned $22 million. Large banks and corporations picked up the tab. Notably, $100 million went to companies selling war materiel to the Allies, with DuPont and Bethlehem Steel taking a combined $55 million. Thus, these institutions would profit twice: first from selling weapons to the Allies and then from receiving foreign taxpayers' money in repayment of the loans used to buy those weapons. Significantly, only one bank in Chicago subscribed, and in protest of the anti-Semitic czar of Russia the German-Jewish Jacob Schiff made sure Kuhn, Loeb & Co. did not participate. The decision marked the beginning of a gradual decline in Kuhn, Loeb's influence.[16]

A problem arose: the British and French needed more and more money. By spring 1917 Wall Street's short-term credits to the Allies had reached $400 million, and they had marketed an additional $950 million in loans. J. P. Morgan & Co. grew increasingly worried that a British and French defeat would ruin the investment bank. Adding to its anxiety, Strong and Warburg locked horns. In the spring of 1916 Strong traveled to Europe and made preliminary agreements with the Bank of England and the Bank of France to establish deposit accounts at the New York Fed. But in November the Federal Reserve Board issued a warning, cautioning member banks not to buy risky foreign securities. Grenfell informed the British Treasury that "Warburg and other German sympathizers" had devised the announcement.[17]

Chernow, *Warburgs*, 160–61, 166–67; Meltzer, *History*, 1:74, 138, 192–97; Roberts, "Founding," 596–604; Rothbard, "Cartelization," 503; Sutch and Carter, *Historical*, 3:596; and Tansill, *America*, 96–108.

[16] Carosso, *Investment*, 205–6; Chernow, *Morgan*, 195, 197–99; Chernow, *Warburgs*, 167–68; Dayer, "Morgan," 130–31, 146; John Douglas Forbes, *J. P. Morgan, Jr., 1867–1943* (Charlottesville: University Press of Virginia, 1981), 94–95; and Tansill, *America*, 90, 93, 96, 104–5, 112–14.

[17] E. C. Grenfell to Chancellor of the Exchequer, McKenna, November 28, 1916,

Fortunately for Wall Street, pressure by the Wilson administration, now positioning itself for war, caused the board to reverse its statement the following March. After Germany attacked armed US merchant ships, Congress declared war on that country in April.[18]

US entry into the Great War brought further opportunities for J. P. Morgan & Co. and its Wall Street allies. From 1916 to 1919 federal spending exploded nearly 2,500 percent, surging from 2 percent of gross domestic product (GDP) to 24 percent. Sharply higher taxes could not keep pace with the federal government's spending. The Treasury responded by selling billions of Liberty Loan bonds to banks and the public, blowing up the public debt from $1.2 billion to $25.5 billion. The massive increase in government spending crowded out private sector production, and the result was that during these years real gross private product (real GDP minus real government purchases of final goods and services) stagnated and in total grew less than half a percentage point.[19]

When Congress declared war President Wilson wrote to Morgan, "I am sure I can count upon you and your associates in this emergency."[20] His confidence was not misplaced. Jack Morgan, Vanderlip, George Baker, and other Wall Street bankers participated in the Liberty Loan drives. The principal official in charge of organizing the bond sales was the new assistant secretary of

---

quoted in Roberta A. Dayer, *Finance and Empire: Sir Charles Addis, 1861–1945* (London: Macmillan, 1988), 89.

[18] Carosso, *Investment*, 206; Chernow, *Warburgs*, 162; Dayer, "Morgan," 132–34; Ivan Eland, *Recarving Rushmore: Ranking the Presidents on Peace, Prosperity, and Liberty* (Oakland, CA: Independent Institute, 2009), 213–16; Roberts, "Founding," 605–7; and Tansill, *America*, 117–23, 127–32.

[19] W. Elliot Brownlee, *Federal Taxation in America: A History*, 3rd ed. (New York: Cambridge University Press, 2016), 93–106; Robert Higgs, "The World Wars," in *Government and the American Economy: A New History*, ed. Price Fishback (Chicago: University of Chicago Press, 2007), 435; Patrick Newman, "The Depression of 1920–1921: A Credit Induced Boom and a Market Based Recovery?" *Review of Austrian Economics* 29, no. 4 (December 2016): 394–95; and Richard Sutch and Susan B. Carter, eds., *Historical Statistics of the United States*, vol. 5, *Governance and International Relations* (New York: Cambridge University Press, 2006), 81.

[20] Woodrow Wilson to Jack Morgan, April 4, 1917, quoted in Prins, *Bankers*, 48.

the Treasury, Russell Leffingwell, whom McAdoo hired on Warburg's recommendation. Leffingwell was a former corporate lawyer for the prestigious law firm Cravath & Henderson, and his clients included J. P. Morgan & Co. He brought to the Treasury S. Parker Gilbert, another Cravath lawyer. The Morgans would reward their efforts by making Leffingwell a partner in 1923 and Gilbert one in 1931.

To assist with bond sales, the Federal Reserve monetized the debt through a roundabout credit inflation. First, in June 1917 the Fed lowered average reserve requirements from 11.6 percent to 9.8 percent. This allowed member banks to pyramid more loans on their given member bank reserves held at the Fed. Second, member bank reserves themselves swelled 109 percent between April 1917 and November 1918, largely from the Fed purchasing acceptances and especially from the Fed granting new loans at below-market discount rates. The central bank heavily incentivized member banks to borrow to buy federal debt for their own investment portfolios and to make loans to the public for individual bond purchases. As member bank reserves increased, banks engaged in more credit expansion.[21]

The results were staggering. From 1907 to 1914 the total money supply, including deposits at national banks, state banks, mutual savings banks, and new savings and loan associations, had increased 45 percent (5.5 percent each year). During the early war years from 1914 to 1916, it grew 32 percent (15 percent each year) as banks largely expanded credit on incoming European gold. After the US entry, even though gold stopped flowing in, the money supply rose a further 25 percent (12 percent each year) through 1918. The Fed's loan portfolio, which had ballooned to nearly $1.8 billion, instigated most of this increase. All told, the money supply rose 65 percent between 1914 and 1918.[22]

---

[21] Board of Governors, *Banking*, 373, 439, 450; W. Elliot Brownlee, "Russell Cornell Leffingwell," in Schweikart, *Encyclopedia*, 216–18, 221; Carosso, *Investment*, 224–27; Forbes, *Morgan*, 100–101; William C. McNeil, "Seymour Parker Gilbert, Jr.," in Schweikart, *Encyclopedia*, 144–45; and Murray N. Rothbard, *The Mystery of Banking*, 2nd ed. (Auburn, AL: Ludwig von Mises Institute, 2008), 238.

[22] Board of Governors, *Banking*, 373; and Milton Friedman and Anna Jacobson Schwartz, *Monetary Statistics of the United States: Estimates, Sources, Methods* (New York: National Bureau of Economic Research, 1970), 9–17.

The New York Fed played an indispensable role in the 1917 and 1918 money creation process. It sold half of all the Treasury's securities, handled the Treasury's foreign exchange business, and served as a central depository of funds from other Fed banks. Most importantly, Strong made sure that the first receivers of the money would be Wall Street titans, particularly those affiliated with the House of Morgan. For example, George Baker's First National Bank of New York bought $1.7 billion in war loans for its own portfolio and customers' accounts. Strong proudly boasted that its transactions with the New York Fed were "unprecedented in the country, and certainly so in proportion to the size of the Bank."[23]

J. P. Morgan & Co. scored an even bigger win with the $400 million in short-term loans to Great Britain and France. The bank, along with Great Britain, wanted the US government to assume this debt and pay off the banks involved, especially its own $165 million holdings. Wilson's advisor Colonel Edward House, Strong, Lamont, and British officials lobbied McAdoo and Leffingwell throughout 1917. McAdoo fiercely held them off because the Morgans were Republicans and the public was already upset at big-banker profiteering. But in late December he relented and assumed the $400 million war debt. In other words, the US taxpayer, not Britain and France, would end up paying the tab that the Allies owed to Wall Street.[24]

Thanks to the taxpayer subsidy and inflationary credit extended to Morgan-affiliated member banks, the House of Morgan benefited "enormously in terms of pure financial profit from the war."[25] Indeed, between 1914 and 1917, J. P. Morgan & Co.'s assets more than doubled from $228 million to $481 million. The partners reaped the harvest. For example, in 1916 Lamont's and Morgan's gross incomes totaled $5.3 million and $9.5 million,

[23] Quoted in Sheridan A. Logan, *George F. Baker and His Bank, 1840–1955* (Stinehour Press and Meriden Gravure, 1981), 195.

[24] Dayer, "Morgan," 134–43; James Grant, *The Forgotten Depression, 1921: The Crash That Cured Itself* (New York: Simon and Schuster, 2014), 59; Edward M. Lamont, *The Ambassador from Wall Street: The Story of Thomas W. Lamont, J. P. Morgan's Chief Executive* (Lanham, MD: Madison Books, 1994), 92–93; Logan, *Baker*, 197; and Rothbard, "Cartelization," 486–87.

[25] Dayer, "Morgan," 143.

respectively. By 1918 Morgan's estimated net worth of $70 million tied him for thirteenth richest man in America, while George Baker's $150 million tied him for fourth place.[26]

J. P. Morgan & Co. and the rest of Wall Street raked in the rewards of being the early receivers of the new money, but the later receivers groaned under the inflation tax. Force-feeding credit into the economy led to ever-increasing spending and demand for goods and services. This pushed up prices and strained the businesses and workers whose incomes increased less than the rise in prices. Expectations that prices would rise in the future led to a scramble to purchase more now, which further drove up demand and prices. From 1914 to 1918, total spending in the economy rose 108 percent and consumer prices 50 percent. The loser was the public: according to Robert Higgs, "Money incomes were soaring, but the real value of civilian output was falling."[27] The track record of the private sector was weak indeed—real gross private product rose only 1.4 percent per year.[28]

By the time the conflict ended in November 1918, the New York Fed had put the House of Morgan and Wall Street into a position of growing authority. New York City bankers' balances, loans to Europe and South America, and profits had all increased. National City Bank and other institutions covered the globe with foreign branches and encouraged greater use of the dollar. With Great Britain's finances in chaos, the stage was set for New York commercial and investment banks to assume a commanding role in the postwar financial order.

---

[26] Carosso, *Investment*, 204; Horn, *Morgan*, 58; and Chase Peterson-Withorn, "From Rockefeller to Ford, See Forbes' 1918 Ranking of the Richest People in America," *Forbes*, September 29, 2017, https://www.forbes.com/sites/chasewithorn/2017/09/19/the-first-forbes-list-see-who-the-richest-americans-were-in-1918/.

[27] Higgs, "Wars," 435.

[28] Higgs, "Wars," 435; Louis Johnston and Samuel H. Williamson, "What Was the U.S. GDP Then?," MeasuringWorth (accessed November 7, 2024), https://www.measuringworth.com/datasets/usgdp12/; and Sutch and Carter, *Historical*, 3:158.

The Postwar Bonanza

As the 1910s closed, Wall Street continued to clamor for the Federal Reserve's credit and borrowed heavily from the New York branch. The agricultural sector, eager for its own credit subsidies, joined the easy-money chorus. In stimulating and satisfying the growing demand for cheap money, the central bank orchestrated its first inflationary boom-bust business cycle, culminating in the Depression of 1920–1921. This monetary mismanagement set a disastrous precedent for the years that followed.

Throughout 1919 the Federal Reserve continued expanding credit to banks, as the Treasury wanted to finance a final loan, the Victory Loan. New York Fed governor Benjamin Strong had previously favored monetizing the Treasury's fiscal needs because it raised the New York Fed's prestige across the globe. In Strong's own words, the first "serious differences" between him and the Treasury began after the war.[29] Strong wanted to raise rates and break free from the "government borrowing bondage," and this time the Federal Reserve Board agreed with him.[30] In particular, Strong wanted to independently set the discount rate at a penalty level to disincentivize banks from borrowing from the Fed. Strong realized that the economy needed a monetary contraction to prevent speculation and gold outflows, stressing to Assistant Secretary of the Treasury Russell Leffingwell that "we must deflate . . . [and] prevent further inflation."[31] But Leffingwell and the new secretary of the Treasury, Carter Glass, adamantly refused to allow monetary contraction. Strong, sick or away in Europe to investigate its monetary situation, could do nothing.[32]

---

[29] Benjamin Strong to Wilford King, January 30, 1922, quoted in Lester V. Chandler, *Benjamin Strong, Central Banker* (Washington, DC: Brookings Institution, 1958), 121.

[30] Benjamin Strong to R. H. Treman, September 12, 1919, quoted in Silvano A. Wueschner, *Charting Twentieth-Century Monetary Policy: Herbert Hoover and Benjamin Strong, 1917–1927* (Westport, CT: Greenwood Press, 1999), 10.

[31] Benjamin Strong to Russell Leffingwell, February 6, 1919, quoted in Chandler, *Strong*, 139–40.

[32] Grant, *Depression*, 51; Meltzer, *History*, 1:90–96; Newman, "Depression," 396; and Wueschner, *Charting*, 10–17.

Wall Street also disagreed with its central banker, preferring to indulge in the Fed cronyism and gorge on cheap credit. For most of the year the New York Fed's member banks borrowed from it at a discount rate of 4 percent and lent at 5.5 percent. For example, the large Guaranty Trust Company possessed the second highest deposits in New York City, and Morgan man Thomas Lamont served on its board. The New York Fed loaned it $120 million through late 1919, approximately twice the institution's capital and surplus.[33]

National City Bank also drank from the punchbowl. Vanderlip resigned in mid-1919, a casualty of the Bolsheviks' takeover of its Russian branch. The new president, James A. Stillman, son of the former president James Stillman, encouraged his bank to use Fed borrowings to recklessly increase business loans 30 percent in the second half of 1919. By early 1920 its Fed borrowings reached $95 million. These and other large Fed loans, which increased by $614 million in 1919, augmented member bank reserves 11.6 percent and enabled banks to increase the money supply 20 percent from 1918 to 1920.[34]

The monetary inflation ignited a boom. Foreign commodities speculation became one boom sector. Even though smaller banks had successfully lobbied Congress to liberalize foreign branching requirements in 1919, National City still controlled 81 of the 181 foreign branches in 1920. The bank invested heavily in sugar mills and railroads in a new investment hotspot: Cuba. In the United States, machinery development, steel production, and automobile construction all rose. Finally, Populist farmers participated in the frenzy, going heavily into debt and obtaining subsidies from new Federal Land Banks (established in 1916) to purchase tractors and land.

However, the economy was stretched thin and ensnared by industrial backlogs and striking unions. The Fed's expansionary

---

[33] Board of Governors, *Banking*, 439, 463; and Grant, *Depression*, 113–16.

[34] Board of Governors, *Banking*, 373; Cleveland and Huertas, *Citibank*, 101–5; James Freeman and Vern McKinley, *Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi* (New York: Harper Collins, 2018), 98–106; Friedman and Schwartz, *Statistics*, 17–19; Grant, *Depression*, 20; and Murray N. Rothbard, *America's Great Depression* (Auburn, AL: Ludwig von Mises Institute, 2008), 118–19.

monetary policy ended up boosting only prices: the 13 percent increase in overall spending from 1919 to 1920 was associated with a 0.9 percent fall in real GDP and a significant rise in consumer prices of 16 percent. This overheating strained the economy and made the Treasury's financing strategy more unsustainable.[35]

With the Victory Loan financing complete in late 1919, the Fed finally received approval from the Treasury to tighten. Fed officials had grown increasingly nervous as the higher prices and low interest rates triggered gold to flow out of the country. By June 1920 the New York Fed raised its discount rate to 7 percent. Reserve banks' rates, however, were still not at penalty levels, and member banks borrowed an additional $472 million during the year. By December New York banks owed around $672 million to the New York Fed. The tab totaled roughly one-fourth of the Federal Reserve System's aggregate loans. Perhaps the most notorious lending was to Chase National Bank. This emerging Wall Street behemoth became associated with the House of Morgan—its chairman, Albert Wiggin, a protégé of George Baker and Henry Davison, participated in J. P. Morgan & Co.'s insider stock purchases. Wiggin's bank had borrowed $134 million from the New York Fed, $10 million of which landed in his family's pockets. Chase's splurge was more than what the Federal Reserve Bank of Kansas City lent to 1,100 member banks.

Wall Street's increased borrowing, however, was offset by the Fed's $327 million reduction in acceptances and its own holdings of government securities. Member bank reserves started to drop. As monetary conditions contracted and interest rates rose, the unprofitability of the boom investments was revealed. The Depression of 1920–1921 had begun. From 1920 to 1921 the

---

[35] J. Lawrence Broz, *The International Origins of the Federal Reserve System* (Ithaca, NY: Cornell University Press, 1997), 202; Cleveland and Huertas, 105–6; Freeman and McKinley, *Borrowed*, 104–6; Friedman and Schwartz, *Statistics*, 17–19; Johnston and Williamson, "GDP"; Newman, "Depression," 396–400; Parrini, *Heir*, 115–17; Rothbard, *America's*, 218; Christopher W. Shaw, "'We Must Deflate': The Crime of 1920 Revisited," *Enterprise and Society* 17, no. 3 (September 2016): 627; and Sutch and Carter, *Historical*, 3:158.

money supply deflated 5 percent, overall spending dropped 17 percent, and consumer prices sank 11 percent.[36]

Lacking new infusions of Fed credit, the overexpanded banks, businesses, and farmers reeled from their losing malinvestments. Guaranty Trust, National City, and Chase suffered declines in their stock prices ranging from 30 to 60 percent. Wall Street-financed businesses in Cuba turned unprofitable, and a devastating bank panic occurred in October. Automobile production and industrial activity in the United States nosedived. The punishment was the most intense in agriculture; overleveraged farmers unable to repay their loans ruined rural unit banks. Higher taxes on surviving banks could not save the Populists' ill-conceived state-level deposit-insurance systems created earlier in the century, and the programs all failed throughout the 1920s.

The depression had broader ramifications. Real GDP decreased 2.3 percent, and the unemployment rate, which had dipped down to an abnormally low 1.4 percent in 1919, shot up to 11.7 percent in 1921. The Democrats suffered the blowback in the election of 1920. Upset at Democrats' plans to remain involved in European affairs and frustrated at the economic difficulties at home, the public voted Republican Warren G. Harding of Ohio into the White House. The Republicans would control the presidency and both houses of Congress for ten years.[37]

---

[36] Board of Governors, *Banking*, 133, 373–74, 439; Chernow, *Morgan*, 370–71; Committee on the History of the Federal Reserve System, "Albert H. Wiggin," *Register of Papers*, November 3, 1955, 2, *Federal Reserve Archival System for Economic Research FRASER*; Friedman and Schwartz, *Statistics*, 18–19; Grant, *Depression*, 108–9; Johnston and Williamson, "GDP"; Meltzer, *History*, 1:103–8; Newman, "Depression," 397–400; Sutch and Carter, *Historical*, 3:158; and Alexander Tabarrok, "The Separation of Commercial and Investment Banking: The Morgans vs. the Rockefellers," *Quarterly Journal of Austrian Economics* 1, no. 1 (March 1998): 6.

[37] Charles W. Calomiris and Stephen H. Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton, NJ: Princeton University Press, 2014), 187–88; Grant, *Depression*, 128–31, 176; Peter James Hudson, *Bankers and Empire: How Wall Street Colonized the Caribbean* (Chicago: University of Chicago Press, 2017), 143–49, 194, 222–23; Johnston and Williamson, "GDP"; Newman, "Depression," 400–405; Sutch and Carter, *Historical,* 5:201; and Eugene Nelson White, *The Regulation and Reform of the American Banking System, 1900–1929* (Princeton, NJ: Princeton University Press, 1983), 165, 188–204, 217.

Despite the harsh decline, the economy started recovering quickly in early 1921. Leaving the market to wring excesses from the system, laissez-faire policies pursued by the outgoing Wilson administration, the new Harding administration, and the Federal Reserve encouraged the bankruptcy of unprofitable businesses and the reallocation of resources to more profitable avenues. "The reaction," writes Joseph Schumpeter, "was sharp and unimpeded and, because it was sharp and unimpeded, relatively short."[38]

From 1919 to 1920, Congress dismantled some of the wartime economy and slashed government spending 66 percent. Further cuts in the military caused total expenditures to shrink an additional 48 percent between 1920 and 1922. These cuts, which totaled 82 percent, allowed for the reallocation of labor and capital goods from the military back to private-sector production. On the tax front, Congress lowered taxes in 1921 and made further cuts in later years under President Calvin Coolidge. The tax cuts incentivized individuals and firms to save and work by allowing them to keep a greater portion of the fruits of their labor.

On the monetary side, member bank reserves contracted 15 percent from early 1920 through mid-1921. Total spending fell 17 percent in 1921 before remaining constant from 1921 to 1922. Businesses responded to the deflation by cutting the wages they had excessively bid up during the boom. US Steel, for instance, raised wages 9.5 percent in early 1920 and then cut them 40 percent by the summer of 1921. The result: businesses quickly reemployed labor and other idle resources. From 1921 to 1922 unemployment fell to 6.7 percent and real GDP increased 5.5 percent, and these trends continued in 1923.[39]

---

[38] Joseph Alois Schumpeter, *Business Cycles: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process* (London: McGraw-Hill, 1939), 2:786.

[39] David T. Beito, "Andrew Mellon," in Schweikart, *Encyclopedia*, 273; Board of Governors, *Banking*, 373–74; Brownlee, "Leffingwell," 221; Philip H. Burch Jr., *Elites in American History*, vol. 2, *The Civil War to the New Deal* (New York: Holmes and Meier, 1981), 256, 298–99; Johnston and Williamson, "GDP"; M. Susan Murnane, "Selling Scientific Taxation: The Treasury Department's Campaign for Tax Reform in the 1920s," *Law and Social Inquiry* 29, no. 4 (Autumn 2004): 826–29, 834–35, 839; Lawrence L. Murray, "Bureaucracy and Bi-partisanship in Taxation: The Mellon Plan Revisited," *Business History Review* 52, no. 2 (Summer 1978): 208, 211, 214, 217–23; Patrick Newman,

The recovery from the Depression of 1920–1921 would be the country's last free-market adjustment process during a depression. The Federal Reserve raised interest rates to arrest the unsustainable boom but did not learn the lesson that its credit expansion had caused the business cycle in the first place. Nor did anyone else, for Wall Street, businesses, and farmers all looked forward to the resumption of credit subsidies.

Significantly, after the free-market recovery got well underway, the central bank sowed the seeds of another business cycle. From June 1921 to December 1922 the New York Fed slashed its discount rate to 4 percent, and the Federal Reserve purchased $409 million of government securities and acceptances. This occurred largely at the initiative of Strong, who conducted the purchases for the other regional Fed banks through a reorganized governors' council. The Federal Reserve Board did fight back and forced Fed banks to reduce their holdings through October 1923. But it was a half measure against the easing: the New York Fed and other regional banks had abandoned making their discount rates penalty rates, which incentivized member banks to borrow $266 million.

As a consequence of the 18 percent spike in member bank reserves, from 1921 to 1923 the money supply expanded over 16 percent. Initially, total spending in the economy remained constant between 1921 and 1922. But the monetary juice then worked its magic, jolting spending 16 percent between 1922 and 1923. Market interest rates fell, stimulating production in real estate, electrical equipment, automobiles, and other capital-intensive industries.[40]

"Defending the Austrian Interpretation of the 1920–21 Depression: Reply to Borazan," *Quarterly Journal of Austrian Economics* 26, no. 4 (Winter 2023); Newman, "Depression," 404–10; Gene Smiley and Richard H. Keehn, "Federal Personal Income Tax Policy in the 1920s," *Journal of Economic History* 55, no. 2 (June 1995); and Sutch and Carter, *Historical*, 5:81.

[40] Board of Governors, *Banking*, 374, 440; Friedman and Schwartz, *Statistics*, 19–22; Johnston and Williamson, "GDP"; Patrick Newman, "Expansionary Monetary Policy at the Federal Reserve in the 1920s," *Advances in Austrian Economics* 20 (2016): 119–21, 124–25; Rothbard, *America's*, 134, 138; Rothbard, "Cartelization," 496; William Howard Shaw, *The Value of Commodity Output since 1869* (New York: National Bureau of Economic Research, 1947), 75–77; Sutch and Carter, *Historical*, 3:158; and Richard Vague, *A Brief History*

There were two reasons for the Fed's about-face on interest rates. First, high interest rates frustrated the overexpanded agricultural sector. The new American Farm Bureau Federation lobbied Congress to make the Fed more public, limit discount rate increases, and expand access to credit markets. While Congress gained no greater control over the Fed, farmers succeeded in expanding the Federal Reserve Board from five to six presidentially appointed members and secured new special privileges in the form of taxpayer-funded loans and subsidies. These interventions managed only to divert taxpayer money into losing enterprises and failed to lift farmers out of their doldrums. The industry remained in a depressed state throughout the decade, in part because the protectionist Fordney-McCumber Tariff of 1922 reduced farm exports.[41]

Second, and far more important, were the desires of Wall Street bankers. The end of the Great War had led many Wall Street barons to plan for augmented US influence, the postwar maintenance of their bankers' balances, and the promotion of the dollar internationally. With the war over, Paul Warburg, no longer on the Federal Reserve Board, went back to advocating that the Federal Reserve subsidize acceptances. Preparing to profit from Fed policy, he contemplated setting up an American acceptance bank to finance European trade, for "a wide market must be our aim."[42] Thanks to the endorsement of Leffingwell and Glass, Morgan partner Thomas Lamont served as a financial advisor to the US delegation at the Paris Peace Conference in early 1919. While there, Lamont recommended to the Reparations Commission that Germany pay $30 to $40 billion in reparations. Though much lower than British and French demands, it was the highest figure proposed among the American advisors, and in May 1921

of Doom: Two Hundred Years of Financial Crises (Philadelphia: University of Pennsylvania Press, 2019), 18–19.

[41] Rothbard, *America's*, 121–22, 137–39, 153, 217–19; Murray N. Rothbard, "From Hoover to Roosevelt: The Federal Reserve and the Financial Elites," in *A History of Money and Banking in the United States: The Colonial Era to World War II*, ed. Joseph T. Salerno (Auburn, AL: Ludwig von Mises Institute, 2005), 283–86; Elizabeth Sanders, *Roots of Reform: Farmers, Workers, and the American State, 1877–1917* (Chicago: University of Chicago Press, 1999), 264–65; and Wueschner, *Charting*, 21, 35–36.

[42] Paul Warburg, 1920, quoted in Klebaner, "Warburg," 447.

the Reparation Commission agreed upon $33 billion. Germany, devastated from the war and burdened with obligations impossible to pay, would need to look to Wall Street creditors. And Wall Street would look to easy money from the Fed.[43]

The Money Lords

The 1920s unquestionably marked the high tide of Wall Street's "Money Lords."[44] During the decade these titans exercised unsurpassed influence over the US banking sector and reorganized monetary systems in Europe and Latin America. The powerful Fed governor Benjamin Strong, so indispensable to New York City, continued to pump in credit to reshape the worldwide financial dispensation and enhance the city's bankers' balances. Paid-for intellectuals reveled in prestigious and lucrative jobs that administered the new monetary order. By the middle of the decade the dollar had turned into a world reserve currency that surpassed even the pound, and with its newfound status came increased demand for Wall Street's services. Ron Chernow describes J. P. Morgan & Co. in these years as "sunning in postwar glory."[45] With Strong at the helm, it was the best of times for this special-interest group.

A more expansionary New York Fed did many things for Wall Street. Easy money reduced New York banks' perceived risk of failure and made them more attractive repositories for other banks' balances. Cheap credit also enabled Wall Street to make more foreign loans: as Strong put it, he wanted "a level of interest rates . . . which would facilitate foreign borrowing in this country."[46] Wall Street aimed to build on the progress achieved during the war years and to transform the dollar into a world reserve currency through a gold-exchange standard. The British pound and American dollar would be fellow world currencies,

---

[43] Chernow, *Morgan*, 206–8; Chernow, *Warburgs*, 186–90; Klebaner, "Warburg," 447; and Lamont, *Ambassador*, 105–14, 121–22, 201.

[44] Matthew Josephson, *The Money Lords: The Great Finance Capitalists, 1925–1950* (New York: Weybright and Talley, 1972).

[45] Chernow, *Morgan*, 205.

[46] Benjamin Strong to S. Parker Gilbert, April 18, 1922, quoted in Chandler, *Strong*, 211.

linked through gold redemption. Most of the currencies of the rest of Europe, as well as Latin America, would be exchangeable for dollars and pounds instead of specie. Thus, when America and Great Britain inflated, their currencies would not be redeemed but instead be used as the basis for credit expansion by other countries.

Wall Street channeled its internationalist vision into a new intellectual outfit, establishing the New York–based Council on Foreign Relations (CFR) in 1921. Its president, John Davis, worked as a high-profile attorney for J. P. Morgan & Co. and served as the Democrats' presidential candidate in 1924. Lamont, Warburg, and newly installed Morgan partner Leffingwell helped finance the institution, and Warburg and Leffingwell served as directors. The CFR sponsored research study groups for bankers, lawyers, politicians, and academics to write papers and policy briefs that promoted American hegemony and foreign investment. Such intellectual backing provided valuable ammunition for Wall Street's plans. Though the CFR's influence was at first limited, its prominence increased in the coming decades.[47]

Meanwhile, Strong continued the inflationary parade. The Federal Reserve Board had dissolved the extralegal governors' council in favor of a new Open Market Investment Committee. Strong, undeterred, quickly seized control. From October 1923 through November 1924 the New York Fed cut its discount rate to 3 percent, and Fed banks purchased $601 million in government securities and acceptances. Strong concentrated these purchases in New York institutions. Member bank reserves jumped upward another 13 percent, pushing the money supply up 8 percent. From 1923 to 1926, as the entire financial system continued to pyramid credit and stockpile reserves in New York City,

---

[47] Brownlee, "Leffingwell," 216; Chernow, *Morgan*, 254–55; Parrini, *Heir*, 65, 112; Rothbard, *America's*, 137–39, 153; Rothbard, "Hoover," 268, 270–71; Robert D. Schulzinger, *The Wise Men of Foreign Affairs: The History of the Council on Foreign Relations* (New York: Columbia University Press, 1984), 17–20, 30, 267; George Selgin, "New York's Bank: The National Monetary Commission and the Founding of the Fed," in *Money: Free and Unfree* (Washington, DC: Cato Institute, 2017), 163–65; and Laurence H. Shoup and William Minter, *Imperial Brain Trust: The Council on Foreign Relations and United States Foreign Policy* (New York: Authors Choice Press, 2004), 14–23, 104–5, 301.

the money supply rose 19 percent and total spending increased over 13 percent. The Fed's money printing sprouted new investments, such as in Florida real estate—the assessed value of property in Miami, for instance, skyrocketed 568 percent from 1922 to 1926.

Once again Wall Street banks received the money first, and their real incomes grew at the expense of the later recipients. One of the first receivers was Bankers Trust Company. The Morgan-dominated institution, which Strong had worked at for thirteen years (1901–1914), developed a profitable business in buying and selling government securities and would become one of the earliest dealers the Federal Reserve bought from. Another beneficiary was Warburg. In early 1921 he had launched the International Acceptance Bank of New York (IAB) and lobbied the New York Fed to liberalize eligibility for its acceptance purchases. The New York Fed obliged and made the IAB one of the few acceptance dealers it purchased from. Thus, Warburg, after repeatedly advocating a central bank to stimulate the acceptance market, had positioned himself to profit enormously from the Fed's acceptance policy.[48]

Flush with cash from Strong's expansionary policies, Wall Street commenced its development of the gold-exchange standard in Europe. It started with war-torn Germany, which wrecked its currency trying to finance government expenditures after the harsh reparations imposed by the Treaty of Versailles, reparations that J. P. Morgan & Co. had helped impose. In 1923, the CFR set up a committee that recommended revising Germany's reparations schedule to jumpstart its economy. The recommendations led to the Dawes Plan of 1924, the brainchild of Owen Young, a man who checked all the right boxes: the chairman of General Electric was now a director of the New York

---

[48] Board of Governors, *Banking*, 374, 440; Barry Eichengreen, *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses—and Misuses—of History* (New York: Oxford University Press, 2015), 24–31; Friedman and Schwartz, *Statistics*, 20–25; Kenneth D. Garbade, "The Early Years of the Primary Dealer System," *Federal Reserve Bank of New York Staff Reports*, no. 777 (June 2016): 2–9; Johnston and Williamson, "GDP"; Klebaner, "Warburg," 447; Newman, "Expansionary," 120; Rothbard, *America's*, 95–96, 126–31, 135, 146, 153; Rothbard, "Cartelization," 496, 502–3; and Anna Jacobson Schwartz, "Benjamin Strong," in Schweikart, *Encyclopedia*, 401.

Fed and became a director of the CFR in 1927. General Electric had connections to the major German electrical manufacturer Allgemeine Elektrizitäts Gesellschaft (AEG), and Morgan partner Edward Stettinius and First National Bank's George Baker Jr. sat on its board. Young's Dawes Plan proposed that private bankers loan $200 million to Germany so it could spread out reparations payments and capitalize a new German central bank that held dollars and pounds in its reserves. The loan would be paid back with higher taxes foisted on the German public.

The Dawes Plan blew up a credit bubble as German regional governments borrowed heavily from Wall Street and other financial centers for infrastructure development, which diverted scarce labor and other supplies from Germany's private sector. Of the $1.2 billion loaned to Germany from 1924 to 1930, American bankers collected $50 million in fees alone. J. P. Morgan & Co. led in American loans, and Jack Morgan proclaimed the Dawes Plan "the most important and responsible job we have had to tackle since the end of 1915."[49] The House of Morgan tried to get its partner Dwight Morrow appointed as the agent general who monitored the German economy. President Coolidge, a close friend of Morrow, reluctantly realized that such a Wall Street denizen in the role would infuriate midwestern German American voters. While the Morgans had to settle for S. Parker Gilbert, they bought his allegiance by making arrangements to increase his salary from $7,000 to $50,000 and made him a Morgan partner after his tenure.[50]

---

[49] Jack Morgan to Mrs. J. P. Morgan Sr., October 12, 1924, quoted in Forbes, *Morgan*, 145.

[50] Anderson, *Economics*, 106–11, 115–21, 158–63; Chernow, *Morgan*, 190, 251–52, 306; Roberta A. Dayer, "Anglo-American Monetary Policy and Rivalry in Europe and the Far East, 1919–1931," in *Anglo-American Relations in the 1920s: The Struggle for Supremacy*, ed. B. J. C. McKercher (London: Macmillan, 1991), 171; Barry Eichengreen and Marc Flandreau, "The Rise and Fall of the Dollar (or When Did the Dollar Replace Sterling as the Leading International Currency?)," *European Review of Economic History* 13, no. 3 (December 2009): 394; John Douglas Forbes, *Stettinius, Sr.: Portrait of a Morgan Partner* (Charlottesville: University Press of Virginia, 1974), 56–58, 127; Gabriel Kolko, *Main Currents in Modern American History* (New York: Pantheon Books, 1984), 208; Lamont, *Ambassador*, 201–2, 208–9; McNeil, "Gilbert," 144, 147; Palyi, *Twilight*, 116–17; Emily S. Rosenberg, *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900–1930* (Durham, NC: Duke University

After instituting the Dawes Plan, the money lords turned to Great Britain. Once the world's foremost superpower, Great Britain had strained its finances in World War I and prohibited gold exports in May 1918. When the conflict ended, Britain desperately wanted to return to the gold standard so it could encourage other European countries to hold the pound as reserves. Jack Morgan agreed, desiring to "add to the number of gold basis countries."[51] Indirectly linking the pound to the dollar through gold would prevent Britain from forming its own independent currency bloc in which the currencies of British satellites would be redeemable only in a fiat pound. A gold-based pound would enable Wall Street banks to either take over or supplant the British banking system.

Montagu Norman, the governor of the Bank of England, was close friends with Morgan, Strong, and the reigning partners at Morgan, Grenfell & Co. He wanted to resume gold convertibility, not at the depreciated current market rate ($4.34 a pound) given Britain's much higher price level, but unreasonably at the former rate ($4.86 a pound) to reclaim the pound's prewar glory. Returning at this overvalued exchange rate required a monetary contraction to lower British prices vis-à-vis the US—an infeasible path because the country's unemployment insurance subsidies and special privileges to trade unions made wage cuts very difficult. The easier alternative was for the Federal Reserve to inflate and depreciate the dollar.

In Strong's words, "The maintaining of lower interest rates in this country" should be continued because "the burden of this readjustment must fall more largely upon us than upon them."[52] In April 1925 the New York Fed loaned the Bank of England $200

Press, 2003), 168–73; Stephen A. Schuker, "Owen D. Young," in Schweikart, *Encyclopedia*, 482–83; Schulzinger, *Wise*, 21–22; Shoup and Minter, *Imperial*, 301; and Mira Wilkins, *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970* (Cambridge, MA: Harvard University Press, 1974), 5, 7, 67–68.

[51] Jack Morgan and George Whitney (Morgan, Grenfell & Co.) to J. P. Morgan & Co., October 6, 1925, quoted in Kathleen Burk, "The House of Morgan in Financial Diplomacy, 1920–1930," in McKercher, *Anglo-American*, 141.

[52] Benjamin Strong to Andrew Mellon, May 27, 1924, quoted in Chandler, *Strong*, 283.

million, and J. P. Morgan & Co. followed with a New York Fed–guaranteed $100 million credit to the British government. Great Britain resumed convertibility that month. Strong later praised the House of Morgan and declared that no other bank had "shown greater loyalty and a more effective cooperation with the reserve bank and its policies."[53] The CFR in turn praised Strong, and an article in its prestigious journal *Foreign Affairs* declared that Norman and Strong were "entitled to the gratitude of the world for their vision, wisdom, and energy."[54]

Much to Norman's chagrin, Strong's actions were not enough, and gold flowed out from Great Britain and threatened the pound's newly established convertibility. The central bankers decided to organize a secret conference in July 1927, where Strong agreed to further expand credit to weaken the dollar. Through December he dragooned Fed governors to loan banks another $140 million and purchase $445 million in acceptances and government securities, which increased bank reserves by 9 percent. Strong even duped the Kansas City Fed into lowering its discount rate on the grounds that it would help struggling farmers. His actions infuriated Federal Reserve Board member Adolph Miller, the Federal Reserve Bank of Chicago, midwestern bankers, and Secretary of Commerce Herbert Hoover. Strong proceeded nonetheless, and from 1926 to 1928 the money supply rose 11 percent.

At the conference Strong confided to Charles Rist, an economist at the Bank of France, that he would give "a little shot of whiskey" to the stock market.[55] Stock prices, which had previ-

---

[53] Benjamin Strong to Dwight Morrow, November 9, 1927, quoted in Vincent P. Carosso, *The Morgans: Private International Bankers, 1854–1913* (Cambridge, MA: Harvard University Press, 1987), 619.

[54] Franz Schneider Jr., "Federal Reserve Policy: Its International Implications," *Foreign Affairs* 7, no. 4 (July 1929): 544. Burk, "Morgan," 129–30, 137–38; Chandler, *Strong*, 308–19; Chernow, *Morgan*, 244, 246, 271–76; Dayer, "Anglo-American," 171–72; Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (New York: Oxford University Press, 1995), 71, 102, 192; Rothbard, *America's*, 144–53; Murray N. Rothbard, "The Gold-Exchange Standard in the Interwar Years," in Rothbard, *History*, 358–78, 400; and Shoup and Minter, *Imperial*, 17–18.

[55] Benjamin Strong, quoted in Charles Rist, "Notice biographique," *Revue d'économie politique* 65, no. 6 (November–December 1955): 1006; translation mine.

ously moved roughly in tandem with dividends, diverged widely as investors bid up prices higher and higher. Prices of high-tech stocks in communications, electrical equipment, appliances, and chemicals soared over 200 percent from 1926 to 1929. The stimulus to financial markets enriched Strong's Morgan friends, as Morgan partner George Whitney's brother Richard worked as the vice president of the nation's premier stock exchange, the New York Stock Exchange (NYSE). Throughout the decade the NYSE advised the New York Fed on "the state of the money situation" and what interest rate banks should be able to charge on call loans (loans used to purchase stocks).[56] The NYSE had a vested interest in keeping the rate low to pump up stock prices and communicated its desire to the Fed. Since the New York Fed dutifully told Wall Street banks they could borrow funds so they could lower the call loan rate charged to speculators, Strong's shot of whiskey encouraged stock market lending to soar. Between 1927 and 1928 J. P. Morgan & Co.'s call loans, for instance, more than doubled from $54 million to $110 million.[57]

The Federal Reserve, largely through the maneuverings of Strong, had engineered a significant expansion of credit over the course of the decade. Between June 1921 and December 1928 Fed easing was the primary factor that caused member bank reserves to increase 49 percent. It is true that gold reserves increased $866 million (29 percent), but banks chose to use the gold to pay back their loans to the Fed and thereby decrease their reserves, even though the Fed's discount rate policy was encouraging them to borrow more. What mattered was that the central bank pumped in credit, increasing the reserves that it controlled by nearly $2 billion (93 percent). Expansionary monetary policy, therefore, was the primary reason why the money supply rose 55 percent (6.4 percent per annum).

---

[56] "Hearings on Banking Systems, 1931," 95, quoted in Lawrence E. Clark, *Central Banking under the Federal Reserve: With Special Consideration of the Federal Reserve Bank of New York* (New York: Macmillan, 1935), 381.

[57] Anderson, *Economics*, 187–91; Board of Governors, *Banking*, 374–75; Chernow, *Morgan*, 312, 314; Clark, *Central*, 380–86; Barry Eichengreen and Kris J. Mitchener, "The Great Depression as a Credit Boom Gone Wrong," *Research in Economic History* 22 (2004): 190–91, 216–19; Friedman and Schwartz, *Statistics*, 19–25; Horn, *Morgan*, 22–23; Rothbard, *America's*, 109, 124–25, 144–45, 153–59; and Rothbard, "Gold-Exchange," 417–21.

The Fed's easy money caused a frothy bubble to form. Nominal spending rose 41 percent (5 percent per year) from 1922 to 1929 as businesses embarked on long-term production processes throughout the economy. The end of the decade was especially speculative. In the late 1920s, developers announced the construction of the Empire State Building and other record-breaking skyscrapers in New York City, many of which did not reflect present real-estate demand.[58]

While J. P. Morgan & Co. and the New York Fed were reconstructing the European monetary system through domestic credit expansion, National City Bank and the investment bank Dillon, Read & Co. expanded into South America. The major architect of reconstructing South American currencies on the gold-exchange standard was the intellectual Edwin Kemmerer. Another economics professor from Princeton, Kemmerer became the foremost expert on currency reform after Charles Conant died in 1915. Influenced by the monetary theorist Irving Fisher, Kemmerer helped transform the definition of inflation away from an increase in the money supply to an increase in the "supply of circulating media in excess of trade needs."[59] This was a short step away from the modern definition of a rise in the general level of prices, which obscures the causal relationship between changes in the money supply and changes in prices.

Kemmerer traveled to Colombia, Chile, Ecuador, and Bolivia and helped set up central banks that held dollar-denominated reserves. In reorganizing their currencies and finances, Kemmerer arranged for the countries to receive loans from Dillon, Read & Co. and National City Bank. Kemmerer received the support of Strong and the New York Fed, which dispatched representatives to accompany his missions. Flush with dollar reserves,

---

[58] Board of Governors, *Banking*, 374–75; Friedman and Schwartz, *Statistics*, 19–25; Johnston and Williamson, "GDP"; Newman, "Expansionary," 116–26; Rothbard, *America's*, 105, 109, 112–13; Mark Thornton, *The Skyscraper Curse: And How Austrian Economists Predicted Every Major Economic Crisis of the Last Century* (Auburn, AL: Mises Institute, 2018), 33, 36–37; and Vague, *Doom*, 22.

[59] Edwin Walter Kemmerer, *High Prices and Deflation* (Princeton, NJ: Princeton University Press, 1920), 3.

Wall Street loans, and new central banks, South America experienced wild booms in highways, railroads, and construction in the 1920s.[60]

Kemmerer misleadingly professed himself a detached man of science with "no connection with Dillon[,] Read & Co. or any other banking house that in any way or manner effected [*sic*] or touched my work."[61] In reality, he corresponded frequently and maintained friendly relationships with National City Bank officials, and Dillon, Read & Co. secretly paid Kemmerer a $3,000 annual retainer and donated $25,000 to Princeton so he could become the first chair of international economics. Moreover, Kemmerer, who earned $7,000 a year from Princeton, also earned fees between $70,000 and $100,000 on his South American missions. Even his assistants' salaries, writes Emily Rosenberg, "amounted to small fortunes in the budgets of impoverished countries, sometimes exceeding those of the local presidents."[62] Kemmerer's takings were quite the income for someone who was president of the American Economic Association in 1926. The actions of the "Money Doctor" vividly illustrate the symbiotic relationship between intellectuals eager for prestigious and lucrative positions and Wall Street banks desirous of government largesse.[63]

---

[60] Michael F. Bryan, "On the Origin and Evolution of the Word Inflation," Federal Reserve Bank of Cleveland *Economic Commentary*, October 15, 1997, 2–4; Eichengreen and Flandreau, "Rise," 400–401; Hudson, *Bankers*, 150–76; Palyi, *Twilight*, 116–17; Parrini, *Heir*, 273–74; Rosenberg, *Financial*, 154–65, 242; Rothbard, "Origins," 233–34; Joseph T. Salerno, "Money and Gold in the 1920s and 1930s: An Austrian View," in *Money, Sound and Unsound* (Auburn, AL: Ludwig von Mises Institute, 2010), 422–25; and Robert N. Seidel, "Reformers Abroad: The Kemmerer Missions in South America, 1923–1931," *Journal of Economic History* 32, no. 2 (June 1972): 523, 525–28, 533–36, 538.

[61] Edwin Kemmerer, 1925, quoted in Rosenberg, *Financial*, 197.

[62] Rosenberg, *Financial*, 225.

[63] Paul W. Drake, *The Money Doctor in the Andes: The Kemmerer Missions, 1923–1933* (Durham, NC: Duke University Press, 1989). Drake, *Money*, 9, 89, 107, 239; Rosenberg, *Financial*, 191; Emily S. Rosenberg, "Foundations of United States International Financial Power: Gold Standard Diplomacy, 1900–1905," *Business History Review* 59, no. 2 (Summer 1985): 200; and Seidel, "Reformers," 525–40.

By the end of the decade Wall Street had accomplished its goals through its central banker Governor Strong. His easy discount window kept New York a magnet for bankers' balances and solidified the cartel. From 1921 to 1928, as a share of central reserve city bank deposits, New York maintained its dominance at 76 percent while further increasing its bankers' balances from 70.5 percent to 76.8 percent. These balances became increasingly cartelized in Wall Street's elite institutions, with the share of the eight largest banks increasing from 72.1 percent in 1913 to 94.2 percent in 1926.[64]

Strong's involvement in creating the gold-exchange standard promoted the international use of the dollar. By 1929, twenty-eight countries were on the gold-exchange standard at overvalued exchange rates and mainly held pounds or dollars as reserves. Foreign acceptances in dollars exceeded foreign acceptances in pounds by a factor of two to one, and the dollar surpassed the pound as a reserve currency, constituting 55 percent of the foreign exchange reserves of central banks and governments. Leffingwell later summarized J. P. Morgan & Co.'s efforts to Lamont: "It seems to me that the job we did in the reconstruction of currencies all over the world was a good one."[65] Wall Street's plans had come to fruition.[66]

The money lords amassed the profits. At their center reigned the House of Morgan. Partners collected on average $1 million a year, with Morgan and Lamont earning as much as $5 million

---

64 Comptroller of the Currency, *Annual Report* (Washington, DC: Government Printing Office, 1921), 380, 413, 427; Comptroller of the Currency, *Annual Report* (Washington, DC: Government Printing Office, 1928), 405, 452; Selgin, "Bank," 162–65; and Leonard L. Watkins, *Bankers' Balances: A Study of the Effects of the Federal Reserve System on Banking Relationships* (Chicago: A. W. Shaw, 1929), 58–61.

65 Russell Leffingwell to Thomas Lamont, April 4, 1940, quoted in Priscilla Roberts, "Benjamin Strong, the Federal Reserve, and the Limits to Interwar American Nationalism Part II: Strong and the Federal Reserve System in the 1920s," *Federal Reserve Bank of Richmond Economic Quarterly* 86, no. 2 (Spring 2000): 95.

66 Barry Eichengreen, *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System* (New York: Oxford University Press, 2011), 32; Palyi, *Twilight*, 116–17; and Rothbard, "Gold-Exchange," 398–99.

(Lamont had become the number two after Henry Davison's untimely death in 1922). Moreover, in addition to maintaining close connections with Bankers Trust, Guaranty Trust, and First National, the Morgans engaged in business deals with Chase's Wiggin and Charles Mitchell, the president of National City Bank. In 1929, National City, Guaranty Trust, and Chase ranked as the nation's three largest banks in terms of assets—National City's totaled $2.2 billion, Guaranty's $2 billion, and Chase's $1.7 billion (by comparison, J. P. Morgan & Co.'s assets totaled $680 million). It is all too clear, then, that in the years following the passage of the Federal Reserve System in 1913—and not before, as commonly assumed—the Money Trust was stronger than ever.[67]

When Strong died in October 1928, Wall Street did not lose its grip on the New York Fed. His successor was George Harrison, Strong's deputy and a "Morgan loyalist," according to Ron Chernow.[68] Though not as forceful a central banker as Strong, Harrison was a suitable replacement for Wall Street. Furthermore, beginning in January 1929 National City's Mitchell served as a director of the august institution. The 1930s appeared to augur continued good times for Wall Street and the Morgans at their central bank.[69]

Their optimism was misplaced, for they had built the world economy on a house of cards. There is no question that some of the impressive 3.1 percent per annum rise in real GDP per capita from 1922 to 1929 represented genuine economic growth from electrification, assembly line production, and other technological innovations. The government's low-tax policy had partially encouraged this, and broad segments of society enjoyed the gains in wealth. Alongside this process, however, the Federal Reserve's interest rate slashing blew up bubbles in real estate and high-tech industries far above expected short-term profits.

[67] Philip H. Burch Jr., *Elites in American History*, vol. 3, *The New Deal to the Carter Administration* (New York: Holmes and Meier, 1981), 17; Chernow, *Morgan*, 219, 257, 371; Cleveland and Huertas, *Citibank*, 311; Freeman and McKinley, *Borrowed*, 136; Horn, *Morgan*, 54, 350; and Robertson, "St. Louis," 90–92.

[68] Chernow, *Morgan*, 382.

[69] Liaquat Ahamed, *Lords of Finance: The Bankers Who Broke the World* (New York: Penguin Books, 2009), 319; and Freeman and McKinley, *Borrowed*, 135–36.

The relatively constant consumer prices misled Strong, Fisher, Kemmerer, and other economists. They failed to realize that the absence of *price* inflation did not mean the absence of *monetary* inflation and its distortionary consequences: consumer prices were higher than they would have been without the monetary expansion, and prices in capital goods industries were unsustainably increasing. There were not enough savings to finance the long-term production processes because at the same time businesses were taking out loans consumers were borrowing from nonbank institutions to buy new automobiles, radios, and other appliances (the ratio of consumer debt to consumption spending increased from 5.7 percent in 1922 to 9.1 percent in 1929). Therefore, "the effect of Strong's low-interest-rate policy," writes Barry Eichengreen, was "less to rebalance the world economy than to unbalance the economy of the United States."[70] This would become devastatingly apparent at the end of the decade, when the public reaped the disastrous consequences of Wall Street's moneymaking machine.[71]

The Federal Reserve System is the epitome of regulatory capture of the corporatist state by big business. From the beginning Wall Street and its hired economists spearheaded the drive for a central bank. Big bankers overcame the Populist legislative threat in 1913 by having one of its own assume the reins of power at the New York Fed. Though not without fits and struggles, Benjamin Strong became the veritable head of the entire Federal Reserve System and maneuvered around the Federal Reserve Board. He used his position, in peacetime and war, to practice

[70] Eichengreen, *Hall*, 24.

[71] Ahmed Borazan, "Setting the Record Straight on the Recovery from the 1920–1921 Recession," *Cambridge Journal of Economics* 47, no. 2 (March 2023): 298–303; Eichengreen and Mitchener, "Credit," 191–99, 208–220; Johnston and Williamson, "GDP"; Rothbard, *America's*, 79–80, 93–94, 169–81; Gene Smiley, "A Note on New Estimates of the Distribution of Income in the 1920s," *Journal of Economic History* 60, no. 4 (December 2000); Gene Smiley, "The US Economy in the 1920s," in *EH.Net Encyclopedia*, ed. Robert Whaples, accessed July 24, 2024, https://eh.net/encyclopedia/the-u-s-economy-in-the-1920s/; and Sutch and Carter, *Historical*, 3:230, 775.

expansionary monetary policy and international monetary coordination that aided Wall Street banks, especially those associated with J. P. Morgan & Co. He was their ideal central banker, indispensable in their quest to absorb more bankers' balances and become worldwide financial intermediaries. Thus, when it came to the Federal Reserve, personnel indeed was policy.

With Wall Street's dominance of the Federal Reserve, corporatism had ascended the American throne.

CONCLUSION

By the close of the 1920s business elites in all sectors of the economy, led by the Wall Street bankers, had successfully lobbied the government to privilege and enforce their cartels and other anticompetitive restrictions. New York City banks used the Federal Reserve Bank of New York to protect their bankers' balances and promote dollar hegemony, corporations controlled the Federal Trade Commission and the Department of Commerce to enforce anticompetitive trade agreements and promote export cartels, the railroads secured rate minima and favorable Interstate Commerce Commission rules in the Transportation Act, and health interests acquired their own privileges from the Food and Drug Administration, the Department of Agriculture, and the National Institute of Health. In each case politicians, lobbyists, bankers, industrialists, bureaucrats, and intellectuals always advocated policies in the name of the public interest. But the real intent was to promote private interests. This regulatory capture represented the success of decades-long efforts to reduce competitive pressures in the marketplace.

If there was one group that lost out from the corporatist state, it was the broader public, the men and women who consumed and worked and belonged to no special-interest group. Free enterprise tends to satisfy consumer desires. Consumers learn from experimentation, networks, reputations, advertising, and other sources about the goods and services that best suit their ends. Businesses, big or small, that produce what consumers value earn profits, while those that fail to do so suffer losses. Increased savings and technological innovation grow the supplies and types of capital goods, which in turn raise the quality of consumer goods, workers' real wages, and living standards. These free-market forces were responsible for the increases in growth that occurred from 1849 to 1929.

The network of corporatist regulations, on the contrary, inhibited, delayed, and distorted progress. Inflationary bank credit from the Federal Reserve redistributed income to the government's favorites and misallocated resources through artificially low interest rates. In other sectors of the economy, barriers to entry and compliance costs burdened small- and medium-sized firms and their workers. This hurt young upstart companies and their ability to innovate and compete. Consequently, the supply of products and laborers was restricted or outright decreased, leading to higher prices and less variety and innovation. The increasing prohibition of price and wage competition resulted in growing rigidities, making markets less responsive and adaptive to changes in supply and demand. Dynamic competition gave way to ossification.

The public did not fully feel the long-term effects of corporatism until the Great Depression. The Federal Reserve's credit expansion contributed to a worldwide boom that ended when the money supply stopped increasing. As the economy entered a slump in late 1929, price and wage rigidity, created by the corporatist apparatus, hampered recovery. In contrast to the situation during the Depression of 1920–1921, wages remained rigid downward, a phenomenon exacerbated by the labor policies of the new president, Herbert Hoover. Firms' profits turned into losses, affecting their ability to pay back loans to banks. Failures of financial institutions mounted, deflating the money supply. Prices and especially wages were sluggish to adjust. As the Fed bought securities and made loans to banks, confidence decreased because domestic citizens and people abroad rightfully worried that not all the dollars would be redeemable in gold.

Fed expansion, therefore, produced monetary contraction and a collapse in trustworthiness of the banking sector and of the dollar. Unemployment mounted, output tanked, and businessmen turned to ever-more-radical solutions, including the frank imposition of a full-fledged corporatist state. The economy-wide cartelization reached its full potential during the New Deal. Then came the next evolution in cronyism, the United States' unstoppable welfare-warfare empire across the globe. In the name of boosting economic growth through Keynesian mercantilist fallacies, in the post–World War II years the American empire provided generous subsidies to the military sector and spent lavishly on entitlements, infrastructure boondoggles, and other programs. But that is the stuff of another book.

BIBLIOGRAPHY

Adams, Charles Francis, Jr. "The Railroad Problem (1879)." In *The Transformation of American Society, 1870–1890*, edited by John Garraty, 64–72. Columbia: University of South Carolina Press, 1968.

Adams, Henry. *The Letters of Henry Adams, 1892–1918*. Edited by Worthington Chauncey Ford. New York: Houghton Mifflin, 1938.

"Address of Welcome on Behalf of the Medical Profession of St. Louis." *Journal of the American Medical Association* 54, no.4 (June 11, 1910): 1989.

Ahamed, Liaquat. *Lords of Finance: The Bankers Who Broke the World*. New York: Penguin Books, 2009.

Akerlof, George A., and Robert J. Shiller. *Phishing for Phools: The Economics of Manipulation and Deception*. Princeton, NJ: Princeton University Press, 2015.

Alexander, Roberta Sue. "Salmon P. Chase." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, 88–105.

Anderson, Benjamin M. *Economics and the Public Welfare: A Financial and Economic History of the United States, 1914–1946*. Indianapolis, IN: Liberty Fund, 1979.

Anderson, Oscar E., Jr. *The Health of a Nation: Harvey W. Wiley and the Fight for Pure Food*. Chicago: University of Chicago Press, 1958.

Armentano, Dominick T. *Antitrust and Monopoly: Anatomy of a Policy Failure*, 2nd ed. Oakland, CA: Independent Institute, 1990.

Armour, J. Ogden. *The Packers, the Private Car Lines, and the People*. Philadelphia: Henry Altemus, 1906.

Arnesen, Eric. *Brotherhoods of Color: Black Railroad Workers and the Struggle for Equality*. Cambridge, MA: Harvard University Press, 2001.

———. "'Like Banquo's Ghost, It Will Not Down': The Race Question and the American Railroad Brotherhoods, 1880–1920." *American Historical Review* 99, no. 5 (December 1994): 1601–33.

Arpee, Edward. *Lake Forest, Illinois: History and Reminiscences, 1861–1961*. Lake Forest, IL: Rotary Club of Lake Forest, 1964.

Atack, Jeremy, Fred Bateman, and William Parker. "The Farm, the Farmer, and the Market." In *The Long Nineteenth Century*, edited by Stanley L. Engerman and Robert E. Gallman, 245–84. Vol. 2 of *The Cambridge Economic History of the United States*. New York: Cambridge University Press, 2000.

Atack, Jeremy, and Peter Passel. *A New Economic View of American History*. 2nd ed. New York: W. W. Norton, 1994.

Ayala, César J. *American Sugar Kingdom: The Plantation Economy of the Spanish Caribbean, 1898–1934*. Chapel Hill: University of North Carolina Press, 1999.

Barreyre, Nicolas. *Gold and Freedom: The Political Economy of Reconstruction*. Charlottesville: University of Virginia Press, 2015.

Becker, William H. *The Dynamics of Business-Government Relations: Industry and Exports, 1893–1921*. Chicago: University of Chicago Press, 1982.

Beito, David T. "Andrew Mellon." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 267–82.

Belmont, August. *Letters, Speeches, and Addresses of August Belmont*. Privately Printed, 1890, 6.

Belohlavek, John M. *Broken Glass: Caleb Cushing and the Shattering of the Union*. Kent, OH: Kent State University Press, 2005.

Bennett, James T. *Highway Heist: America's Crumbling Infrastructure and the Way Forward*. Oakland, CA: Independent Institute, 2022.

Bensel, Richard Franklin. *Passion and Preferences: William Jennings Bryan and the 1896 Democratic National Convention*. New York: Cambridge University Press, 2008.

———. *The Political Economy of American Industrialization, 1877–1900*. New York: Cambridge University Press, 2000.

———. *Sectionalism and American Political Development, 1880–1980*. Madison: University of Wisconsin Press, 1984.

———. *Yankee Leviathan: The Origins of Central State Authority in America, 1859–1877*. New York: Cambridge University Press, 2003.

Benson, Bruce L. "How to Secede in Business without Really Leaving: Evidence of the Substitution of Arbitration for Litigation." In

Secession, State and Liberty, edited by David Gordon, 243–86. New Brunswick, NJ: Transaction, 1998.

Benson, Lee. *Merchants, Farmers, and Railroads: Railroad Regulation and New York Politics, 1850–1887*. Cambridge, MA: Harvard University Press, 1955.

Benton-Cohen, Katherine. *Inventing the Immigration Problem: The Dillingham Commission and Its Legacy*. Cambridge, MA: Harvard University Press, 2018.

Berfield, Susan. *The Hour of Fate: Theodore Roosevelt, J. P. Morgan, and the Battle to Transform American Capitalism*. New York: Bloomsbury, 2020.

Berk, Gerald. *Louis D. Brandeis and the Making of Regulated Competition, 1900–1932*. New York: Cambridge University Press, 2009.

Berliner, Howard. "New Light on the Flexner Report: Notes on the AMA-Carnegie Foundation Background." *Bulletin of the History of Medicine* 51, no. 4 (Winter 1977): 603–09.

Bernstein, David E. *Only One Place of Redress: African Americans, Labor Regulations, and the Courts from Reconstruction to the New Deal*. Durham, NC: Duke University Press, 2001.

Bevan, Arthur Dean. "Cooperation in Medical Education and Medical Service." *Journal of the American Medical Association* 90, no. 15 (April 14, 1928): 1173–77.

Billings, Frank. "Medical Education in the United States." *Science* 17, no. 457 (May 15, 1903): 761–72.

Bird, Kai. *The Chairman: John J. McCloy and the Making of the American Establishment*. New York: Simon and Schuster, 1992.

Bishop, Joseph Bucklin. *Theodore Roosevelt and His Time: Shown in His Letters*. Vol. 1. New York: Charles Scribner's Sons, 1920.

Black, David. *The King of Fifth Avenue: The Fortunes of August Belmont*. New York: The Dial Press, 1981.

Blue, Frederick J. *Salmon P. Chase: A Life in Politics*. Kent, OH: Kent State University Press, 1987.

Board of Governors of the Federal Reserve System. *Banking and Monetary Statistics, 1914–1941*. Washington, DC: Federal Reserve System, 1943.

Bolt, William K. *Tariff Wars and the Politics of Jacksonian America*. Nashville, TN: Vanderbilt University Press, 2017.

Bonner, Thomas Neville. *Iconoclast: Abraham Flexner and a Life in Learning*. Baltimore: Johns Hopkins University Press, 2002.

Borazan, Ahmed. "Setting the Record Straight on the Recovery from the 1920–1921 Recession." *Cambridge Journal of Economics* 47, no. 2 (March 2023): 289–308.

Bostaph, Samuel. *Andrew Carnegie: An Economic Biography*, Updated ed. Lanham, MD: Rowman and Littlefield, 2017.

Boudreaux, Donald J., and Thomas J. DiLorenzo. "The Protectionist Roots of Antitrust." *Review of Austrian Economics* 6, no. 2 (September 1993): 81–96.

Bradley, Linda J., and Barbara D. Merino. "Stuart Chase: A Radical CPA and the Meat Packing Investigation, 1917–1918." *Business and Economic History* 23, no. 1 (Fall 1994): 190–200.

Bradley, Robert L., Jr. *Edison to Enron: Energy Markets and Political Strategies.* Salem, MA: M&M Scrivener Press, 2011.

———. *Oil, Gas, and Government: The U.S. Experience*. Vol. 1. Lanham, MD, and Washington, DC: Rowman and Littlefield and the Cato Institute, 1995.

Braeman, John. "'The People's Lawyer' Revisited: Louis D. Brandeis versus the United Shoe Machinery Company." *American Journal of Legal History* 50, no. 3 (July 2008–10): 284–304.

———. "The Square Deal in Action: A Case Study in the Growth of the 'National Police Power.'" In *Change and Continuity in Twentieth-Century America*, ed. John Braeman, Robert H. Bremner, and Everett Walters, 35–80. Columbus: Ohio State University Press, 1964.

Brandeis, Louis D. *Before the Interstate Commerce Commission, Docket No. 3400*. Boston, 1911.

———. "The Opportunity in the Law," May 1905. In *Business—A Profession*, 329–43. Boston: Small, Maynard, 1914.

Brandes, Stuart D. *Warhogs: A History of War Profits in America*. Lexington: University of Kentucky Press, 1997.

Brawley, Mark R. "'And We Would Have the Field': U.S. Steel and American Trade Policy, 1908–1912." *Business and Politics* 19, no. 3 (September 2017): 424–53.

Emily Briggs. "The Dragons of the Lobby," February 1869. In *The Olivia Letters*, 91–94. New York: Neale, 1906.

Briggs, Vernon M., Jr. *Immigration and American Unionism*. Ithaca, NY: Cornell University Press, 2001.

Brown, Dee. *Hear That Lonesome Whistle Blow: The Epic Story of the Transcontinental Railroads*. New York: First Owl Books, 2001.

Brown, E. Richard. *Rockefeller Medicine Men: Medicine and Capitalism in America*. Los Angeles: University of California Press, 1979.

Brown, Harry. “The Fleece and the Loom: Wool Growers and Wool Manufacturers during the Civil War Decade.” *Business History Review* 29, no. 1 (March 1955): 1–27.

Brown, John Howard. “Jeremiah Jenks: A Pioneer of Industrial Organization?” *Journal of the History of Economic Thought* 26, no. 1 (March 2004): 69–89.

Brownlee, W. Elliot. *Federal Taxation in America: A History*. 3rd ed. New York: Cambridge University Press, 2016.

———. “Russell Cornell Leffingwell.” In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 216–24.

———. “William Gibbs McAdoo.” In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 239–47.

Broz, J. Lawrence. *The International Origins of the Federal Reserve System*. Ithaca, NY: Cornell University Press, 1997.

Bryan, Michael F. “On the Origin and Evolution of the Word *Inflation*.” Federal Reserve Bank of Cleveland *Economic Commentary*, October 15, 1997.

Bryant, Keith L., Jr., ed. *Encyclopedia of American Business History and Biography: Railroads in the Age of Regulation, 1900–1980*. New York: Facts on File, 1988.

Bueno de Mesquita, Bruce, and Alastair Smith. *The Spoils of War: Greed, Power, and the Conflicts That Made Our Greatest Presidents*. New York: Public Affairs, 2016.

“Bulletin No. IV!” *National Eclectic Medical Association Quarterly* 2, no. 1 (September 1910): 62.

Burch, Philip H., Jr. *Elites in American History*. Vol. 1, *The Federalist Years to the Civil War*. New York: Holmes and Meier, 1981.

———. *Elites in American History*. Vol. 2, *The Civil War to the New Deal*. New York: Holmes and Meier, 1981.

———. *Elites in American History*. Vol. 3, *The New Deal to the Carter Administration*. New York: Holmes and Meier, 1981.

Burgess, George H., and Miles C. Kennedy. *Centennial History of the Pennsylvania Railroad Company, 1846–1946*. Philadelphia: Pennsylvania Railroad, 1949.

Burk, Kathleen. “The House of Morgan in Financial Diplomacy, 1920–1930.” In *Anglo-American Relations in the 1920s: The Struggle for Supremacy*, edited by B. J. C. McKercher, 125–57. London: Macmillan Press, 1991.

Burrow, James G. *Organized Medicine in the Progressive Era: The Move toward Monopoly*. Baltimore: Johns Hopkins University Press, 1977.

Butler, Dan. "Leland Stanford." In Frey, *Encyclopedia*, 376–79.

———. "Theodore Judah." In Frey, *Encyclopedia*, 213–15.

Calhoun, Charles W. *Minority Victory: Gilded Age Politics and the Front Porch Campaign of 1888*. Lawrence: University Press of Kansas, 2008.

Calomiris, Charles W. "Greenback Resumption and Silver Risk: The Economics and Politics of Monetary Regime Change in the United States, 1862–1900." In *Monetary Regimes in Transition*, edited by Michael Bordo and Forrest Capie, 86–132. New York: Cambridge University Press, 1993.

Calomiris, Charles W., and Stephen H. Haber. *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit*. Princeton, NJ: Princeton University Press, 2014.

Calomiris, Charles W., and Larry Schweikart, "The Panic of 1857: Origins, Transmission, and Containment." *Journal of Economic History* 51, no. 4 (December 1991): 807–34.

Calton, Christopher J. "Monstrous Monopolies and Vicious Competition: The General Incorporation Movement in Nineteenth-Century America." PhD diss., University of Florida, 2023.

Carlson, Kurt A. "Backing the Boys in the Civil War: Chicago's Home Front Supports the Troops—and Grows in the Process." *Journal of the Illinois State Historical Society* 104, no. 1–2 (Spring–Summer 2011): 140–65.

Carosso, Vincent P. *Investment Banking in America: A History*. Cambridge, MA: Harvard University Press, 1970.

———. *The Morgans: Private International Bankers, 1854–1913*. Cambridge, MA: Harvard University Press, 1987.

Carroll, Charles Holt. "Organization of Debt into Currency." In *Organization of Debt into Currency and Other Papers*, 86–94. New York: Arno Press, 1972. Reprint, Auburn, AL: Ludwig von Mises Institute, 2007.

Case, Josephine Young, and Everett Needham Case. *Owen D. Young and American Enterprise: A Biography*. Boston: David R. Godine, 1982.

Chandler, Alfred D., Jr. *The Visible Hand: The Managerial Revolution in American Business*. Cambridge, MA: Harvard University Press, 1977.

Chandler, Lester V. *Benjamin Strong, Central Banker*. Washington, DC: Brookings Institution, 1958.

Chausovsky, Jonathan. "From Bureau to Trade Commission: Agency Reputation in the Statebuilding Enterprise." *Journal of the Gilded Age and Progressive Era* 12, no. 3 (July 2013): 343–78.

Chernow, Ron. *The House of Morgan: An American Banking Dynasty and the Rise of Modern Finance*. New York: Simon and Schuster, 1990.

———. *Titan: The Life of John D. Rockefeller, Sr*. New York: Vintage Books, 1998.

———. *The Warburgs: The Twentieth-Century Odyssey of a Remarkable Jewish Family*. New York: Random House, 1993.

Childs, William R. *Trucking and the Public Interest: The Emergence of Federal Regulation, 1914–1940*. Knoxville: University of Tennessee Press, 1985.

Churella, Albert J. *The Pennsylvania Railroad*. Vol. 1, *Building an Empire, 1846–1917*. Philadelphia: University of Pennsylvania Press, 2013.

———. *The Pennsylvania Railroad*. Vol. 2, *The Age of Limits, 1917–1933*. Bloomington: Indiana University Press, 2023.

Clark, Lawrence E. *Central Banking under the Federal Reserve: With Special Consideration of the Federal Reserve Bank of New York*. New York: Macmillan, 1935.

Cleveland, Harold van B., and Thomas F. Huertas. *Citibank, 1812–1970*. Cambridge, MA: Harvard University Press, 1985.

Clews, Henry. *Fifty Years in Wall Street*. Vol. 2. New York: Irving, 1908.

Coben, Stanley. "Northeastern Business and Radical Reconstruction: A Re-examination." *Mississippi Valley Historical Review* 46, no. 1 (June 1959): 67–90.

Cochran, Thomas C. "Did the Civil War Retard Industrialization?" In *The Economic Impact of the American Civil War*, edited by Ralph Andreano, 148–60. Cambridge, MA: Schenkman, 1962.

Cohen, Benjamin R. *Pure Adulteration: Cheating on Nature in the Age of Manufactured Food*. Chicago: University of Chicago Press, 2019.

Cohen, Henry. *Business and Politics in America from the Age of Jackson to the Civil War: The Career Biography of W. W. Corcoran*. Westport, CT: Greenwood, 1971.

Collier, Peter, and David Horowitz. *The Rockefellers: An American Dynasty*. New York: New American Library, 1977.

Committee on the History of the Federal Reserve System. "Albert H. Wiggin." *Register of Papers*, November 3, 1955. *Federal Reserve Archival System for Economic Research FRASER*.

"Competition, Supply and Demand, and Medical Education." *Journal of the American Medical Association* 11, no.1 (September 15, 1888): 382–83.

Comptroller of the Currency. *Annual Report*. Washington, DC: Government Printing Office, 1921.

———. *Annual Report*. Washington, DC: Government Printing Office, 1928.

Conant, Charles. *The United States in the Orient.* New York: Houghton, Mifflin, 1900.

Congressional Quarterly, *American Political Leaders, 1789–2000*. Washington, DC: CQ Press, 2000.

Conner, Valerie J. "'The Mothers of the Race' in World War I: The National War Labor Board and Women in Industry." *Labor History* 21, no. 1 (1979–80): 31–54.

Coppin, Clayton A., and Jack High. *The Politics of Purity: Harvey Washington Wiley and the Origins of Federal Food Policy*. Ann Arbor: University of Michigan Press, 2002.

Corral, Emiliano, Jr. "'Morality Looms as Large as Legality': The United States Steel Corporation in the Progressive Era." PhD diss., University of Chicago, 2011.

Coryell, Janet L. "W. W. Corcoran." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, 146–50.

Cost, Jay. *A Republic No More: Big Government and the Rise of American Political Corruption*. New York: Encounter Books, 2015.

Craig, Douglas B. "'Don't You Hear All the Railroad Men Squeak?': William G. McAdoo, the United States Railroad Administration, and the Democratic Presidential Nomination of 1924." *Journal of American Studies* 48, no. 3 (August 2014): 777–95.

Crofts, Daniel W. *Lincoln and the Politics of Slavery: The Other Thirteenth Amendment and the Struggle to Save the Union*. Chapel Hill: University of North Carolina Press, 2016.

Cuff, Robert D. *The War Industries Board: Business-Government Relations during World War I*. Baltimore: Johns Hopkins University Press, 1973.

Cullom, Shelby M. *Fifty Years of Public Service*. Chicago: A. C. McClurg, 1911.

Culver, William W., and Cornel J. Reinhart. "Capitalist Dreams: Chile's Response to Nineteenth-Century World Copper Competition." *Comparative Studies in Society and History* 31, no. 4 (October 1989): 722–44.

Curry, Leonard P. *Blueprint for Modern America: Non-military Legislation of the First Civil War Congress*. Nashville, TN: Vanderbilt University Press, 1968.

Cutcliffe, Stephen H. “Federal Steel Company.” In *Encyclopedia of American Business History and Biography: The Iron and Steel Industry in the Twentieth Century*, edited by Bruce E. Seely, 128–29. New York: Facts on File, 1994.

Cyphers, Christopher J. *The National Civic Federation and the Making of a New Liberalism, 1900–1915*. Westport, CT: Praeger, 2002.

Daggett, Stuart. *Chapters on the History of the Southern Pacific*. New York: Ronald Press, 1922.

Dalzell, Robert F., Jr. *Enterprising Elite: The Boston Associates and the World They Made*. Cambridge, MA: Harvard University Press, 1987.

Danielian, N. R. *AT&T: The Story of Industrial Conquest*. New York: Arno Press, 1974.

Darné, Olivier, Amélie Charles, and Claude Diebolt, “A Revision of the US Business-Cycles Chronology 1790–1928.” *Economics Bulletin* 34, no. 1 (2014): 234–44.

Davis, George Cullom, Jr. “The Federal Trade Commission: Promise and Practice in Regulating Business, 1900–1929.” PhD diss., University of Illinois, 1969.

———. “The Transformation of the Federal Trade Commission, 1914–1929.” *Mississippi Valley Historical Review* 49, no. 3 (December 1962): 437–55.

Dayer, Roberta A. “Anglo-American Monetary Policy and Rivalry in Europe and the Far East, 1919–1931.” In *Anglo-American Relations in the 1920s: The Struggle for Supremacy*, edited by B. J. C. McKercher, 158–86. London: Macmillan Press, 1991.

———. *Finance and Empire: Sir Charles Addis, 1861–1945*. London: Macmillan, 1988.

———. “Strange Bedfellows: J. P. Morgan & Co., Whitehall and the Wilson Administration during World War I.” *Business History* 18, no. 2 (July 1976): 127–51.

DeCanio, Samuel. *Democracy and the Origins of the American Regulatory State*. New Haven, CT: Yale University Press, 2015.

Denson, John V. “Lincoln and the First Shot: A Study of Deceit and Deception.” In *Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom*, edited by John V. Denson, 231–88. Auburn, AL: Mises Institute, 2001.

Detzer, David. *Allegiance: Fort Sumter, Charleston, and the Beginning of the Civil War*. New York: Harcourt, 2001.

De Wolk, Roland. *American Disruptor: The Scandalous Life of Leland Stanford*. Oakland: University of California Press, 2019.

Dickinson, Z. Clark. “Bureaux for Economic and ‘Business’ Research in American Universities.” *Economic Journal* 35, no. 139 (September 1925): 398–418.

Dickson, Peter R., and Philippa K. Wells. “The Dubious Origins of the Sherman Antitrust Act: The Mouse That Roared.” *Journal of Public Policy and Marketing* 20, no. 1 (Spring 2001): 3–14.

DiLorenzo, Thomas J. “The Culture of Violence in the American West: Myth versus Reality.” *Independent Review* 15, no. 2 (Fall 2010): 227–39.

———. *How Capitalism Saved America: The Untold History of Our Country, from the Pilgrims to the Present*. New York: Crown Forum, 2004.

———. *Lincoln Unmasked: What You’re Not Supposed to Know about Dishonest Abe*. New York: Crown Forum, 2006.

———. “The Myth of Natural Monopoly.” *Review of Austrian Economics* 9, no. 2 (September 1996): 43–58.

———. “The Origins of Antitrust: An Interest-Group Perspective.” *International Review of Law and Economics* 5, no. 1 (June 1985): 73–90.

———. *The Real Lincoln: A New Look at Abraham Lincoln, His Agenda, and an Unnecessary War*. New York: Three Rivers Press, 2003.

Dirck, Brian. *Lincoln the Lawyer*. Chicago: University of Illinois Press, 2009.

Doenecke, Justus D. *Nothing Less than War: A New History of America’s Entry into World War I*. Lexington: University Press of Kentucky, 2011.

Doezema, William R. “Walker D. Hines.” In Bryant Jr., *Encyclopedia*, 201–12.

Domhoff, G. William. *The Corporate Rich and the Power Elite in the Twentieth Century: How They Won, Why Liberals and Labor Lost*. New York: Routledge, 2020.

Donaldson, Thomas. *The Public Domain: Its History, with Statistics*. Washington, DC, 1880.

Donaldson, Dave, and Richard Hornbeck. “Railroads and American Economic Growth: A ‘Market Access’ Approach.” *Quarterly Journal of Economics* 131, no. 2 (May 2016): 799–858.

Dorfman, Joseph. *The Economic Mind in American Civilization*. Volume 3, *1865–1918*. New York: Augustus M. Kelley, 1969.

“Dr. Edwin Francis Gay.” *Huntington Library Quarterly* 9, no. 3 (May 1946): 219–21.

Drabelle, Dennis. *The Great American Railroad War: How Ambrose Bierce and Frank Norris Took on the Notorious Central Pacific Railroad*. New York: St. Martin's Press, 2012.

Drake, Paul W. *The Money Doctor in the Andes: The Kemmerer Missions, 1923–1933*. Durham, NC: Duke University Press, 1989.

Duff, John. *A. Lincoln: Prairie Lawyer*. New York: Bramhall House, 1960.

Duquette, Nicolas J. "Founders' Fortunes and Philanthropy: A History of the U.S. Charitable-Contribution Deduction." *Business History Review* 93, no. 3 (Autumn 2019): 553–84.

Ecelbarger, Gary. *The Great Comeback: How Abraham Lincoln Beat the Odds to Win the 1860 Republican Nomination*. New York: St. Martin's Press, 2008.

Eddy, Arthur Jerome. *The New Competition*. New York: D. Appleton, 1912.

Eichengreen, Barry. *Exorbitant Privilege: The Rise and Fall of the Dollar and the Future of the International Monetary System*. New York: Oxford University Press, 2011.

———. *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939*. New York: Oxford University Press, 1995.

———. *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses—and Misuses—of History*. New York: Oxford University Press, 2015.

Eichengreen, Barry, and Marc Flandreau "The Rise and Fall of the Dollar (or When Did the Dollar Replace Sterling as the Leading International Currency?)." *European Review of Economic History* 13, no. 3 (December 2009): 377–411.

Eichengreen, Barry, and Kris J. Mitchener, "The Great Depression as a Credit Boom Gone Wrong." *Research in Economic History* 22 (2004): 183–237.

Eland, Ivan. *Recarving Rushmore: Ranking the Presidents on Peace, Prosperity, and Liberty*. Oakland, CA: Independent Institute, 2009.

Elzinga, Kenneth G. "In the Beginning: The Creation of the Economic Expert in Antitrust." *Journal of Law and Economics* 65, no. 52 (November 2022): 519–42.

Emery, Robert A. "Middle-Aged Agility: The ICC and Unregulated Trucking in the 1920's and 1930's." *Journal of Transportation Law, Logistics, and Policy* 75, no. 1 (Winter 2008): 36–39.

Eyal, Yonatan. *The Young America Movement and the Transformation of the Democratic Party, 1828–1861*. New York: Cambridge University Press, 2007.

Fairman, Charles. “Mr. Justice Bradley’s Appointment to the Supreme Court and the Legal Tender Cases.” *Harvard Law Review* 54, no. 6 (April 1941): 977–1034.

Ferguson, Thomas. “From ‘Normalcy’ to New Deal: Industrial Structure, Party Competition, and American Public Policy in the Great Depression.” In *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems*, 113–72. Chicago: University of Chicago Press, 1995.

———. “Party Realignment and American Industrial Structure: The Investment Theory of Political Parties in Historical Perspective.” In *Golden Rule: The Investment Theory of Party Competition and the Logic of Money-Driven Political Systems*, 17–110. Chicago: University of Chicago Press, 1995.

Fine, Sidney. *Laissez Faire and the General-Welfare State: A Study of Conflict in American Thought, 1865–1901*. Ann Arbor: University of Michigan Press, 1976.

Fishback, Price. “The Progressive Era.” In *Government and the American Economy: A New History*, by Price Fishback, Robert Higgs, Gary D. Libecap, et al., 288–322. Chicago: University of Chicago Press, 2007.

Fishbein, Morris. *The Medical Follies*. New York: Boni and Liveright, 1925.

Fishlow, Albert. “Internal Transportation in the Nineteenth and Early Twentieth Centuries.” In *The Long Nineteenth Century*, edited by Stanley L. Engerman and Robert E. Gallman, 543–642. Vol. 2 of *The Cambridge Economic History of the United States*. New York: Cambridge University Press, 2000.

Fitzsimons, David M. “Thomas W. Lamont.” In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 207–10.

Flexner, Abraham. *Medical Education in the United States and Canada: A Report to the Carnegie Foundation for the Advancement of Teaching*. Boston: D. B. Updike, Merrymount Press, 1910.

Flynn, John T. *God’s Gold: The Story of Rockefeller and His Times*. New York: Harcourt, Brace, 1932.

Fogel, Robert W. “The Union Pacific Railroad.” In *The Reinterpretation of American Economic History*, edited by Robert W. Fogel and Stanley L. Engerman, 417–25. New York: Harper and Row, 1971.

Fogel, Robert William, Enid M. Fogel, Mark Guglielmo, and Nathaniel Grotte. *Political Arithmetic: Simon Kuznets and the Empirical Tradition in Economics*. Chicago: University of Chicago Press, 2013.

Folsom, Burton W., Jr. *Empire Builders: How Michigan Entrepreneurs Helped Make America Great*. Traverse City, MI: Rhodes and Easton, 1998.

———. *The Myth of the Robber Barons: A New Look at the Rise of Big Business in America*. Herndon, VA: Young America's Foundation, 2007.

Folsom, Burton W., Jr., and Anita Folsom. *Uncle Sam Can't Count: A History of Failed Government Investments, from Beaver Pelts to Green Energy*. New York: Harper Collins, 2014.

Foner, Eric. *Reconstruction: America's Unfinished Revolution, 1863–1877*. New York: Harper and Row, 1988.

Forbes, John Douglas. *J. P. Morgan, Jr., 1867–1943*. Charlottesville: University Press of Virginia, 1981.

———. *Stettinius, Sr.: Portrait of a Morgan Partner.* Charlottesville: University Press of Virginia, 1974.

Fordham, Benjamin O. "Revisionism Reconsidered: Exports and American Intervention in World War I." *International Organization* 61, no. 2 (Spring 2007): 277–310.

Fosdick, Raymond B. *John D. Rockefeller, Jr.: A Portrait*. New York: Harper and Brothers, 1956.

Freeman, James, and Vern McKinley. *Borrowed Time: Two Centuries of Booms, Busts, and Bailouts at Citi*. New York: Harper Collins, 2018.

Frey, Robert L., ed. *Encyclopedia of American Business History and Biography: Railroads in the Nineteenth Century*. New York: Facts on File, 1988.

———. Introduction to Frey, *Encyclopedia*, xiii–xxxiii.

———. "Jay Cooke." In Frey, *Encyclopedia*, 57–63.

Friedman, Milton, and Anna Jacobson Schwartz. *A Monetary History of the United States, 1867–1960.* Princeton, NJ: Princeton University Press, 1963.

———. *Monetary Statistics of the United States: Estimates, Sources, Methods*. New York: National Bureau of Economic Research, 1970.

"G. Frank Lydston on 'Spinelessness,' Etc." *Eclectic Medical Journal* 74, no. 4 (April 1914): 192.

Gable, John Allen. *The Bull Moose Years: Theodore Roosevelt and the Progressive Party*. Port Washington, NY: Kennikat Press, 1978.

Gallman, Robert E. "Commodity Output 1839–1899." In *Trends in the American Economy in the 19th Century*, by National Bureau of Economic Research, 13–72. Princeton, NJ: Princeton University Press, 1960.

Garbade, Kenneth D. "The Early Years of the Primary Dealer System." *Federal Reserve Bank of New York Staff Reports*, no. 777 (June 2016).

Garraty, John A. *Right-Hand Man: The Life of George W. Perkins*. New York: Harper and Brothers, 1960.

Gates, Paul W. "The Homestead Law in an Incongruous Land System." *American Historical Review* 44, no.4 (July 1936): 652–81.

Geloso, Vincent, and Raymond J. March. "Rent Seeking for Madness: The Political Economy of Mental Asylums in the United States, 1870–1910." *Public Choice* 189, no. 3–4 (December 2021): 375–404.

Gibbons, Herbert Adams. *John Wanamaker*. Vol. 1. New York: Harper and Brothers, 1926.

Gilchrist, D. T. "Albert Fink and the Pooling System." *Business History Review* 34, no. 1 (Spring 1960): 24–49.

Gilligan, Thomas W., William J. Marshall, and Barry R. Weingast. "Regulation and the Theory of Legislative Choice: The Interstate Commerce Act of 1887." *Journal of Law and Economics* 32, no. 1 (April 1989): 35–61.

Giocoli, Nicola. "No Place for Law and Economics: The Controversy over Railroad Regulation before the Hepburn Act." *Research in the History of Economic Thought and Methodology* 34A (2016): 293–338.

Gische, David M. "The New York City Banks and the Development of the National Banking System, 1860–1870." *American Journal of Legal History* 23, no. 1 (January 1979): 21–67.

Glasner, David, ed. *Business Cycles and Depressions: An Encyclopedia*. New York: Garland, 1997.

Going, Charles Buxton. *David Wilmot, Free Soiler: A Biography of the Great Advocate of the Wilmot Proviso*. New York: Appleton, 1924.

Goldberg, Joseph P., and William T. Moye. *The First Hundred Years of the Bureau of Labor Statistics*. Washington, DC: Government Printing Office, 1985.

Goldin, Claudia. "Labor Markets in the Twentieth Century." In *The Twentieth Century*, edited by Stanley L. Engerman and Robert E. Gallman, 549–623. Vol. 3 of *The Cambridge Economic History of the United States*. New York: Cambridge University Press, 2000.

Goldstein, Mark L. *Before the Gilded Age: W. W. Corcoran and the Rise of American Capital and Culture*. Washington, DC: Georgetown University Press, 2023.

Goodwin, Lorine Swainston. *The Pure Food, Drink, and Drug Crusaders, 1879–1914*. Jefferson, NC: McFarland, 1999.

Gordon, Colin. *New Deals: Business, Labor, and Politics in America, 1920–1935*. New York: Cambridge University Press, 1994.

Gordon, Linda. *The Second Coming of the KKK: The Ku Klux Klan of the 1920s and the American Political Tradition*. New York: Liveright, 2017.

Gordon, Robert J. *The Rise and Fall of American Growth: The U.S. Standard of Living since the Civil War*. Princeton, NJ: Princeton University Press, 2016.

Granitz, Elizabeth, and Benjamin Klein. "Monopolization by 'Raising Rivals' Costs': The Standard Oil Case." *Journal of Law and Economics* 39, no. 1 (April 1996): 1–47.

Grant, James. *The Forgotten Depression, 1921: The Crash That Cured Itself*. New York: Simon and Schuster, 2014.

Gras, N. S. B., and Henrietta M. Larson. *Casebook in American Business History*. New York: Appleton Century Crofts, 1939.

Greever, William S. "Atchison, Topeka and Santa Fe Railway." In Frey, *Encyclopedia*, 15–17.

———. "Cyrus K. Holliday." In Frey, *Encyclopedia*, 182–84.

Gresham, Daniel T. "Reshaping the U.S. Cattle Industry: Producers and Packers, 1914–1933." PhD diss., Kansas State University, 2023.

Griffin, G. Edward. *The Creature from Jekyll Island: A Second Look at the Federal Reserve*. 4th ed. Westlake Village, CA: American Media: 2002.

Grodinsky, Julius. *Transcontinental Railway Strategy, 1869–1893: A Study of Businessmen*. Philadelphia: University of Pennsylvania Press, 1962.

Haeg, Larry. *Harriman vs. Hill: Wall Street's Great Railroad War*. Minneapolis: University of Minnesota Press, 2013.

Hamilton, Northcoate. "American Iron and Steel Association." In Paskoff, *Encyclopedia*, 20–23.

Hamilton, Richard F. *President McKinley, War and Empire*. Vol. 1, *President McKinley and the Coming of War, 1898*. New York: Routledge, 2017.

Hammond, Bray. *Sovereignty and an Empty Purse: Banks and Politics in the Civil War*. Princeton, NJ: Princeton University Press, 1970.

Hamowy, Ronald. "The Early Development of Medical Licensing Laws in the United States, 1875–1900." *Journal of Libertarian Studies* 3, no. 1 (Spring 1979): 73–119.

———. *Government and Public Health in America*. Cheltenham, UK: Edward Elgar, 2007.

Hanes, Christopher. "Business Cycles." In *Routledge Handbook of Modern Economic History*, edited by Robert Whaples and Randall Parker, 116–35. New York: Routledge, 2013.

Harden, Victoria A. *Inventing the NIH: Federal Biomedical Research Policy, 1887–1937*. Baltimore: Johns Hopkins University Press, 1986.

Harter, Lafayette G., Jr. *John R. Commons, His Assault on Laissez-Faire*. Corvallis: Oregon State University Press, 1962.

Hawley, Ellis W. "Herbert Hoover, the Commerce Secretariat, and the Vision of an 'Associative State,' 1921–1928." *Journal of American History* 61, no. 1 (June 1974): 116–40.

———. "Herbert Hoover and the Sherman Act, 1921–1933: An Early Phase of a Continuing Issue." *Iowa Law Review* 74 (July 1989): 1067–1104.

Healy, David. *US Expansionism: The Imperialist Urge in the 1890s*. Madison: University of Wisconsin Press, 1970.

Heitmann, John A. "Joseph H. Scranton." In Paskoff, *Encyclopedia*, 306–07.

Helferich, Gerard. *An Unlikely Trust: Theodore Roosevelt, J. P. Morgan, and the Improbable Partnership That Remade American Business*. Guilford, CT: Lyons Press, 2018.

Hidy, Ralph W., and Muriel E. Hidy. *Pioneering in Big Business: History of Standard Oil Company (New Jersey), 1882–1911*. New York: Harper and Brothers, 1955.

Higgs, Robert. *Crisis and Leviathan: Critical Episodes in the Growth of American Government*. Oakland, CA: Independent Institute, 2012.

———. "Regulatory Harmonization: A Sweet-Sounding, Dangerous Development." In *Against Leviathan: Government Power and a Free Society*, 75–82. Oakland, CA: Independent Institute, 2004.

———. *The Transformation of the American Economy, 1865–1914*. New York: John Wiley and Sons, 1971.

———. "Who Was Edward M. House?" In *Delusions of Power: New Explorations of the State, War, and Economy*, 115–24. Oakland, CA: Independent Institute, 2012.

———. "The World Wars." In *Government and the American Economy: A New History*, edited by Price Fishback, 431–55. Chicago: University of Chicago Press, 2007.

Himmelberg, Robert F. "Business, Antitrust Policy, and the Industrial Board of the Department of Commerce, 1919." *Business History Review* 42, no. 1 (Spring 1968): 1–23.

———. *The Origins of the National Recovery Administration: Business, Government, and the Trade Association Issue, 1921–1933*. New York: Fordham University Press, 1976.

Hipp, James W. "Oakes Ames." In Frey, *Encyclopedia*, 12–14.

Hirsch, Mark D. *William C. Whitney: Modern Warwick*. Hamden, CT: Archon Books, 1969.

Hoffmann, Susan. *Politics and Banking: Ideas, Public Policy, and the Creation of Financial Institutions*. Baltimore: Johns Hopkins University Press, 2001.

Holt, Michael F. *The Election of 1860: A Campaign Fraught with Consequences*. Lawrence: University Press of Kansas, 2017.

Holzweiss, Robert F. "Politics, Profits, and the Public Interest: Government, Railroads, and Interest Groups, 1827–1976." PhD diss., Texas A&M, 2001.

Homer, Sidney, and Richard Sylla. *A History of Interest Rates*. 4th ed. Hoboken, NJ: John Wiley and Sons, 2005.

Hoogenboom, Ari, and Olive Hoogenboom. *A History of the ICC: From Panacea to Palliative*. New York: W. W. Norton, 1976.

Hoover, Herbert. *The Memoirs of Herbert Hoover*. Vol. 2, *The Cabinet and the Presidency, 1920–1933*. New York: Macmillan, 1951.

Horn, Martin. *J. P. Morgan & Co. and the Crisis of Capitalism: From the Wall Street Crash to World War II*. New York: Cambridge University Press, 2022.

———. "A Private Bank at War: J. P. Morgan & Co. and France, 1914–1918." *Business History Review* 74, no. 1 (Spring 2000): 85–112.

Hovey, Carl. *The Life Story of J. Pierpont Morgan.* New York, 1911.

Hudson, Peter James. *Bankers and Empire: How Wall Street Colonized the Caribbean*. Chicago: University of Chicago Press, 2017.

Hummel, Jeffrey Rogers. *Emancipating Slaves, Enslaving Free Men: A History of the American Civil War*. Chicago: Open Court, 2002.

Hunter, Gregory S. "Chase/Manhattan Companies." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, 106–7.

Hurley, Edward N. *Awakening of Business*. New York: Doubleday, Page, 1916.

Huston, James L. *The Panic of 1857 and the Coming of the Civil War*. Baton Rouge: Louisiana State University Press, 1987.

Irwin, Douglas A. *Clashing over Commerce: A History of US Trade Policy*. Chicago: University of Chicago Press, 2017.

Jacob, Kathryn Allamong. *King of the Lobby: The Life and Times of Sam*

Ward, Man-about-Washington in the Gilded Age. Baltimore: Johns Hopkins University Press, 2010.

James, F. Cyril. *The Growth of Chicago Banks*. Vol. 1, *The Formative Years, 1816–1896*. New York: Harper and Brothers, 1938.

Jaremski, Matthew. "State Banks and the National Banking Acts: Measuring the Response to Increased Financial Regulation, 1860–1870." *Journal of Money, Credit and Banking* 45, no. 2–3 (March–April 2013): 379–99.

Jenks, Jeremiah Whipple. "The Economic Outlook." *Dial* 10 (1890): 252–54.

———."Preliminary Report of the Industrial Commission." In *The Trust Problem*, rev. ed., 261–66. New York: McClure, Phillips, 1903.

Jensen, Gordon Maurice. "The National Civic Federation." PhD diss., Princeton University, 1956.

Jevons, William Stanley. *The Coal Question: An Inquiry Concerning the Progress of the Nation, and Probable Exhaustion of Our Coal-mines.* London: 1866.

Johnson, Arthur M. "Theodore Roosevelt and the Bureau of Corporations." *Mississippi Valley Historical Review* 45, no. 4 (March 1959): 571–90.

Johnson, Arthur M., and Barry E. Supple. *Boston Capitalists and Western Railroads: A Study in the Nineteenth-Century Railroad Investment Process*. Cambridge, MA: Harvard University Press, 1967.

Johnson, C. Donald. *The Wealth of a Nation: A History of Trade Politics in America*. New York: Oxford University Press, 2018.

Johnson, Ronald N., and Gary D. Libecap, *The Federal Civil Service System and the Problem of Bureaucracy: The Economics and Politics of Institutional Change*. Chicago: University of Chicago Press, 1994.

Jones, Alan. "Thomas M. Cooley and the Interstate Commerce Commission: Continuity and Change in the Doctrine of Equal Rights." *Political Science Quarterly* 81, no. 4 (December 1966): 602–27.

Jones, Stanley L. *The Presidential Election of 1896*. Madison: University of Wisconsin Press, 1964.

Josephson, Matthew. *The Money Lords: The Great Finance Capitalists, 1925–1950*. New York: Weybright and Talley, 1972.

———. *The Politicos, 1865–1896*. New York: Harcourt, Brace and World, 1966.

———. *The Robber Barons*. New York: Harcourt, Brace, 1962.

Katz, Irving. *August Belmont: A Political Biography*. New York: Columbia University Press, 1968.

Kaufman, Burton I. *Efficiency and Expansion: Foreign Trade Organization in the Wilson Administration, 1913–1921*. Westport, CT: Greenwood Press, 1974.

Kelley, Robert. *The Cultural Pattern in American Politics: The First Century*. New York: University Press of America, 1979.

———. *The Transatlantic Persuasion: The Liberal-Democratic Mind in the Age of Gladstone*. New York: Alfred A. Knopf, 1969.

Kemabonta, Tam. "Condemnation for Transmission: Challenging the Power of Eminent Domain and Natural Monopoly in the Electric Power Sector." Master's thesis, Mises Graduate Program, 2024.

Kemmerer, Edwin Walter. *High Prices and Deflation*. Princeton, NJ: Princeton University Press, 1920.

Kerr, K. Austin. *American Railroad Politics, 1914–1920: Rates, Wages, and Efficiency*. Pittsburgh: University of Pittsburgh Press, 1968.

Kessel, Reuben A. "The A.M.A. and the Supply of Physicians." *Law and Contemporary Problems* 35 (Spring 1970): 267–83.

———. "Price Discrimination in Medicine." *Journal of Law and Economics* 1 (October 1958): 20–53.

Kirby, Alec. "Thomas C. Durant." In Frey, *Encyclopedia*, 111–15.

Kirkland, Edward C. *Industry Comes of Age: Business, Labor, and Public Policy, 1860–1897*. New York: Holt, Rinehart and Winston, 1961.

Kirshner, Jonathan. *Appeasing Bankers: Financial Caution on the Road to War*. Princeton, NJ: Princeton University Press, 2007.

Klebaner, Benjamin J. "Nelson W. Aldrich." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, 6–9.

———. "Paul M. Warburg." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 437–51.

Klein, Maury. *The Life and Legend of E. H. Harriman*. Chapel Hill: University of North Carolina Press, 2000.

———. *Union Pacific.* Vol. 1, *1862–1893*. Minneapolis: University of Minnesota Press, 2006.

———. *Union Pacific*. Vol. 2, *1894–1969*. Minneapolis: University of Minnesota Press, 2006.

Kolasky, William. "Theodore Roosevelt and William Howard Taft: Marching toward Armageddon." *Antitrust* 25, no. 2 (Spring 2011): 97–104.

Kolko, Gabriel. *Main Currents in Modern American History*. New York: Pantheon Books, 1984.

———. *Railroads and Regulation, 1877–1916*. Princeton, NJ: Princeton University Press, 1965.

———. *The Triumph of Conservatism: A Reinterpretation of American History, 1900–1916*. New York: Free Press, 1963.

Konig, Michael F. "George F. Baker." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, 26–30.

Kreitner, Richard. *Break It Up: Secession, Division, and the Secret History of America's Imperfect Union*. New York: Little, Brown, 2020.

Lambert, Jeremiah D., and Geoffrey S. Stewart. *The Anointed: New York's White-Shoe Law Firms*. Guilford, CT: Lyons Press, 2021.

Lamont, Edward M. *The Ambassador from Wall Street: The Story of Thomas W. Lamont, J. P. Morgan's Chief Executive*. Lanham, MD: Madison Books, 1994.

Lamont, Thomas W. "The Effect of the War on America's Financial Position." *Annuals of the Academy of Political Science* 60 (July 1915): 106–12.

Lamoreaux, Naomi R. *The Great Merger Movement in American Business, 1896–1904.* New York: Cambridge University Press, 1985.

Larson, Henrietta M. *Jay Cooke, Private Banker*. Cambridge, MA: Harvard University Press, 1936.

Larson, Henrietta M., Evelyn H. Knowlton, and Charles S. Popple. *New Horizons: History of Standard Oil Company (New Jersey) 1927–1950*. New York: Harper and Row, 1971.

Larson, John Lauritz. "James Frederick Joy." In Frey, *Encyclopedia*, 208–12.

Lavender, David. *The Great Persuader: The Biography of Collis P. Huntington*. New York: Doubleday, 1970.

Law, Marc T. "How Do Regulators Regulate? Enforcement of the Pure Food and Drugs Act, 1907–38." *Journal of Law, Economics, and Organization* 22, no. 2 (October 2006): 459–87.

Lebergott, Stanley. "Changes in Unemployment, 1800–1960." In *The Reinterpretation of American Economic History*, edited by Robert W. Fogel and Stanley L. Engerman, 73–83. New York: Harper and Row, 1971.

Lee, Susan Previant, and Peter Passell. *A New Economic View of American History*. New York: W. W. Norton, 1979.

Leech, Harper, and John Charles Carroll. *Armour and His Times*. New York: D. Appleton-Century, 1938.

Leonard, Thomas C. *Illiberal Reformers: Race, Eugenics, and American Economics in the Progressive Era*. Princeton, NJ: Princeton University Press, 2016.

Leslie, Stuart W. "Andrew Carnegie." In Paskoff, *Encyclopedia*, 47–71.

Lesy, Michael, and Lisa Stoffer. *Repast: Dining Out at the Dawn of the New American Century, 1900–1910*. New York: W. W. Norton, 2013.

Letwin, William. *Law and Economic Policy in America: The Evolution of the Sherman Antitrust Act*. New York: Random House, 1965.

Libecap, Gary D. "The Rise of the Chicago Packers and the Origins of Meat Inspection and Antitrust." *Economic Inquiry* 30, no. 2 (April 1992): 242–62.

Lincoln, Abraham. *The Collected Works of Abraham Lincoln*. Edited by Roy Basler. Vol. 3, *1858–1860*. New Brunswick, NJ: Rutgers University Press, 1953.

Lindbergh, Charles A. *Banking and Currency and the Money Trust*. Washington, DC: National Capital Press, 1913.

Link, Arthur S. *Wilson: The New Freedom*. Princeton, NJ: Princeton University Press, 1956.

Livingston, James. *The Origins of the Federal Reserve System: Money, Class, and Corporate Capitalism, 1890–1913*. Ithaca, NY: Cornell University Press, 1986.

Logan, Sheridan A. *George F. Baker and His Bank, 1840–1955*. Stinehour Press and Meriden Gravure, 1981.

Loth, David. *Swope of G.E.* New York: Simon and Schuster, 1958.

Lowenstein, Roger. *America's Bank: The Epic Struggle to Create the Federal Reserve*. New York: Penguin Press, 2015.

———. *Ways and Means: Lincoln and His Cabinet and the Financing of the Civil War*. New York: Penguin Press, 2022.

Lubetkin, M. John. *Jay Cooke's Gamble: The Northern Pacific Railroad, the Sioux, and the Panic of 1873.* Norman: University of Oklahoma Press, 2006.

Lueckenhoff, Sandra K. "A. Lincoln, a Corporate Attorney and the Illinois Central Railroad." *Missouri Law Review* 61, no. 2 (Spring 1996): 393–428.

Lundberg, Ferdinand. *America's Sixty Families*. New York: Halcyon House, 1939.

Luthin, Reinhard. "Abraham Lincoln and the Tariff." *American Historical Review* 49, no.4 (July 1944): 609–29.

MacAvoy, Paul W. *The Economic Effects of Regulation: The Trunk-Line Railroad Cartels and the Interstate Commerce Commission before 1900*. Cambridge, MA: MIT Press, 1965.

Magness, Phillip W. "Morrill and the Missing Industries: Strategic Lobbying Behavior and the Tariff, 1858–1861." *Journal of the Early Republic* 29, no. 2 (Summer 2009): 287–329.

———. "A Paradox of Secessionism: The Political Economy of Slave Enforcement and the Union." In *Public Choice Analyses of American Economic History*, edited by Joshua Hall and Marcus Witcher, 1:53–68. Cham, Switz.: Springer, 2018.

———. Review of *Lincoln and the Politics of Slavery: The Other Thirteenth Amendment and the Struggle to Save the Union*, by Daniel W. Crofts. *Reviews in History*, no. 2063 (February 2017).

Majewski, John. *Modernizing a Slave Economy: The Economic Vision of the Confederate Nation*. Chapel Hill: University of North Carolina Press, 2009.

Malone, Michael P. *The Battle for Butte: Mining and Politics on the Northern Frontier, 1865–1906*. Seattle: University of Washington Press, 1981.

———. *James J. Hill: Empire Builder of the Northwest*. Norman: University of Oklahoma Press, 1997.

Malsberger, John W. "Bethlehem Iron Company." In Paskoff, *Encyclopedia*, 33–36.

Markowitz, Gerald E., and David Karl Rosner. "Doctors in Crisis: A Study of the Use of Medical Education Reform to Establish Modern Professional Elitism in Medicine." *American Quarterly* 25, no. 1 (March 1973): 83–107.

Martin, Albro. *James J. Hill and the Opening of the Northwest*. Minneapolis: Minnesota Historical Society Press, 1991.

———. *Enterprise Denied: Origins of the Decline of American Railroads, 1897–1917*. New York: Columbia University Press, 1971.

Martin, E. S. *The Life of Joseph Hodges Choate*. Vol. 2. New York: Charles Scribner's Sons, 1920.

Matsuo, Kazuyuki. "Congressional Struggle for the First American Regulatory Agency: The Formation of the Interstate Commerce Commission as a Prelude to Modern America." *Journal of American and Canadian Studies* no. 17 (1999): 25–48.

McClure, A. K. *Old Time Notes of Pennsylvania*. Vol. 2. Philadelphia: John C. Winston, 1906.

McCraw, Thomas K. *Prophets of Regulation*. Cambridge, MA: Harvard University Press, 1984.

McCraw, Thomas K., and Forest Reinhardt. "Losing to Win: U.S. Steel's Pricing, Investment Decisions, and Market Share, 1901–1938." *Journal of Economic History* 49, no. 3 (September 1989): 593–619.

McCulley, Richard T. *Banks and Politics during the Progressive Era: The Origins of the Federal Reserve System, 1897–1913*. New York: Garland, 1992.

McIntosh, Elaine N. *American Food Habits in Historical Perspective*. Westport, CT: Praeger, 1995.

McNeil, William C. "Seymour Parker Gilbert, Jr." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 144–56.

McQuaid, Kim. "Young, Swope and General Electric's 'New Capitalism': A Study in Corporate Liberalism, 1920–33." *American Journal of Economics and Sociology* 36, no. 3 (July 1977): 323–34.

Meltzer, Allan. *A History of the Federal Reserve*. Vol. 1, *1913–1951*. Chicago: University of Chicago Press, 2003.

Mercer, Lloyd J. "Edward Henry Harriman." In Frey, *Encyclopedia*, 155–64.

Merrill, Horace Samuel. *Bourbon Leader: Grover Cleveland and the Democratic Party*. Boston: Little, Brown, 1957.

Merrill, Horace Samuel, and Marion Galbraith Merrill. *The Republican Command, 1897–1913*. Lexington: University Press of Kentucky, 1971.

Meyer, Balthasar. "Government Regulation of Railway Rates." *Publications of the American Economic Association* 7, no.1 (February 1906): 69–83.

Meyer, David R. *The Roots of American Industrialization*. Baltimore: Johns Hopkins University Press, 2003.

Mink, Gwendolyn. *Old Labor and New Immigrants in American Political Development: Union, Party, and State, 1875–1920*. Ithaca, NY: Cornell University Press, 1986.

Mitchell, Lucy Sprague. *Two Lives: The Story of Wesley Clair Mitchell and Myself*. New York: Simon and Schuster, 1953.

Mitchell, Robert B. *Congress and the King of Frauds: Corruption and the Credit Mobilier Scandal at the Dawn of the Gilded Age*. Roseville, MN: Edinborough Press, 2019.

Mitenbuler, Reid. *Bourbon Empire: The Past and Future of America's Whiskey*. New York: Penguin Books, 2015.

Montgomery, Robert. "Corporation Tax Returns." *Journal of Accountancy* 15, no.2 (February 1913): 134–39.

Moore, Thomas Lane, III. "The Establishment of a 'New Freedom' Policy: The Federal Trade Commission, 1912–1918." PhD diss., University of Alabama, 1980.

Morgan, H. Wayne. *William McKinley and His America*. Rev. ed. Kent, OH: Kent State University Press, 2003.

Morris, Charles R. *The Tycoons: How Andrew Carnegie, John D. Rockefeller, Jay Gould, and J. P. Morgan Invented the American Supereconomy*. New York: Henry Holt, 2005.

Morris, Edmund. *Theodore Rex*. New York: Random House, 2001.

Mott, T. Bentley. *Myron Herrick—Friend of France*. New York: Doubleday, Doran, 1929.

Mullin, Wallace P. "Railroad Revisionists Revisited: Stock Market Evidence from the Progressive Era." *Journal of Regulatory Economics* 17, no. 1 (February 2000): 25–47.

Murnane, M. Susan. "Selling Scientific Taxation: The Treasury Department's Campaign for Tax Reform in the 1920s." *Law and Social Inquiry* 29, no. 4 (Autumn 2004): 819–56.

Murray, Lawrence L. "Bureaucracy and Bi-partisanship in Taxation: The Mellon Plan Revisited." *Business History Review* 52, no. 2 (Summer 1978): 200–25.

Myers, Margaret G. *The New York Money Market*. Vol. 1, *Origins and Development*. New York: Columbia University Press, 1931.

Naclerio, Richard A. *The Federal Reserve and Its Founders: Money, Politics, and Power*. Newcastle upon Tyne, UK: Agenda, 2018.

Neilson, James W. *Shelby M. Cullom: Prairie State Republican*. Urbana: University of Illinois Press, 1962.

Nelson, Scott Reynolds. *A Nation of Deadbeats: An Uncommon History of America's Financial Disasters*. New York: Alfred A. Knopf, 2012.

Nevins, Allan. *Grover Cleveland, a Study in Courage*. New York: Dodd, Mead, 1964.

Newman, Patrick. *Cronyism: Liberty versus Power in Early America, 1607–1849*. Auburn, AL: Mises Institute, 2021.

———. "Defending the Austrian Interpretation of the 1920–21 Depression: Reply to Borazan." *Quarterly Journal of Austrian Economics* 26, no. 4 (Winter 2023): 325–30.

———. "The Depression of 1873–1879: An Austrian Perspective." *Quarterly Journal of Austrian Economics* 17, no. 4 (Winter 2014): 474–509.

———. “The Depression of 1920–1921: A Credit Induced Boom and a Market Based Recovery?” *Review of Austrian Economics* 29, no. 4 (December 2016): 387–414.

———. “Expansionary Monetary Policy at the Federal Reserve in the 1920s.” *Advances in Austrian Economics* 20 (2016): 105–34.

———. “The Origins of the National Banking System: The Chase-Cooke Connection and the New York City Banks.” *Independent Review* 22, no. 3 (Winter 2018): 383–401.

———. “Personnel Is Policy: Regulatory Capture at the Federal Trade Commission, 1914–1929.” *Journal of Institutional Economics* 15, no. 6 (December 2019): 1037–53.

———. “Playing the Defense: The Beef Trust, Cronyism, and the 1891 and 1906 Meat Inspection Acts.” *Independent Review* 29, no. 1 (Summer 2024): 31–54.

———. “Revenge: John Sherman, Russell Alger and the Origins of the Sherman Act.” *Public Choice* 174, no. 3 (March 2018): 257–75.

———. “Taking Government Out of Politics: Murray Rothbard on Political and Local Reform during the Progressive Era.” *Quarterly Journal of Austrian Economics* 22, no. 1 (Spring 2019): 49–67.

Noble, David F. *America by Design: Science, Technology, and the Rise of Corporate Capitalism*. New York: Oxford University Press, 1977.

Notz, William F., and Richard S. Harvey. *American Foreign Trade: As Promoted by the Webb-Pomerene and Edge Acts*. Indianapolis, IN: Bobbs-Merrill, 1921.

Nugent, Walter. *Habits of Empire: A History of American Expansion*. New York: Vintage Books, 2008.

Oberholtzer, Ellis Paxson. *Jay Cooke: Financier of the Civil War*. 2 vols. Philadelphia: George W. Jacobs, 1907.

O’Brien, Anthony Patrick. “The ICC, Freight Rates, and the Great Depression.” *Explorations in Economic History* 26, no. 1 (January 1989): 73–98.

———. “Were Money Wages Always Rigid? A Look at the Reliability of Survey Evidence on Changes in Wage Rates.” *Industrial Relations* 39, no. 1 (January 2000): 48–61.

Oller, John. *American Queen: The Rise and Fall of Kate Chase Sprague—Civil War “Belle of the North” and Gilded Age Woman of Scandal*. Philadelphia: Da Capo Press, 2014.

Olmstead, Alan L., and Paul W. Rhode. *Arresting Contagion: Science, Policy, and Conflicts over Animal Disease Control*. Cambridge, MA: Harvard University Press, 2015.

Osler, William. "Sir William Osler: On Full-time Clinical Teaching in Medical Schools." *Canadian Medical Association Journal* 87 (October 6, 1962): 762–65.

Ozanne, Robert. *A Century of Labor-Management Relations at McCormick and International Harvester*. Madison: University of Wisconsin Press, 1967.

Page, William H. "The Gary Dinners and the Meaning of Concerted Action." *SMU Law Review* 62 (Spring 2009): 597–620.

Palen, Marc-William. *The "Conspiracy" of Free Trade: The Anglo-American Struggle over Empire and Economic Globalization, 1846–1896*. New York: Cambridge University Press, 2016.

Palmer, R. R., and Joel Colton. *A History of the Modern World*. 8th ed. New York: McGraw-Hill, 1995.

Palyi, Melchior. *The Twilight of Gold, 1914–1936: Myths and Realities*. Chicago: Henry Regnery, 1972.

Parker, George F. *Recollections of Grover Cleveland*. New York: Century, 1909.

Parrington, Vernon Louis. *Main Currents in American Thought: An Interpretation of American Literature from the Beginnings to 1920*. Vol. 3, *The Beginnings of Critical Realism in America, 1860–1920*. New York: Harcourt, Brace, 1927.

Parrini, Carl P. *Heir to Empire: United States Economic Diplomacy, 1916–1923*. Pittsburgh: University of Pittsburgh Press, 1969.

Parrini, Carl P., and Martin J. Sklar. "New Thinking about the Market, 1896–1904: Some American Economists on Investment and the Theory of Surplus Capital." *Journal of Economic History* 43, no. 3 (September 1983): 559–78.

Paskoff, Paul A., ed. *Encyclopedia of American Business History and Biography: The Iron and Steel Industry in the Nineteenth Century*. New York: Facts on File, 1989.

Paul, Ron, and Lewis Lehrman. *The Case for Gold: A Minority Report of the U.S. Gold Commission*. Washington, DC: Cato Institute, 1982.

Peart, Daniel. *Lobbyists and the Making of US Tariff Policy, 1816–1861*. Baltimore: Johns Hopkins University Press, 2018.

Peng, Linan. "The Political Economy of the Anti-Chinese Movement in California in the Nineteenth Century." *Journal of Economics, Race, and Policy* 5, no. 1 (March 2022): 13–24.

Perkins, George W. Papers. Rare Book and Manuscript Library, Columbia University.

Phillips Sawyer, Laura. *American Fair Trade: Proprietary Capitalism, Corporatism, and the "New Competition," 1890–1940*. New York: Cambridge University Press, 2018.

Porter, Kirk, and Donald Johnson. *National Party Platforms: 1840–1960*. Urbana: University of Illinois Press, 1961.

Porter, Robert H. "A Study of Cartel Stability: The Joint Executive Committee, 1880–1886." *Bell Journal of Economics* 14, no. 2 (Autumn 1983): 301–14.

Powell, Jim. *Bully Boy: The Truth about Theodore Roosevelt's Legacy*. New York: Crown Forum, 2006.

———. *Greatest Emancipations: How the West Abolished Slavery*. New York: Palgrave Macmillan, 2008.

Previts, Gary John, and Barbara Dubvis Merino. *A History of Accountancy in the United States: The Cultural Significance of Accounting*. Columbus: Ohio State University Press, 1998.

Prins, Nomi. *All the Presidents' Bankers: The Hidden Alliances That Drive American Power*. New York: Nation Books, 2014.

Proceedings of the National Conference on Trusts and Combinations. New York: National Civic Federation, 1908.

Purcell, Edward A., Jr. "Ideas and Interests: Businessmen and the Interstate Commerce Act." *Journal of American History* 54, no. 3 (December 1967): 561–78.

Rayner, Richard. *The Associates: Four Capitalists Who Created California*. New York: W. W. Norton, 2008.

Redlich, Fritz. *The Molding of American Banking: Men and Ideas*. Vol. 2. New York: Johnson Reprint, 1968.

Rees, Jonathan. *The Chemistry of Fear: Harvey Wiley's Fight for Pure Food*. Baltimore: Johns Hopkins University Press, 2021.

Reich, Leonard S. "Lighting the Path to Profit: GE's Control of the Electric Lamp Industry, 1892–1941." *Business History Review* 66, no. 2 (Summer 1992): 305–34.

Reitano, Joanne. *The Tariff Question in the Gilded Age: The Great Debate of 1888*. University Park: Pennsylvania State University Press, 1994.

Remini, Robert. *Andrew Jackson*. Vol. 2, *The Course of American Freedom, 1822–1832.* New York: History Book Club, 1998.

Richardson, Heather Cox. *The Greatest Nation on Earth: Republican Economic Policies during the Civil War*. Cambridge, MA: Harvard University Press, 1997.

Richman, Sheldon. “The Anti-war Abolitionists: The Peace Movement’s Split over the Civil War.” *Journal of Libertarian Studies* 5, no. 3 (Summer 1981): 327–40.

Rishel, Joseph F. “Jay Cooke.” In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, 135–43.

Rist, Charles. “Notice biographique.” *Revue d’économie politique* 65, no. 6 (November–December 1955): 977–1045.

Ritter, Gretchen. *Goldbugs and Greenbacks: The Antimonopoly Tradition and the Politics of Finance in America, 1865–1896*. New York: Cambridge University Press, 1997.

Roberts, Alfred Robert. “Montgomery on the Income Tax.” *Accounting Historians Notebook* 16, no. 2 (Fall 1993): 11–13.

Roberts, Priscilla. “Benjamin Strong, the Federal Reserve, and the Limits to Interwar American Nationalism Part I: Intellectual Profile of a Central Banker.” *Federal Reserve Bank of Richmond Economic Quarterly* 86, no. 2 (Spring 2000): 61–76.

———. “Benjamin Strong, the Federal Reserve, and the Limits to Interwar American Nationalism Part II: Strong and the Federal Reserve System in the 1920s.” *Federal Reserve Bank of Richmond Economic Quarterly* 86, no. 2 (Spring 2000): 77–98.

———. “The First World War as Catalyst and Epiphany: The Case of Henry P. Davison.” *Diplomacy and Statecraft* 18, no. 2 (2007): 315–50.

———. “‘Quis Custodiet Ipsos Custodes?’: The Federal Reserve System’s Founding Fathers and Allied Finances in the First World War.” *Business History Review* 72, no. 4 (Winter 1998): 585–620.

———. “Willard D. Straight and the Diplomacy of International Finance during the First World War.” *Business History* 40, no. 3 (July 1998): 16–47.

Robertson, Ross M. “St. Louis: Central Reserve City, 1887–1922.” *Federal Reserve Bank of St. Louis Monthly Review* 36, no. 8 (August 1954): 85–92.

Robyn, Dorothy. *Braking the Special Interests: Trucking Deregulation and the Politics of Policy Reform*. Chicago: University of Chicago Press, 1987.

Roosevelt, Theodore. “Message Communicated to the Two Houses of Congress,” December 3, 1901. In *Addresses and Presidential Messages of Theodore Roosevelt, 1902–1904*, 285–345. New York: G. P. Putnam’s Sons, 1907.

———. “Message Communicated to the Two Houses of Congress,” December 2, 1902. In *Addresses and Presidential Messages of*

Theodore Roosevelt, 1902–1904, 346–76. New York: G. P. Putnam's Sons, 1907.

Rose, Mark H., Bruce E. Seely, and Paul F. Barrett. *The Best Transportation System in the World: Railroads, Trucks, Airlines, and American Public Policy in the Twentieth Century*. Philadelphia: University of Pennsylvania Press, 2006.

Rosenberg, Emily S. *Financial Missionaries to the World: The Politics and Culture of Dollar Diplomacy, 1900–1930*. Durham, NC: Duke University Press, 2003.

———. "Foundations of United States International Financial Power: Gold Standard Diplomacy, 1900–1905." *Business History Review* 59, no. 2 (Summer 1985): 169–202.

Rothbard, Murray N. *America's Great Depression*. 5th ed. Auburn, AL: Ludwig von Mises Institute, 2008.

———. *An Austrian Perspective on the History of Economic Thought*. Vol. 2, *Classical Economics.* Auburn, AL: Ludwig von Mises Institute, 2006.

———. "Beginning the Welfare State: Civil War Veterans' Pensions." *Quarterly Journal of Austrian Economics* 22, no. 1 (Spring 2019): 68–81.

———. "Bureaucracy and the Civil Service in the United States." *Journal of Libertarian Studies* 11, no. 2 (Summer 1995): 3–75.

———. *The Case against the Fed*. Auburn, AL: Ludwig von Mises Institute, 1994.

———. *Conceived in Liberty*. Vols. 1–4. Auburn, AL: Mises Institute, 2019.

———. *Conceived in Liberty*. Vol. 5, *The New Republic, 1784–1791*, edited by Patrick Newman. Auburn, AL: Mises Institute, 2019.

———. "The Federal Reserve as a Cartelization Device: The Early Years, 1913–1930." In Rothbard, *Progressive*, 463–512.

———. *For a New Liberty: The Libertarian Manifesto*. 2nd ed. Auburn, AL: Ludwig von Mises Institute, 2006.

———. "From Hoover to Roosevelt: The Federal Reserve and the Financial Elites." In Rothbard, *History*, 263–347.

———. "The Gold-Exchange Standard in the Interwar Years." In Rothbard, *History*, 351–433.

———. "Herbert Hoover and the Myth of Laissez-Faire." In Rothbard, *Progressive*, 513–39.

———. *A History of Money and Banking in the United States: The Colonial Era to World War II*. Edited by Joseph T. Salerno. Auburn, AL: Ludwig von Mises Institute, 2005.

———. "A History of Money and Banking in the United States before the Twentieth Century." In Rothbard, *History*, 47–179.

———. *Man, Economy, and State with Power and Market*. 2nd scholar's ed. Auburn, AL: Ludwig von Mises Institute, 2009.

———. *The Mystery of Banking*. 2nd ed. Auburn, AL: Ludwig von Mises Institute, 2008.

———. "The Origins of the Federal Reserve." In Rothbard, *History*, 183–259.

———. "Origins of the Welfare State in America." In Rothbard, *Progressive*, 321–60.

———. *Power and Market: Government and the Economy*. 4th ed. Auburn, AL: Ludwig von Mises Institute, 2006.

———. *The Progressive Era*. Edited by Patrick Newman. Auburn, AL: Mises Institute, 2017.

———. "Report on George B. DeHuszar and Thomas Hulbert Stevenson, *A History of the American Republic*, 2 vols." In *Strictly Confidential: The Private Volker Fund Memos of Murray N. Rothbard*, edited by David Gordon. Auburn, AL: Ludwig von Mises Institute, 2010.

———. "War Collectivism in World War I." In Rothbard, *Progressive*, 361–96.

———. "World War I as Fulfillment: Power and the Intellectuals." In Rothbard, *Progressive*, 397–461.

Rothman, David J. *Politics and Power: The United States Senate, 1869–1901*. Cambridge, MA: Harvard University Press, 1966.

Roy, William G. "The Politics of Bureaucratization and the U.S. Bureau of Corporations." *Journal of Political and Military Sociology* 10, no. 2 (Fall 1982): 183–99.

Russell, Francis. *The President Makers: From Mark Hanna to Joseph P. Kennedy*. Boston: Little, Brown, 1976.

Sakolski, Aaron M. *The Great American Land Bubble: The Amazing Story of Land-Grabbing, Speculations, and Booms from Colonial Days to the Present Time*. New York: Harper and Brothers, 1932.

Salerno, Joseph T. "Money and Gold in the 1920s and 1930s: An Austrian View." In *Money: Sound and Unsound*, 421–39. Auburn, AL: Ludwig von Mises Institute, 2010.

Sanders, Elizabeth. *Roots of Reform: Farmers, Workers, and the American State, 1877–1917*. Chicago: University of Chicago Press, 1999.

Sass, Steven A. "An Uneasy Relationship: The Business Community and Academic Economists at the University of Pennsylvania." In

Economists and Higher Learning in the Nineteenth Century, edited by William J. Barber, 225–40. New Brunswick, NJ: Transaction, 1993.

Schakenbach Regele, Lindsay. *Manufacturing Advantage: War, the State, and the Origins of American Industry, 1776–1848*. Baltimore: Johns Hopkins University Press, 2019.

Schneider, Franz, Jr. "Federal Reserve Policy: Its International Implications." *Foreign Affairs* 7, no. 4 (July 1929): 543–55.

Schroeder, John H. *Shaping a Maritime Empire: The Commercial and Diplomatic Role of the American Navy, 1829–1861*. Westport, CT: Greenwood Press, 1985.

Schuker, Stephen A. "Owen D. Young." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 482–92.

Schulzinger, Robert D. *The Wise Men of Foreign Affairs: The History of the Council on Foreign Relations*. New York: Columbia University Press, 1984.

Schumpeter, Joseph Alois. *Business Cycles: A Theoretical, Historical, and Statistical Analysis of the Capitalist Process*. Vol. 2. London: McGraw-Hill, 1939.

Schwartz, Anna Jacobson. "Benjamin Strong." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*, 401–18.

Schwarz, Jordan A. *The Speculator: Bernard M. Baruch in Washington, 1917–1965*. Chapel Hill: University of North Carolina Press, 1981.

Schweikart, Larry. "Carnegie Steel." In Paskoff, *Encyclopedia*, 74–78.

———, ed. *Encyclopedia of American Business History and Biography: Banking and Finance, 1913–1989*. New York: Facts on File, 1990.

———, ed. *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*. New York: Facts on File, 1990.

———. "John Warne Gates." In Paskoff, *Encyclopedia*, 146–47.

———. "Frank Arthur Vanderlip." In Schweikart, *Encyclopedia of American Business History and Biography: Banking and Finance to 1913*, 471–83.

Scott, Peter, and Anna Spadavecchia. "Patents, Industry Control, and the Rise of the Giant American Corporation." *Research Policy* 52, no. 1 (January 2023): 1–10.

Sears, Marian V. "The American Businessman at the Turn of the Century." *Business History Review* 30, no.4 (December 1956): 382–43.

Seidel, Robert N. "Reformers Abroad: The Kemmerer Missions in South America, 1923–1931." *Journal of Economic History* 32, no. 2 (June 1972): 520–45.

Selgin, George. "New York's Bank: The National Monetary Commission and the Founding of the Fed." *Cato Policy Analysis* no. 793 (June 2016): 1–40.

———. "New York's Bank: The National Monetary Commission and the Founding of the Fed." In *Money: Free and Unfree*, 123–74. Washington, DC: Cato Institute, 2017.

Selgin, George, and Lawrence H. White. "Monetary Reform and the Redemption of National Bank Notes, 1863–1913." In George Selgin, *Money: Free and Unfree*, 90–122. Washington, DC: Cato Institute, 2017.

Seligman, Edwin. "Economics and Social Progress." *Publications of the American Economic Association*, 3rd Series, 4 (February 1903): 52–70.

———. "Introduction: The Crisis of 1907 in the Light of History," in *The Currency Problem and the Present Financial Situation: A Series of Addresses Delivered at Columbia University, 1907–1908*, vii–xxvii. New York: Columbia University Press, 1968.

———. "Tax Reduction and Tax Exemption." *North American Review* 29 (1924): 433–48.

Seligman, Joel. *The Transformation of Wall Street: A History of the Securities and Exchange Commission and Modern Corporate Finance*. 3rd ed. New York: Aspen, 2003.

Sevitch, Benjamin. "Elbert H. Gary: Spokesman for Steel." PhD diss., Indiana University, 1972.

Shade, William G. *Banks or No Banks: The Money Issue in Western Politics, 1832–1865*. Detroit: Wayne State University Press, 1972.

Shaffer, Butler. *In Restraint of Trade: The Business Campaign against Competition, 1918–1938*. Lewisburg, PA: Bucknell University Press, 1997.

Sharkey, Robert P. *Money, Class, and Party: An Economic Study of Civil War and Reconstruction*. Baltimore: Johns Hopkins University Press, 1959.

Shaw, Christopher W. "'We Must Deflate': The Crime of 1920 Revisited." *Enterprise and Society* 17, no. 3 (September 2016): 618–50.

Shaw, William Howard. *The Value of Commodity Output since 1869*. New York: National Bureau of Economic Research, 1947.

Shergold, Peter R. “Wage Rates in Pittsburgh during the Depression of 1908.” *Journal of American Studies* 9, no. 2 (August 1975): 163–88.

Shoup, Laurence H., and William Minter. *Imperial Brain Trust: The Council on Foreign Relations and United States Foreign Policy*. New York: Authors Choice Press, 2004.

Shugerman, Jed Handelsman. “The Dependent Origins of Independent Agencies: The Interstate Commerce Commission, the Tenure of Office Act, and the Rise of Modern Campaign Finance.” *Journal of Law and Politics* 31, no. 139 (Fall 2015): 139–86.

Silva, Edward T., and Sheila A. Slaughter. *Serving Power: The Making of the Academic Social Science Expert*. Westport, CT: Greenwood Press, 1984.

Silver, David R. “President’s Address.” *Ohio State Medical Journal* 5 (June 15, 1909): 341–46.

Simon, Miguel Cantillo. “The Rise and Fall of Bank Control in the United States: 1890–1939.” *American Economic Review* 88, no. 5 (December 1998): 1077–93.

Sklar, Kathryn Kish. “Hull House in the 1890s: A Community of Women Reformers.” *Signs* 10, no. 4 (Summer 1985): 658–77.

Sklar, Martin J. *The Corporate Reconstruction of American Capitalism, 1890–1916: The Market, the Law, and Politics*. New York: Cambridge University Press, 1988.

Smiley, Gene. “A Note on New Estimates of the Distribution of Income in the 1920s.” *Journal of Economic History* 60, no. 4 (December 2000): 1120–28.

Smiley, Gene, and Richard H. Keehn. “Federal Personal Income Tax Policy in the 1920s.” *Journal of Economic History* 55, no. 2 (June 1995): 285–303.

Smith, Daniel J., and Macy Scheck. “Examining the Public Interest Rationale for Regulating Whiskey with the Pure Food and Drugs Act.” *Public Choice* 196, no. 1–2. July 2023: 85–112.

Smith, George Winston. *Henry C. Carey and American Sectional Conflict*. Albuquerque: University of New Mexico Press, 1951.

Snoddy, Don. “Union Pacific Railroad.” In Frey, *Encyclopedia*, 394–97.

Sorkin, Alan L. “Depression of 1882–1885.” In Glasner, *Business*, 149–51.

Spencer, Austin H. “Relative Downward Industrial Price Flexibility, 1870–1921.” *Explorations in Economic History* 14, no. 1 (January 1977): 1–19.

Spero, Sterling D., and Abram L. Harris. *The Black Worker*. New York: Columbia University Press, 1931.

Starr, Paul. *The Social Transformation of American Medicine*. 2nd ed. New York: Basic Books, 2017.

Stover, John F. *American Railroads*, 2nd ed. Chicago: University of Chicago Press, 1997.

———. "Daniel Willard." In Bryant Jr., *Encyclopedia*, 478–87.

———. "Illinois Central Railroad." In Frey, *Encyclopedia*, 193–95.

Stromberg, Joseph R. "William McKinley: Architect of the American Empire." In *Reassessing the Presidency: The Rise of the Executive State and the Decline of Freedom*, edited by John V. Denson, 319–39. Auburn, AL: Mises Institute, 2001.

Strouse, Jean. *Morgan: American Financier*. New York: Harper Perennial, 2000.

Summers, Mark Wahlgren. *The Era of Good Stealings*. New York: Oxford University Press, 1993.

———. *The Plundering Generation: Corruption and the Crisis of the Union, 1849–1861*. New York: Oxford University Press, 1987.

———. *Railroads, Reconstruction, and the Gospel of Prosperity: Aid under the Radical Republicans, 1865–1877*. Princeton, NJ: Princeton University Press, 1984.

Sutch, Richard, and Susan B. Carter, eds. *Historical Statistics of the United States.* Vol. 1, *Population*. New York: Cambridge University Press, 2006.

———. *Historical Statistics of the United States.* Vol. 2, *Work and Welfare*. New York: Cambridge University Press, 2006.

———. *Historical Statistics of the United States.* Vol. 3, *Economic Structure and Performance*. New York: Cambridge University Press, 2006.

———. *Historical Statistics of the United States.* Vol. 4, *Economic Sectors*. New York: Cambridge University Press, 2006.

———. *Historical Statistics of the United States.* Vol. 5, *Governance and International Relations*. New York: Cambridge University Press, 2006.

Swibold, Dennis L. *Copper Chorus: Mining, Politics, and the Montana Press, 1889–1959*. Helena: Montana Historical Society Press, 2006.

Tabarrok, Alexander. "The Separation of Commercial and Investment Banking: The Morgans vs. the Rockefellers." *Quarterly Journal of Austrian Economics* 1, no. 1 (March 1998): 1–18.

Taeusch, Carl F. *Policy and Ethics in Business*. New York: McGraw-Hill, 1931.

Taft, Philip. *Organized Labor in American History*. New York: Harper and Row, 1964.

Taillon, Paul Michel. *Good, Reliable, White Men: Railroad Brotherhoods, 1877–1917*. Chicago: University of Illinois Press, 2009.

Tansill, Charles. *America Goes to War*. Boston: Little, Brown, 1938.

Tarbell, Ida. *The Life of Elbert Gary: A Story of Steel*. New York: D. Appleton, 1925.

Tauber, A. I. "The Two Faces of Medical Education: Flexner and Osler Revisited." *Journal of the Royal Society of Medicine* 85 (October 1992): 598–602.

Taylor, Jason, and George Selgin. "By Our Bootstraps: Origins and Effects of the High-Wage Doctrine and the Minimum Wage." *Journal of Labor Research* 20, no. 4 (Fall 1999): 447–62.

Taylor, Mark Zachary. "Benjamin Harrison and the Seeds of Economic Crisis, 1889–1893." *Critical Review* 33, no. 1 (2021): 102–27.

Temin, Peter. *Iron and Steel in Nineteenth-Century America: An Economic Inquiry*. Cambridge, MA: MIT Press, 1964.

———. *Taking Your Medicine: Drug Regulation in the United States*. Cambridge, MA: Harvard University Press, 1980.

Thayer, George. *Who Shakes the Money Tree? American Campaign Finance Practices from 1789 to the Present*. New York: Simon and Schuster, 1973.

Thompson, Margaret Susan. *The "Spider Web": Congress and Lobbying in the Age of Grant*. Ithaca, NY: Cornell University Press, 1985.

Thornton, Mark. *The Skyscraper Curse: And How Austrian Economists Predicted Every Major Economic Crisis of the Last Century*. Auburn, AL: Mises Institute, 2018.

Thornton, Mark, and Robert B. Ekelund Jr. *Tariffs, Blockades, and Inflation: The Economics of the Civil War*. Wilmington, DE: Scholarly Resources, 2004.

Tiffany, Paul. "Opportunity Denied: The Abortive Attempt to Internationalize the American Steel Industry, 1903–1929." *Business and Economic History* 16 (1987): 229–47.

Timberlake, Richard H. *Monetary Policy in the United States: An Intellectual and Institutional History*. Chicago: University of Chicago Press, 1993.

———. "The Panic of 1893." In Glasner, *Business*, 516–18.

Trescott, Paul B. *Financing American Enterprise: The Story of Commercial Banking*. New York: Harper and Row, 1963.

Troesken, Werner. "Did the Trusts Want a Federal Antitrust Law? An Event Study of State Antitrust Enforcement and Passage of the Sherman Act." In *Public Choice Interpretations of American Economic History*, edited by Jac C. Heckelman, John C. Moorhouse, and Robert M. Whaples, 77–104. New York: Springer, 1999.

———. "The Letters of John Sherman and the Origins of Antitrust." *Review of Austrian Economics* 15, no. 4 (December 2002): 275–95.

Twenty-Fourth Annual Report of the Bureau of Animal Industry, for the Year 1907. Washington, DC: Government Printing Office, 1909.

Unger, Irwin. *The Greenback Era: A Social and Political History of American Finance, 1865–1879*. Princeton, NJ: Princeton University Press, 1964.

Urofsky, Melvin I. *Big Steel and the Wilson Administration: A Study in Business-Government Relations*. Columbus: Ohio State University Press, 1969.

US Federal Trade Commission, *Annual Report*. Washington, DC: Government Printing Office, 1927.

US House of Representatives. *Hearings before the Committee on Agriculture*. Washington, DC: Government Printing Office, 1906.

———. *Hearings before the Committee on Investigation of United States Steel Corporation*. Washington, DC: Government Printing Office, 1911.

US Industrial Commission. *Preliminary Report on Trusts and Industrial Combinations*. Washington, DC: Government Printing Office, 1900.

US Senate. *Hearings before the Committee on Interstate Commerce*. Washington, DC: Government Printing Office, 1912.

———. *Hearings before the Special Committee Investigating the Munitions Industry*. Washington, DC: Government Printing Office, 1937.

———. "Special List of 'One Hundred.'" In *Government Control of Meat Packing Industry*, 151. Washington, DC: Government Printing Office, 1918.

Vague, Richard. *A Brief History of Doom: Two Hundred Years of Financial Crises*. Philadelphia: University of Pennsylvania Press, 2019.

Vanderlip, Frank. "The Modern Bank." In *Currency*, 1–18.

Vedder, Richard K., and Lowell E. Gallaway. *Out of Work: Unemployment and Government in Twentieth-Century America*. New York: New York University Press, 1997.

Vietor, Richard H. K. "Businessmen and the Political Economy: The Railroad Rate Controversy of 1905." *Journal of American History* 64, no. 1 (June 1977): 47–66.

Wade, Louise Carroll. *Chicago's Pride: The Stockyards, Packingtown, and Environs in the Nineteenth Century*. Chicago: University of Illinois Press, 1987.

Wallis, John Joseph. "Constitutions, Corporations, and Corruption: American States and Constitutional Change, 1842 to 1852." *Journal of Economic History* 65, no. 1 (March 2005): 211–56.

Warburg, Paul M. "The American and European Banking Methods and Bank Legislation Compared." In *Currency*, 119–52.

———."The Discount System in Europe." In Warburg, *Federal Reserve System*, 2: 183–213.

———. *The Federal Reserve System: Its Origin and Growth.* 2 vols. New York: Macmillan, 1930.

———. "First Drafts of the Glass Bill." In Warburg, *Federal Reserve System*, 1:81–104.

———. "Looking Forward." In Warburg, *Federal Reserve System*, 1:456–87.

Watkins, Leonard L. *Bankers' Balances: A Study of the Effects of the Federal Reserve System on Banking Relationships*. Chicago: A. W. Shaw, 1929.

Weber, Jennifer L. *Copperheads: The Rise and Fall of Lincoln's Opponents in the North*. New York: Oxford University Press, 2006.

Weinstein, Allen. *Prelude to Populism: Origins of the Silver Issue, 1867–1878*. New Haven, CT: Yale University Press, 1970.

Weinstein, James. *The Corporate Ideal in the Liberal State, 1900–1918*. Boston: Beacon Press, 1968.

Welch, Richard E., Jr. *The Presidencies of Grover Cleveland*. Lawrence: University Press of Kansas, 1988.

West, Robert Craig. *Banking Reform and the Federal Reserve, 1863–1923*. Ithaca, NY: Cornell University Press, 1977.

Wheeler, Harry A. "The National Citizens' League: A Movement for a Sound Banking System." *Annals of the American Academy of Political and Social Science* 99 (January 1922): 26–29.

White, Eugene Nelson. *The Regulation and Reform of the American Banking System, 1900–1929*. Princeton, NJ: Princeton University Press, 1983.

———. "To Establish a More Effective Supervision of Banking: How the Birth of the Fed Altered Bank Supervision." In *The Origins, History, and Future of the Federal Reserve*, edited by Michael Bordo and William Roberds, 7–54. New York: Cambridge University Press, 2013.

White, Lawrence H. "Free Banking in History and Theory." In *Renewing the Search for a Monetary Constitution*, edited by Lawrence H. White, Viktor Vanberg, and Ekkehard A. Kohler, 187–211. Washington, DC: Cato Institute, 2015.

White, Richard. *Railroaded: The Transcontinentals and the Making of Modern America*. New York: W. W. Norton, 2011.

White, W. Thomas. "A Gilded Age Businessman in Politics: James J. Hill, the Northwest, and the American Presidency, 1884–1912." *Pacific Historical Review* 57, no. 4 (November 1988): 439–56.

Wicker, Elmus. *The Great Debate on Banking Reform: Nelson Aldrich and the Origins of the Fed*. Columbus: Ohio State University Press, 2005.

Wiebe, Robert H. *Businessmen and Reform: A Study of the Progressive Movement*. Cambridge, MA: Harvard University Press, 1962.

———. "The House of Morgan and the Executive, 1905–1913." *American Historical Review* 65, no. 1 (October 1959): 49–60.

———. *The Search for Order, 1877–1920*. New York: Hill and Wang, 1967.

Wilentz, Sean. *The Rise of American Democracy: Jefferson to Lincoln*. New York: W. W. Norton, 2005.

Wiley, Harvey W. "Sorghum; Its Success and Value." In *Thirty-Second Annual Report of the Indiana State Board of Agriculture*, 169–78. Indianapolis, IN, 1883.

Wilkins, Mira. *The Emergence of Multinational Enterprise: American Business Abroad from the Colonial Era to 1914*. Cambridge, MA: Harvard University Press, 1970.

———. *The Maturing of Multinational Enterprise: American Business Abroad from 1914 to 1970*. Cambridge, MA: Harvard University Press, 1974.

Williams, Charles Richard, ed. *Diary and Letters of Rutherford Birchard Hayes*, vol. 3, *1865–1881*. Ohio State Archaeological and Historical Society, 1924.

Williams, R. Hal. *Realigning America: McKinley, Bryan, and the Remarkable Election of 1896*. Lawrence: University Press of Kansas, 2010.

Williams, Walter E. *South Africa's War against Capitalism*. New York: Praeger, 1989.

Williamson, Harold F., Ralph L. Andreano, Arnold R. Daum, and Gilbert C. Klose. *The American Petroleum Industry: The Age of Energy, 1899–1959*. Evanston, IL: Northwestern University Press, 1963.

Wilson, Charles Morrow. *The Commoner: William Jennings Bryan*. Garden City, NY: Doubleday, 1970.

Wilson, Joan Hoff. *Herbert Hoover: Forgotten Progressive*. Long Grove, IL: Waveland Press, 1992.

Wilson, Woodrow. *A History of the American People*. Vol. 7, *Critical Changes and Civil War*. New York: Harper and Brothers, 1906.

Winerman, Marc. "The Origins of the FTC: Concentration, Cooperation, Control, and Competition." *Antitrust Law Journal* 71, no. 1 (2003): 1–97.

Winerman, Marc, and William E. Kovacic. "Outpost Years for a Start-up Agency: The FTC from 1921–1925." *Antitrust Law Journal* 77, no. 1 (2010): 145–203.

Wolinsky, Howard, and Tom Brune. *The Serpent on the Staff: The Unhealthy Politics of the American Medical Association*. New York: G. P. Putnam's Sons, 1994.

Wolman, Leo. *The Growth of American Trade Unions, 1880–1923*. New York: National Bureau of Economic Research, 1924.

Woodward, C. Vann. *Reunion and Reaction: The Compromise of 1877 and the End of Reconstruction*. New York: Oxford University Press, 1991.

Wooster, Martin. *Great Philanthropic Mistakes*. 2nd ed. New York: Hudson Institute, 2010.

Wright, Chester Whitney. *Wool Growing and the Tariff: A Study in the Economic History of the United States*. Boston: Houghton Mifflin, 1910.

Wueschner, Silvano A. *Charting Twentieth-Century Monetary Policy: Herbert Hoover and Benjamin Strong, 1917–1927*. Westport, CT: Greenwood Press, 1999.

Yeager, Mary. *Competition and Regulation: The Development of Oligopoly in the Meat Packing Industry*. Greenwich, CT: JAI Press Inc., 1981.

Yergin, Daniel. *The Prize: The Epic Quest for Oil, Money and Power*. New York: Simon and Schuster, 1992.

Young, James Harvey. "Food and Drug Enforcers in the 1920s: Restraining and Educating Business." *Business and Economic History* 21 (1992): 119–28.

———. *Pure Food: Securing the Federal Food and Drugs Act of 1906*. Princeton, NJ: Princeton University Press, 1989.

———. *The Toadstool Millionaires: A Social History of Patent Medicines in America before Federal Regulation*. Princeton, NJ: Princeton University Press, 1961.

Zerbe, Richard. "The American Sugar Refinery Company, 1887–1914: The Story of a Monopoly." *Journal of Law and Economics* 12, no. 2 (October 1969): 339–75.

Zieger, Robert H. "Herbert Hoover, the Wage-Earner, and the 'New Economic System,' 1919–1929." In *Herbert Hoover as Secretary of Commerce*, edited by Ellis W. Hawley. Iowa City: University of Iowa Press, 1981, 80–114.

———. *Republicans and Labor, 1919–1929*. Lexington: University of Kentucky Press, 1969.

INDEX

Compiled by Roger E. Bissell