Charles M. Schwab, President of United States Steel, 1901-1904

AT THE start of the twentieth century, Charles M. Schwab was one of the best-known and most widely publicized businessmen in America. To many people, his career was a confirmation of the opportunity for success in America—the ability of an ambitious youth to rise as far and as fast as his talents and initiative would carry him. Schwab began working in the steel industry in 1879 as a dollar-a-day laborer; he became President of the Carnegie Steel Company in 1897 at the age of thirty-five. He attained national prominence in 1901 when he was named President of America's first billion-dollar enterprise, the new United States Steel Corporation. Today he is best remembered either as the protégé of Andrew Carnegie or as the entrepreneur who, between 1904 and 1914, built the Bethlehem Steel Corporation from a small firm, specializing in armor and ordnance, into the world's second largest and most diversified steel producer.

The "dark ages" of Schwab's career span the years between 1901 and 1904, from the time he became President of U.S. Steel to the time he took over Bethlehem Steel. Most accounts of the steel industry or biographical essays on Schwab merely state that Schwab "left" U.S. Steel to develop Bethlehem. They imply that his departure was voluntary, but, in fact, it was not. He was dismissed from U.S. Steel after a series of episodes which raised grave doubts about his sense of responsibility, judgment, and honesty.

This essay will explore the background of the U.S. Steel merger, Schwab's role in its formation, and his subsequent ouster from the presidency.*

* For their critical comments on an earlier version of this essay, I am indebted to John A. Garraty and Stuart Bruchey of Columbia University's Department of History. I gratefully acknowledge the support of the Faculty Research Fund of the Graduate School of Business, Columbia University.

The end of the depression in 1897 brought about a wave of mergers and consolidations which swept over the American economy between 1898 and 1902.[1] In 1898, the Moore Brothers of Chicago consolidated a number of small steel companies into four larger firms. In the same year, the banking house of J. P. Morgan organized three similar mergers of steel companies and, a year later, John W. Gates followed the trend by forming the American Steel and Wire Company, a consolidation which dominated barbed wire production.

Most of the new mergers in the steel industry involved firms which fabricated steel into finished products such as tubes, hoops, wires and structural beams. There were three primary producers of steel upon whom the fabricators depended for their supply. The largest was Carnegie Steel, but the Morgan and Moore interests each had its own mills—the Federal Steel Company and the National Steel Company respectively.

The three primary producers did not encroach upon each other's markets. From 1898 to 1900, the economy was recovering from the severe downturn of 1893–1897 and there were ample customers for all of them without resorting to price wars or sharp competitive tactics. A gentlemen's agreement existed among these three major interests that they would not invade each other's territories or try to win away customers by price cutting. Given the growing market for steel, the Morgan and Moore interests did not have sufficient capacity to produce all the steel required by their fabricating companies, and thus they were major purchasers of bars and billets from the Carnegie Company. Carnegie, in turn, was content to leave the production of most finished goods to others as long as they were steady and heavy customers for the steel he produced.[2]

Early in 1900 the demand for fabricated steel products began to decline and both the Moore and Morgan consolidations had to cut prices to meet the market. As their profit margins shrank, they

[1] Ralph L. Nelson, *Merger Movements in American Industry, 1895–1956* (Princeton, 1959), 71–105; Edward C. Kirkland, *Industry Comes of Age: Business, Labor and Public Policy, 1860–1897* (New York, 1961), 306–325; Marian V. Sears, "The American Businessman at the Turn of the Century," *Business History Review*, XXX (1956), 382–443; Alfred D. Chandler, Jr., "Beginnings of Big Business in American Industry," *ibid.*, XXXIII (1959), 1–31.

[2] Edward S. Meade, "The Genesis of the U.S. Steel Corporation," *Quarterly Journal of Economics*, XV (1901), 531–532; and Burton J. Hendrick, *The Life of Andrew Carnegie* (Garden City, N. Y., 1932), II, 115–119.

sought a way of reducing costs, each reaching the conclusion that it was necessary to reduce their dependence on Carnegie and, instead, to expand their own production facilities to meet their requirements for steel.

Accordingly, in mid-1900, the Carnegie Company was advised by first the Moore and then by the Morgan interests that they were expanding their own production facilities and, consequently, they would be reducing their future orders for steel. Their action was a challenge to the survival of Carnegie's industrial empire. With a few exceptions (notably rails and structural shapes), Carnegie did not produce finished products. If, therefore, the major fabricators did not buy most of their primary steel from him, there would be a greatly reduced market for his output. Carnegie could either resign himself to losing his dominant position in the steel industry, or seize the initiative and expand his own production to include a fabricating plant for each of the major finished products.

Carnegie was vacationing at Skibo Castle in Scotland in the summer of 1900 when a series of cables from Schwab informed him that companies affiliated with Gates, Moore, and Morgan had begun to reduce their orders or had notified Schwab of their intention to do so in the near future.[3] Carnegie's reaction was characteristic: he prepared for battle. "The situation is grave and interesting," he told Schwab: "A struggle is inevitable and it is a question of the survival of the fittest." Although Carnegie had no doubt about who would survive, he preferred to avoid such a costly confrontation. Nevertheless, he knew that hesitancy might prove financially fatal. Thus, on July 11, 1900, Carnegie outlined the following strategy to his Board of Managers:

> I would make no dividends upon the common stock; save all surplus, and spend it for a hoop and cotton-tie mill, for wire and nail mills; for tube mills, for lines of boats upon the Lakes. . . . If you are not going to cross the stream do not enter it at all and be content to dwindle into second place.[4]

Schwab was instructed to prepare designs and cost estimates for a full line of fabricating plants. The first plan Schwab completed

[3] Hendrick, II, 117–118.

[4] Quoted by Louis M. Hacker, *The World of Andrew Carnegie, 1865–1901* (Philadelphia, 1968), 409.

was for the building of a steel tube plant. The site chosen was Conneaut Harbor, Ohio. Schwab supervised the design of the new plant, aiming wherever possible to eliminate the need for labor. He recently had negotiated for exclusive rights to a new process for making tubes, one which greatly reduced labor costs. Instead of the old method of bending a sheet of metal into a tube shape and then welding it at the seam, the new method produced tubes without seams by pushing hot metal directly through rolls. This new method would achieve the sizable saving of $10 a ton over existing methods. It was to be the most technologically advanced fabricating plant in America; it easily would have eclipsed the older, less efficient plants which made up the Morgan-controlled National Tube Company.[5]

Carnegie's competitors knew that he intended to proceed with construction of the tube mill and that this represented the first battle in what would be a long and costly industrial war. To strengthen his position, Carnegie had also begun to acquire control of several railroad lines. They would carry his finished products from Pittsburgh to the Chicago area, where steel sales were dominated by the Morgan-controlled Federal Steel Company, and also eastward to the Atlantic seaboard.

The Moore Brothers and the House of Morgan were vulnerable to Carnegie's expansion strategy because they were overextended financially and could not bring their full capital resources to the aid of their threatened steel interests. Carnegie Steel had a well-deserved reputation for being the best organized company in the industry, with the latest equipment, the lowest costs for raw materials, the most highly motivated and competent managers and superintendents and, consequently, the lowest cost of production per ton in the industry. The Moore, Morgan, and Gates interests knew that if Carnegie began producing finished goods and a price war ensued, he would be able to make a profit selling at prices which they could not match without taking losses.[6]

[5] Schwab's testimony to the Stanley Committee, Aug. 4, 1911, U.S., Congress, House of Representatives, Committee on *Investigation of United States Steel Corporation, Hearings* (Washington, D. C., 1912), 1312; Schwab's testimony in *U.S. v. U.S. Steel,* May 19, 1913, 4198–4199, 4391, 4400–4401 (copy of transcript in Columbia University Law School Library); Hendrick, II, 121–123.

[6] On the superiority of Carnegie Steel, see Meade, 539–544; on the precarious position of Carnegie's rivals, see Abraham Berglund, *The United States Steel Corporation* (New York,

Clear evidence of the Carnegie Company's superiority over its competitors may be seen in the statistical data which Schwab compiled for Carnegie. For the year 1899, the Carnegie Company had produced 75 per cent of all the steel products exported and, while it sold more than 50 per cent of all the structural plate steel produced in America, its share of the export market for this product was more than 90 per cent. The seven largest rival firms in the steel industry had total iron ore reserves of 99,000,000 tons; the Carnegie holdings were 162,000,000 tons. In 1900, Carnegie's five major rivals had a total output of 3,500,000 tons; Carnegie alone produced just under 3,000,000 tons. Finally, the seven major rivals had total estimated earnings of $48,000,000 in 1900 compared to $40,000,000 for Carnegie. In Schwab's view, the Company's dominant position in the industry was merely the base on which seemingly limitless growth and profitability were possible.[7]

Once J. P. Morgan was convinced that Carnegie's expansion plans were serious, he realized that his own position in steel was endangered and he began to explore means of stopping Carnegie. According to John W. Gates, Morgan consulted a number of leading industrialists about devising a means to "stop Carnegie from building this railroad [network] and building this tube works."[8] In 1898, Judge Elbert H. Gary, President of Morgan's Federal Steel Company, had broached the possibility to Morgan of buying Carnegie's business, but as Gary later testified, "I did not receive any encouragement."[9] In 1900, however, Morgan was more amenable to the idea.

It was widely known in the American business community and in international financial circles that Carnegie might be willing to sell out if a suitable buyer could be found.[10] In his writings, Carnegie repeatedly had stated his philosophy of business: one should spend the early years of one's life amassing a fortune and the later years

---

1907), 66–67; *Report of the Commissioner of Corporations on The Steel Industry*, Part I (1911), 7–13, 78–85, 98–106; Hendrick, II, 119–121.

7 Schwab to Carnegie, Jan. 24, 1901, Carnegie Papers, Library of Congress, vol. 81, #15526.

8 U.S., Congress, House of Representatives, Committee on *Investigation of United States Steel Corporation*, *Hearings* (1912), testimony of John W. Gates, 31.

9 *Ibid.*, testimony of Elbert H. Gary, 205.

10 Hendrick, I, 380; II, 76.

distributing it in charitable donations. In 1900, at age sixty-five, Carnegie's later years were at hand.

A suitable buyer ultimately was found: J. P. Morgan. Schwab played a central role in consummating the sale. His activity began on the night of December 12, 1900. The occasion was a dinner in New York at the University Club. It was given in Schwab's honor by J. Edward Simmons, President of the Fourth National Bank of New York, who was reciprocating for the hospitality shown to him when he last visited Pittsburgh. Although Schwab was President of Carnegie Steel, he was not well known outside of the steel industry. Simmons invited a group of his own close friends to meet Schwab. The guest list included many of the leading New York bankers and businessmen, of whom J. P. Morgan was the most prominent and influential, as well as four top officials of the Carnegie Company, including Carnegie himself. Also among the eighty guests were E. H. Harriman, the railroad magnate; investment bankers August Belmont and Jacob H. Schiff; and the President of Standard Oil, H. H. Rogers.[11]

After dinner the guest of honor was called upon to speak for a few minutes. Schwab had no prepared text; he began with the same opening he used in all his speeches, namely that he would talk about steel because he could not talk about anything else.[12]

[11] It has frequently been asserted that this dinner was deliberately engineered by Carnegie to bring together the leading potential buyers for his business, with the sales presentation to be made by Schwab in his afterdinner remarks as guest of honor. See, for example, Arundel Cotter, *The Authentic History of the United States Steel Corporation* (New York, 1916), 15, and Gabriel Kolko, *The Triumph of Conservatism, 1900–1916* (New York, 1963), 33.

If this had been Carnegie's purpose—and there is no proof whatever that it was—it seems unlikely that he would have left the dinner after just a few minutes to speak at a meeting of the Pennsylvania Society. It is even more unlikely, if he had staged the occasion, that he would have had the guest list include the Right Rev. Henry C. Potter, Bishop of New York, and the Right Rev. George Worthington, Bishop of Nebraska. Finally, if Carnegie had viewed this occasion as a business meeting rather than as a social event, it is doubtful that he would have permitted one of his executives to telegraph details of the dinner and its full guest list to the *Pittsburgh Dispatch* for publication. See four-page telegram from A. C. Case to J. McSwigan, Dec. 13, 1900, copy in Charles M. Schwab Memorial Library, Bethlehem Steel Corporation, Bethlehem, Pa.

[12] For Schwab's recollection of what he said in 1900, see *Investigation of United States Steel Corporation, Hearings* (1912), 1276–1277; and Schwab's testimony in the 1913 antitrust dissolution suit against U.S. Steel, 4135–4136, copy of transcript in Columbia University Law School Library.

Schwab presented his listeners with the prospects of a greater and more profitable steel industry. The Carnegie Company, he said, had managed to reduce its costs of production to the lowest point conceivable; he claimed there were no major economies of production to be attained in the steel industry, but there were substantial savings to be achieved in distribution.

Imagine, Schwab told his audience, the advantages that would result if a firm could be organized in which each of its plants specialized in a single product and, furthermore, if each of these plants could be located in an area which would minimize the costs of delivery to its customers. No such firm now existed, but conceivably, he said, one could. One of the savings to be achieved would be to end the present wasteful practice of rival firms maintaining separate sales forces. A second savings could come from the elimination of crosshauling, the practice of transporting steel products away from a locality while similar or identical goods are transported into that locality.

If such a giant firm did exist, its various plants would be able to compare their respective costs of production and thereby devise means of bringing the performance of the laggards up to the standard of the pacesetters. Such comparisons would also enable the company to identify its ablest managers, superintendents, and foremen and thus to advance them to positions of wider responsibility.

Schwab was not offering a concrete proposal for consolidation among the present competing firms. He was presenting a vision of what someday might exist. Instead of thinking in terms of static markets in which one hoped to limit production and increase prices and thus make profits, Schwab suggested a new possibility.

If the steel industry were made as efficient as possible, if its specialized plants were integrated and centrally managed, and if its leaders were willing to cooperate for long-range mutual growth, then an ever widening market for steel could be created. New uses for steel could be devised, new and improved methods of production could be instituted, and record profits could be realized. Both producers and consumers would benefit because efficiency and specialization would permit lower prices to be charged to consumers, even as greater profits were being made by the producers.

His audience listened with rapt attention; the businessmen and bankers responded to the vision of soaring profits and the possibility of avoiding a ruinous industrial war. After the talk, Morgan called Schwab aside for a half-hour conversation to obtain clarification of some of Schwab's remarks.[13]

Three weeks later, when Morgan told John W. Gates that he was struggling to devise some means of dissuading or preventing Carnegie from proceeding with construction of the new tube works at Conneaut Harbor, Gates advised Morgan to speak to Schwab. Gates later testified that he told Morgan: "there was only one man to talk to that had any influence with Carnegie, and that was Charley Schwab."[14] Gates agreed to act as Morgan's emissary to arrange a meeting with Schwab.

In early January, 1901, Morgan and Schwab had a private dinner in New York, after which they returned to the Morgan mansion where they were met by two of Morgan's partners, Robert Bacon and George W. Perkins. Morgan told Schwab that his objective was not to buy out Carnegie, but to prevent his expansion into fabricated products. Schwab advised him that he could not do one without the other, because Carnegie was determined to meet and beat down all threats to his industrial supremacy. Morgan quickly became convinced that the impending industrial war could not be averted by temporary truces but only by permanent alliances—which would be possible only through Carnegie's retirement. He and his partners

[13] Sidney B. Whipple, "Notes on Mr. Schwab's Life" (hereinafter cited as "The Whipple Notes"), 86, two-volume typed manuscript in Charles M. Schwab Memorial Library. In 1935, Whipple, a prominent journalist, was hired to spend several months interviewing Schwab. His purpose was to record Schwab's reminiscences of his long business career for the use of a future biographer. When Whipple himself volunteered to become Schwab's biographer, he was dismissed. Hence the unfinished and unedited state of Whipple's notes, nearly 300 pages, based on interviews with Schwab and his surviving business associates, and on letters then in Schwab's possession which since have disappeared. Information on "The Whipple Notes" from John C. Long, former Director of Public Relations, Bethlehem Steel Corporation; interview in Princeton, N. J., Feb. 22, 1966. I am grateful to the Bethlehem Steel Corporation for permitting me access to "The Whipple Notes" and to other materials in the Schwab collection. In particular, I wish to acknowledge the cooperation of Miss Jean Wesner, chief librarian, Bethlehem Steel Corporation. Of course, it should not be inferred that Bethlehem Steel necessarily agrees with my interpretation of the materials in its possession.

[14] *Investigation of United States Steel Corporation, Hearings* (1912), testimony of John W. Gates, 30–32.

explored with Schwab the possibility of forming a giant steel consolidation such as Schwab had projected in his University Club speech. Schwab once again enumerated the many advantages that would result from such a union and, when the meeting ended at 3 A.M., Morgan asked Schwab to compile a list of the companies he thought should be included in the proposed merger.[15]

Schwab spent the next few days preparing a memorandum for Morgan, listing the companies that ought to be included and the prices that ought to be paid for them. Years later, Schwab described the process by which he compiled the list:

> I knew exactly what each one was worth. Nobody in the world helped me with that list. I didn't use the ordinary book value, but based my estimates on earning capacity, good will, the physical state of the properties, and their potentialities as an investment. I left out many companies including Bethlehem, because they would have provided nothing but duplication, and the ideal corporation would have no duplication of any sort in it.[16]

When Schwab returned to New York with his memo, he, Morgan, and Gates again conferred until 3 A.M. After carefully reviewing Schwab's list, Morgan said: "Well, if you can get a price from Carnegie, I don't know but what I'll undertake it."[17]

Schwab then faced an even more formidable problem; having found a buyer for Carnegie Steel, he had to persuade Carnegie to sell. Schwab immediately enlisted the support of a powerful ally, Louise Carnegie, who was eager for her husband to retire. At her suggestion, Schwab joined Carnegie for eighteen holes of golf at St. Andrew's in Yonkers, New York. After several hours of play and pleasantries, Carnegie was in the right mood to entertain the possibility of retirement. In the relaxed atmosphere of a quiet dinner in Carnegie's cottage, the two men discussed the proposal. Schwab stressed that if Carnegie did agree to sell, he would be free to fulfill his life-long ambition—organizing philanthropic activities for the advancement of knowledge and the promotion of world peace. The evening closed with Carnegie agreeing to sell if Morgan

15 "The Whipple Notes," 86.
16 *Ibid.*, 87–88.
17 *Ibid.*, 88.

could meet his price, \$400,000,000.[18] Morgan did and the United States Steel Corporation was born.

On April 16, 1901, Schwab resigned from the presidency of Carnegie Steel. At the age of thirty-nine he had been named President of U.S. Steel, an impressive promotion for a young man who had not finished high school and who had no formal training in metallurgy, engineering, management or finance. However, in his years with Carnegie, Schwab had made himself into an expert on the technology of steelmaking and had acquired a systematic knowledge of engineering. Like Carnegie, Schwab was a superlative salesman, with a contagious confidence in himself and his products. He also had demonstrated sustained abilities as a negotiator and conciliator.[19] Therefore, from the point of view of the Morgan syndicate, Schwab was an excellent choice for the presidency.

The U.S. Steel Corporation was a holding company, controlling 213 steel mills and transportation companies, including 78 blast furnaces; 41 iron ore mines and a fleet of 112 ore barges; as well as 57,000 acres of coal and coke properties in the Connellsville region of Pennsylvania, with nearly 1,000 miles of railroad tracks to service the region.[20] The new corporation acquired the label of "The Steel Trust" which clung to it so tenaciously that even its friends soon referred to it by that name.

When the U.S. Steel merger was announced, press reaction was almost uniformly unfavorable.[21] Most newspapers in America and Europe viewed U.S. Steel with alarm, predicting that it first would crush all competition at home and then seek to dominate the world market for steel. U.S. Steel was seen as a monstrous conspiracy, injurious to everyone except the clique of promoters who would

18 The original figure named by Carnegie was \$400,000,000, but the final figure was increased to \$492,000,000 to include larger shares for his junior partners; see explanation in Hacker, 434; also see Hendrick, II, 136–137.

19 Robert Hessen, "A Biography of Charles M. Schwab, Steel Industrialist" (unpublished doctoral dissertation, Department of History, Columbia University, 1969).

20 *Report of the Commissioner of Corporations on The Steel Industry* (Washington, D. C., 1911), Part 1, 131.

21 For a sampling of negative reaction, see Mark Sullivan, *Our Times, The United States, 1900–1925* (New York, 1927), II, 351–355.

profit from the sale of its watered stock and the coterie of insiders who would fleece a defenseless nation by charging exorbitant prices.[22]

Previously little known outside of the business world, as the President of U.S. Steel Schwab became a national celebrity. His new post brought him invitations to write for popular magazines, to speak to students and to major business groups, and to testify before congressional investigating committees. His name symbolized either the predator who headed the Steel Trust or the self-made man who had worked his way up from the blast furnaces. His photograph appeared on numerous magazine covers and in hundreds of newspaper and magazine stories. Young, vigorous, and photogenic, Schwab did nothing to discourage the publicity.

His responsibilities as President were clearly defined in U.S. Steel's by-laws: "*Subject to the executive committee*, he shall have general charge of the business of the company, including manufacturing, mining, and transportation. . . . He shall do and perform such other duties as from time to time may be assigned to him *by the board of directors*."[23] Although the surviving evidence is fragmentary, it appears that Schwab quickly became dissatisfied with his position in the corporate hierarchy. Based on comments he made years later, he seems to have expected that he would have undivided authority, that he could be, in his own words, "an autocrat." He believed that his experience as a "practical steelman" was his claim to pre-eminence over men whose training or background had been law or finance.[24]

In fact, the Corporation's structure was deliberately arranged so that no one individual could have undisputed authority. It was to

22 *New York Journal*, "Morgan's Clique Wields Blocks of Billions," Apr. 7, 1901, and Richard T. Ely, "An Analysis of the Steel Trust," *The Cosmopolitan*, XXI (1901), 428–431.

I have found only three articles which spoke favorably of the new merger: "The Billion-Dollar Corporation," *Gunton's Magazine* (May, 1901), 421–424; "The United States Steel Corporation," *Iron Age* (Apr. 4, 1901), 41; and Charles S. Gleed, "The Steel Trust and its Makers," *The Cosmopolitan*, XXI (1901), 25–31.

23 Emphasis added. By-laws of the United States Steel Corporation, in U.S., Congress, House of Representatives, *Report of the Industrial Commission*, House Document #4343, 57th Congress, 1st session, 1901–1902, XIII, 481–487.

24 Schwab interview with Burns Mantle in *St. Louis Democrat*, Apr. 9, 1916, quoted in Paul-Louis Hervier, "American Silhouettes: Charles M. Schwab," *The Living Age*, vol. 298 (Sept. 14, 1918), 664.

be a business whose policies were made by a committee of experts, both in the areas of finance and operations. These committees, in turn, were subordinate to the Board of Directors.[25] Ultimate power rested with the Board. Its twenty-four members, meeting monthly, were responsible for electing the officers of the Corporation, the members of the Executive and Finance Committees, and the officers of the subsidiary companies within the Corporation.

While final authority rested with the Board of Directors, the actual policy-making was conducted by the members of the Finance and Executive Committees. The Finance Committee, with Robert Bacon as its first head, had six members, including Schwab and the Chairman of the Executive Committee. Its jurisdiction over all financial matters included final authority over any new acquisitions.

Elbert H. Gary was Chairman of the Executive Committee, whose eight members included Schwab and the Chairman of the Finance Committee. Its responsibility was to manage and direct the manufacturing, mining, and transportation operations of the Corporation. When the Committee was not in session, its authority could be exercised by its Chairman, subject to the Committee's review.

Schwab considered it essential that the Steel Corporation immediately increase its holdings of ore lands, but he encountered opposition from the Finance Committee. As Schwab later testified:[26]

> In the early days of the Steel Corporation our Finance Committee was very reluctant to spend money for things of this sort [*acquiring ore properties*], or improvement of plants even. The members of our committee had not been educated to know the manufacturing business as I knew it . . . and it was with the greatest difficulty that I could get them to buy what I considered most valuable and essential to the company. . . .

Schwab also came into repeated conflict with Gary. Born in Wheaton, Illinois, in 1846, Gary graduated from law school in 1868 and was in private practice until 1882, when he was appointed county judge, a post he held for eight years. His first contact with

25 This and the next three paragraphs are based on By-laws of U.S. Steel; testimony of Elbert H. Gary before the (Stanley) Committee on *Investigation of the United States Steel Corporation, Hearings*, 62nd Congress, 1st session, 1911, I, *passim.*; and Ida M. Tarbell, *The Life of Elbert H. Gary, The Story of Steel* (New York, 1925), 126–151.

26 Schwab testimony, *United States v. United States Steel Corporation*, transcript in Columbia University Law Library, XI, May 19, 1913, 4172f.

the steel industry came in 1892, when he assisted John W. Gates with the legal problems involved in forming the Consolidated Steel and Wire Company of Illinois. His work won him considerable renown within the industry because of his skill in handling the legal intricacies of merging many small companies. In 1898, he served in a similar capacity and with equal ability in the formation of the Federal Steel Company, a consolidation undertaken by the House of Morgan. As reward for his success, he was chosen as President of Federal Steel.[27]

Morgan respected Gary's judgment; he considered him a man of unimpeachable honesty, great intellect, and sound, conservative leadership. If Morgan had been looking for a model of respectability to typify the new Steel Corporation, he could have made no better choice. Gary's reputation was untainted by any accusation of malfeasance or impropriety. In dress, in tone of voice, in choice of words, and even in physical appearance, Gary more closely resembled an Episcopal bishop than a Gilded Age businessman.

In style and temperament, Gary and Schwab could scarcely have been more dissimilar. Schwab was dashing, ambitious, and self-assertive, fond of raucous horseplay and off-color stories, with a flair for elegance in dress and a passion for personal publicity, all of which Gary found increasingly abrasive.

Gary strongly opposed some of the policies which had been responsible, in Schwab's view, for Carnegie Steel's leadership in the industry. As Schwab later said: "Judge Gary, who had no real knowledge of the steel business, forever opposed me on some of the methods and principles that I had seen worked out with Carnegie—methods that had made the Carnegie Company the most successful in the world." Gary did not believe in the bonus or "reward" system for workmen, nor in the policy of granting partnerships to bright young managers and superintendents.[28]

Nor did Gary see the wisdom or necessity of the old Carnegie-Schwab policy of expanding plant capacity whenever funds were available. He thought that the industry's capacity ought to be stabilized before any new expansion took place. He was more inter-

27 See Tarbell.
28 "The Whipple Notes," 94.

ested in having Schwab inspect and close down small, old, and inefficient plants than he was in having him build new ones.

Although responsible to the Executive Committee, Schwab, in view of his desire to be "number one" and because he felt Gary was not knowledgeable about practical matters, tried to act without its authorization. Apparently he did this on several occasions, for on July 1, 1901, at a meeting of the Executive Committee, Gary introduced a formal resolution which was approved. It stated that the President shall "furnish this Committee with full reports of the operations of the Company, and submit for their information and decision all matters requiring their supervision as set forth in the by-laws. . . ."[29] It was a clear indication of Gary's intent to stop Schwab's insubordination.

Schwab's accomplishments as President were few, and these were clustered in his first months in office. Among them was the creation of an integrated foreign sales department. Perhaps his most important new policy was to have each plant submit weekly cost sheets which could be used for comparative purposes. This stimulated a sharp rivalry between the various superintendents and allowed the ablest of them to be recognized and rewarded with bonuses for any cost-saving improvements they had introduced.[30]

Gary's move in July, 1901, to restrict Schwab's powers was made immeasurably easier by the harvest of bad publicity which Schwab had reaped for himself and U.S. Steel during the preceding months. Schwab had made his debut as a public speaker on May 8, 1901, in an address to the graduating class of St. George's Evening Trade School in New York City. His subject was one he knew well: success. The content was quite uncontroversial: "success is not money alone"; "start early"; "exceed your duties"; "effort, not backing, is the key to promotion"; "go in and win on your own merits."[31] But Schwab provoked a storm of opposition when he commented that a college education was not essential for boys who planned a career in business, that they would profit more by the additional four years of

[29] Tarbell, 136–137; see also John A. Garraty, *Right-Hand Man, the Life of George W. Perkins* (New York, 1960), 95–97.

[30] Schwab testimony before the Stanley Committee, 1298; "Whipple Notes," 39; Tarbell, 174–176.

[31] *New York Sun, New York Journal, New York Herald*, and *New York World*, May 9, 1901.

work experience. In this respect, his speech had been especially poorly timed; his "philistinic" remark served as the text for countless June commencement addresses. From coast to coast, academicians and clergy told graduating students that Schwab's career and philosophy were an affront to the higher sensibilities of man, that many of the blessings in life could be obtained without cost and that there were others which money could not buy. Schwab had said that of forty business leaders he knew, only two had graduated from college; Schwab's critics said that this fact proved more than ever the desirability of going to college.[32]

William Jennings Bryan claimed "Mr. Schwab's advice will do infinite damage," that he was the spokesman for blatant commercialism and plutocracy. A Lutheran publication cited Schwab's speech as evidence of America's decadence. A century ago the nation's heroes were Washington, Hamilton, and Jefferson, while at midcentury, Emerson, Lowell and Longfellow had occupied the place of honor: "Today are we to point only to these masters of money? Shall we have no great men but Mr. Carnegie and Mr. Schwab and Mr. Rockefeller?" The danger facing America was a "delirium of material drunkenness." If young men took Schwab as a model for their own lives, it would lead them from the high road of virtue and unrewarded sacrifice to the base pursuit of wealth and power.[33]

On May 11, 1901, Schwab testified before the Industrial Commission, a government body established in 1898 to investigate problems of business and labor, based on which Congress could pass remedial legislation. In his testimony, Schwab vigorously defended the protective tariff on steel, claiming that it was not only the primary cause of American prosperity but also the safeguard of the high wages received by workers in the American steel industry.

Schwab was asked for his evaluation of a bill then pending in Congress, which had been introduced by Representative Joseph W. Babcock, a Republican from Wisconsin. As a means of encouraging foreign competition, the bill proposed to eliminate tariff protection on all items produced by the Steel Trust. "I do not see that that would do anybody any good," Schwab answered. "It would not

32 See, for example, editorials in *Kansas City* (Mo.) *Star*, May 10, 1901, and *Burlington* (Vt.) *News*, May 11, 1901.

33 Editorial, *The Commoner*, May 24, 1901; *Lebanon* (Pa.) *Lutheran*, June 13, 1901.

hurt anybody in those lines where we did not need a tariff, and the only persons it would hurt in those lines where we do are the working people."[34]

This statement was seized upon by antitariff newspapers. It was cited as proof of an "impudent despotism" and was attacked as a thinly-veiled blackmail threat: if the tariff was either removed or lowered, labor would bear the loss in the form of reduced wages.[35]

Schwab was not a skillful exponent of the position he defended. He damaged, rather than aided, his cause. This was not an isolated instance. He did the same thing again in his comments on labor, wages, and unionism. In his testimony, Schwab seemed to have launched a frontal assault on unionism:

> Under the labor-union system all members are reduced to a dead level of equality, and the wage scale largely is determined by the worth and capability of the cheapest workman, instead of the most capable and highest priced. This narrows opportunity, dulls ambition and gives no man a chance to rise.[36]

While many newspapers and magazines were mildly critical of Schwab's attack on unions,[37] the Hearst papers were enraged. A full page was devoted to condemning Schwab, illustrated with a cartoon portraying him dangling from puppet's strings, mouthing the catch-phrases of his masters, the Steel Trust. A signed editorial by William Randolph Hearst called Schwab "only a competent clerk." Prior to Schwab's testimony, Hearst wrote, his utterances could be ignored, being merely a "young man's vaporings" which were "confined to excusable bursts of juvenile egotism." But Schwab's testimony should be viewed as the official viewpoint of the Steel Trust which, Hearst surmised, planned to destroy labor unions as soon as it had completed unloading its watered stock on a gullible public.[38] Hearst also attacked what he claimed was Schwab's "industrious circulation

[34] *Report of the Industrial Commission*, 57th Congress, 1st session, House Document #76, 1901, Schwab's testimony on the tariff, XIII, 454–458, 464–466.

[35] *Columbus* (Ohio) *Press Post*, May 13, 1901; editorial, *St. Louis Republic*, May 14, 1901.

[36] *Report of the Industrial Commission*, Schwab's testimony on labor and unionism, 459–462.

[37] See, for example, "Mr. Schwab's Twaddle," *Brooklyn Citizen*, May 12, 1901; *Gunton's Magazine*, June, 1901, 542.

[38] *New York Evening Journal*, May 16, 1901.

of fictitious stories about his salary." He reported that Schwab's actual salary was $100,000, not $1,000,000 as popularly rumored.

Schwab was gaining notoriety, the kind of publicity U.S. Steel could not afford. Since Schwab's reputed million-dollar salary had thrust him into public prominence, Judge Gary spoke out to deflate Schwab and thereby protect U.S. Steel's image. "It is not a fact," declared Gary, "that Mr. Schwab is paid a salary of $1 million, or anything approaching that sum. He is a very wealthy man, a large holder of the stock of the company, and does not need and would not accept an extravagant salary."[39] (As a 6 per cent owner of the Carnegie Company at the time of its sale, Schwab had received $25 million in bonds of the new Corporation.)

One of the facts which gave credibility to the story of Schwab's million-dollar salary was his decision to build the largest and most lavish mansion in New York City. In 1901, he began construction of a house whose grandeur would be a monument to his success. The site he chose was a full city block at 72nd Street and Riverside Drive. The cash outlay for the land was $800,000. When completed four years later, the house cost $3,000,000 and the furnishings cost several million more.

It was a four-story structure, capped by a 116-foot look-out tower which gave Schwab a panoramic view of the city. The basement contained a sixty-foot swimming pool, and a power plant which cost $100,000 to build and which consumed ten tons of coal every day. It also featured a wine cellar, a laundry room capable of accommodating the daily requirements of one hundred people, a bowling alley and a fifty-foot gymnasium. Six elevators carried guests to over ninety bedrooms, which were connected by a network of telephones linked to a central switchboard within the house.[40]

The mansion was an early example of Schwab's growing passion to have the biggest and best, whether in homes or automobiles or private railroad cars. The Riverside mansion made him the object of

39 *Chicago Times Herald*, May 25, 1901.

40 See *Harper's Weekly*, Aug. 2, 1902, 1009–1010; *Architectural Review*, Oct. 1902, 537–548; *Architectural Record*, February, 1907, 96–102; *New York Herald Tribune*, May 11, 1947; *Altoona* (Pa.) *Mirror*, May 13, 1947; John Wilcox, "Emma Schwab's Folly," *American Weekly*, July 27, 1947; *Pittsburgh Sun Telegraph*, Mar. 6, 1948; "Whipple Notes," 116; Andrew Tully, *Era of Elegance* (New York, 1947), 147–168.

sustained public interest. Such a house, declared *Harper's Weekly*, "may strike the average observor as a burdensome possession, oppressive to maintain, and likely to be embarrassing to heirs, but if Mr. Schwab can stand it, we can."[41]

The day after Christmas, 1901, Schwab sailed for Europe. A rumor circulated that his purpose was to aid in the formation of an English equivalent of U.S. Steel. Schwab denied this, stating that his purpose was purely pleasure:

> I am going away for a complete rest. I have been on the go constantly for the last two years, and think that I am entitled to a vacation. My work has been hard and I need new strength. I am to visit Paris, the Riviera, Berlin, Vienna and London before I return.[42]

It promised to be a relaxing vacation. He had rented eight suites on the promenade deck of a French luxury liner, and he was accompanied by his wife and several personal friends. "My trip, I can most emphatically say, has no business significance whatever." This proved to be a misfortune for him, for in the process of seeking rest and pleasure, he precipitated a crisis which violently shook his already precarious hold on the presidency of U.S. Steel.

On January 8, 1902, he reached Monte Carlo, arriving the same day that the Earl of Rosslyn was leaving, penniless. Rosslyn had announced confidently that he had devised a foolproof system to win at roulette, and, on the strength of his reputation, many Britishers had invested sums to make up his gambling stake. An entourage of British reporters accompanied him, and, when he was wiped out, a sharp-eyed reporter, starved for a story, spotted Schwab at the tables.[43]

Soon the cable wires to England and America were humming. Incredible tales of Schwab's breathtaking victories at roulette appeared on the front pages of American dailies. "Schwab Breaks the Bank," was the caption of the *New York Sun*.[44] Another account read:

> Schwab started playing maximums at Monte Carlo Thursday [January 9], the crowd pursuing him from table to table. He won $7,500. When he

[41] Editorial, *Harper's Weekly*, Aug. 2, 1902.
[42] *New York Mail and Express*, Dec. 26, 1901.
[43] *Boston Globe*, Jan. 12, 1902, and *Milwaukee Journal*, Jan. 15, 1902.
[44] *New York Sun*, Jan. 13, 1902.

resumed playing yesterday the excitement was indescribable. After losing $10,000 at one table, Mr. Schwab went to the next, staking the maximum on No. 8, namely $36. Eight turned up and he won thirty-five times, the stake being $1,260. He then pushed the same stake on No. 9, winning again the same amount. His unprecedented luck made the audience frenzied.[45]

The frenzy of his Monte Carlo audience was nothing compared to that of his American associates. The press was filled with embellished accounts of his exploits at the tables and his personal stock sank to a new low. Given the extreme controversiality of the Steel Corporation, he should have anticipated that unfriendly newspapers would not pass up an opportunity to discredit or embarrass him.

Andrew Carnegie was the most enraged reader of these stories about Schwab's escapades. He felt personally wounded and betrayed, for he had a long-standing affection for Schwab and an equally long-standing hostility to any form of gambling. Believing Schwab guilty of a monstrous immorality, Carnegie told Morgan that Schwab "is unfit to be the head of the United States Steel Co." Carnegie informed George Lauder, a former partner, that he had cabled Schwab: "Public sentiment aroused. Times this morning severe editorial. Resign possible. One in bad position when Conduct hurts friends and rejoices enemies."[46] Carnegie followed up his cable with a long letter chastizing him. Schwab received more than eighty cables from friends and colleagues in America warning him of the bad publicity his Monte Carlo exploits were generating. Many advised him to resign the presidency in order to spare U.S. Steel any further embarrassment. While he did not wish to resign, he felt obliged to make a token gesture in that direction. The decision about his future lay with J. P. Morgan, so Schwab cabled a message to George W. Perkins, Morgan's partner and public relations aide, which was intended for Morgan. "Sensational statements of great winnings and losses absolutely false. Friends advise by cable that should resign. Of course will do so if Morgan thinks I should."[47]

45 *Milwaukee Journal*, Jan. 11, 1902.

46 Carnegie to George Lauder, Jan. 28, 1902, Carnegie Papers, vol. 89, #106A.

47 Schwab to George W. Perkins, Jan. 14, 1902, Perkins Papers, Columbia University Library; John A. Garraty, "Charlie Schwab Breaks the Bank," *American Heritage*, VIII (April, 1957), 44–47, 103; Garraty, 97–100.

Perkins' reply ignored the issue of Schwab's resignation. He advised him to issue a vigorous denial which could be circulated to the American press. But Schwab's "explanation" was wholly inadequate, for he could not claim the only fact that would have absolved him: that he had not gambled. The best Schwab could do was to extenuate his behavior by stating that he had wagered for low stakes, that he played casually, never once sitting down, that he had visited Monte Carlo regularly for the past fifteen years because he admired its orchestra, and that on this last notorious occasion his companion was no less a pillar of propriety than Lord Rothschild.

Carnegie's reaction to this disclaimer was concise and accurate—"His denial is no denial."[48] But Schwab believed that his explanation was adequate to quell the tumult, and, not having received word from Perkins that Morgan wished his resignation, he assumed the issue would die down. Upon his arrival in Berlin, Schwab received another stinging letter from Carnegie, who enclosed copies of critical editorials from leading New York papers. To Carnegie, he replied:

> I am heartbroken and leave for home at the earliest available boat. My vacation has been utterly spoiled. The newspaper reports are absurd. Absolutely untrue. Of course, in going to Monte Carlo I invited this attack and will pay the penalty. But it is all absurd and ridiculous. Mr. Morgan must accept my resignation, but he has refused to do so as yet. He finds no fault.[49]

Morgan, then, was in a minority. A legion of critics were busy chronicling Schwab's faults. *The Nation* devoted a full-page editorial to Schwab's alleged shortcomings, declaring that "this is not the sort of man to be in a position of great trust and of vast financial responsibility."[50] Although Schwab remained out of reach of denunciatory editorials and sermons, a steady stream of scolding notes from Carnegie awaited him wherever he went. One reached him in London where Sir Thomas Lipton had presented him at Court to King Edward VII, and he received another in New York when he arrived on February 16, 1902.

48 Carnegie to George Lauder, Jan. 19, 1902, Carnegie Papers, vol. 87, #16685.
49 Schwab to Carnegie, Jan. 26, 1902, *ibid.*, vol. 87, #16689.
50 *The Nation*, Jan. 23, 1902.

In mid-March, Carnegie invited Schwab to come see him. Schwab declined, saying:

I have not as yet been able to muster up sufficient courage to come to see you. Your very severe letters to me and especially your letter to Mr. Morgan has depressed me more than anything that has ever occurred. I cannot see how you could have so fully condemned me without ever giving me a hearing,—no one else did.[51]

Morgan had made light of the whole episode. At their first meeting, in March, 1902, after Schwab's return from Europe, Morgan told him: "forget it, my boy, forget it."[52] Schwab returned at the time that elections were to be held for new officers. If Morgan wished publicly to oust him or privately to ease him out, here was a convenient opportunity. Morgan had no such intention, and when he asked for proxies to re-elect the present officers, there were only three letters critical of Schwab. Two were from ministers, the third from Carnegie, suggesting Schwab's dismissal. "I have been so depressed since my return," Schwab wrote to Carnegie, "that I only forget your condemnation when plunged in work. It is a nightmare from which I never seem to wake. I don't care for the newspaper criticism—I only mind yours."[53]

Schwab was not feigning or exaggerating his reaction. His characteristic response to severe personal criticism from anyone whose good opinion he valued was spells of insomnia, nervous irritability, and weight loss. His characteristic remedy was a vacation at the sea shore or an ocean voyage. Schwab first tried convalescing at a summer cottage in Atlantic City. By the end of July, his condition had not improved. He had a persisting numbness in his legs and arms, and sieges of fainting. His doctors called it a nervous attack of the heart.[54] But it is more likely to have been acute anxiety, an overwhelming sense of hurt and helplessness.

After Atlantic City, Schwab tried the mountain air of his home in Loretto, Pennsylvania. But his condition did not improve. His doctors insisted that he have a total change of environment and

[51] Schwab to Carnegie, Mar. 19, 1902, Carnegie Papers, vol. 88, #16757A.
[52] "The Whipple Notes," 90.
[53] Schwab to Carnegie, Mar. 19, 1902, Carnegie Papers, vol. 88, #16757A.
[54] Schwab to Perkins, July 30, 1902, Perkins Papers, Box 11, file 3.

complete rest, away from reporters and the solicitous inquiries of his friends and colleagues. The place he chose for seclusion was Aix-le-Bain in southern France. He sailed on August 21, 1902, after urging Perkins to deny "the nasty story" in the New York press that he shortly would announce his retirement as President of U.S. Steel.[55]

Schwab sailed to LeHavre and then motored to Paris, en route to Aix-le-Bain. Despite repeated denials issued through his physician, Schwab was reported to be dying. One newspaper, without actually claiming Schwab had died, nevertheless ran his obituary. A Paris newspaper ran a bogus story that Schwab had announced that he wished to give away his wealth before he died. Schwab's Paris hotel literally was surrounded by beggars and fortune seekers, and he was besieged with letters from those who could not come in person to carry off their share of his wealth.[56]

Schwab's condition had not improved by late September. Finding neither seclusion nor serenity in France, Schwab decided to try Italy next. He could promise no date for his return to U.S. Steel, and he therefore had to tell Perkins that "as far as I am concerned any arrangement that will be for the good of 'Steel' will be entirely agreeable to me."[57] No request was made for Schwab's resignation. Months of convalescence had made him restless and, in February, 1903, he decided to return to America the following month, even though he had not fully recovered.[58]

Upon Schwab's arrival home in March, 1903, he faced a new attack on his integrity. He was cast as the villain in a conspiracy to defraud innocent investors. This new crisis had its roots a year earlier, after Schwab's return to America in February, 1902. He had become involved with the United States Shipbuilding Company, a merger of seven shipbuilding firms on the Atlantic and Pacific coasts.[59] The one thing the seven shipyards lacked, individually and

55 Schwab to Perkins, Aug. 16, 1902, *ibid.*

56 *Pittsburgh Dispatch*, Sept. 2, 1902.

57 Schwab to Perkins, Sept. 21, 1902, Perkins Papers, Box 11, file 3.

58 Schwab to Perkins, Feb. 5, 1903, and Perkins to Schwab, Feb. 18, 1903, and Feb. 27, 1903, Perkins Papers, Box 12, file 1.

59 On the background of the United States Shipbuilding Company, see Arthur S. Dewing, *Corporate Promotions and Reorganizations* (Cambridge, Mass., 1914), 464–509; Henry R. Seager and Charles A. Gulick, Jr., *Trust and Corporation Problems* (New York, 1929), 196–215; L. Walter Sammis, "The Relation of Trust Companies to Industrial Combinations as Illus-

collectively, was a realistic prospect of success. Perhaps that was why their owners were keen to consolidate, each firm hoping that somehow its association with the others would make it profitable. It was a perfect illustration of a phenomenon which Andrew Carnegie had described and denounced in 1900:

> Enormous sums are offered for antiquated plants which may not have been able to do more than pay their way for years. These are tied together, and the new industrial [*sic*] makes its appearance as a trust, under the delusion that if a dozen or twenty invalids be tied together vitality will be infused thereby into the mass.[60]

Schwab's involvement with this venture began in May, 1902, when he was contacted by Daniel Leroy Dresser, the chief underwriter of the shipbuilding merger. Dresser thought that Schwab, either as President of U.S. Steel or as a private investor, might wish to purchase some of the bonds of the U.S. Shipbuilding Company. Schwab agreed, seeing a way to benefit both himself and U.S. Steel. After reading the financial prospectus and after being told that the foreign underwriting had been completed, Schwab agreed to purchase $500,000 of bonds as a personal investment, provided that the shipbuilding merger would purchase its steel from U.S. Steel. Dresser agreed to this condition and the deal was consummated.

One month later, on June 12, 1902, Schwab met Dresser and Lewis Nixon, the chief promoter of the merger, while they were lunching in New York. During their brief conversation, the possibility was raised of including the Bethlehem Steel Company in the shipbuilding merger. In June, 1901, less than eight weeks after he had become President of U.S. Steel, Schwab had purchased a controlling interest in Bethlehem Steel as a private investment.[61] Bethlehem had a favorable reputation as a small, well-managed, highly profitable

---

trated by the United States Shipbuilding Company," *Annals of the American Academy of Political and Social Science*, XXIV (1904), 241–270; and Henry W. Lanier, "One Trust and What Became of It," *World's Work*, Feb., 1904, 4445–4457.

60 Andrew Carnegie, "Popular Illusions about Trusts," *Century Magazine*, LX (1900), reprinted in Andrew Carnegie, *The Gospel of Wealth*, edited by Edward C. Kirkland (Cambridge, Mass., 1962), 88.

61 *New York Tribune*, *New York World*, *New York Telegram*, June 8, 1901; editorial, *New York Journal*, June 9, 1901.

firm, specializing in heavy steel forgings for guns and marine engines, as well as producing armor plate used by the Navy to fortify battleships.

At a second meeting with Dresser and Nixon on June 13, Schwab reviewed Bethlehem's balance sheet, pointing out that its earnings in the preceding year had been $1,400,000. Schwab's asking price for Bethlehem Steel was $9,000,000 cash. Although Dresser and Nixon were eager to include Bethlehem in the shipbuilding consolidation, a desperate shortage of cash prevented them from agreeing to Schwab's price.

After negotiation, Schwab accepted their counteroffer: he would receive $10,000,000 in bonds, for which Bethlehem's plant and properties would be the collateral in the event of default, plus $10,000,000 each in preferred and common stock. Thus, instead of $9,000,000 in cash, Schwab was to receive a total of $30,000,000 in securities, a huge profit if the shipbuilding merger proved successful. But even if it failed, Schwab would reacquire Bethlehem.

Schwab capitalized on his strong bargaining position, aiming to safeguard his investment in Bethlehem against any unforeseen difficulties. He insisted upon, and received, a second mortgage on all the properties of the shipbuilding merger, and his bonds were to be given full voting power.[62] In short, Schwab negotiated extremely favorable terms for himself. Even if the shipbuilding merger failed he would lose nothing.

During the next year, from mid-1902 to mid-1903, the shipbuilding trust suffered from acute financial anemia. The profits predicted by Dresser and Nixon failed to materialize. Of all the properties in the merger, only Bethlehem Steel lived up to, and in fact exceeded, its anticipated earnings. The ailing parent company naturally turned to its thriving subsidiary for financial aid, but very little was forthcoming. Schwab controlled the Board of Directors of Bethlehem Steel, which included his attorney, his brother, and his brother-in-law, and he had exercised his right to name three of the seven directors of the parent company.

Schwab's attitude was that he was not responsible for the financial deficiencies of the shipyards. He had taken Nixon and Dresser at their word and had not independently verified the accuracy of the

62 Dewing, 486–487.

financial statements and earnings estimates of the shipyards. He had, however, insisted on safeguards so that his interests would not be vulnerable. When the jerrybuilt structure of the shipbuilding merger became evident, Schwab believed that he was under no obligation to gamble his assets on the dubious prospect of salvaging the merger.

The shipbuilding venture needed two million dollars for working capital and to meet the interest payments on its bonds due on July 1, 1903. Schwab agreed to put up the sum on condition that, in return for the money, his present second-mortgage bonds were to be replaced with new first-mortgage bonds which would give him the primary lien on all the properties of the U.S. Shipbuilding Company. A group of first-mortgage bondholders, who had no intention of seeing Schwab awarded bonds with priority claims over their own, decided to give battle. On June 11, 1903, a suit was filed in the United States Circuit Court in Trenton, New Jersey, asking the Court to appoint a receiver to take over the shipbuilding company's affairs until its finances were put in order.[63] On June 30, the Court ruled that the Shipbuilding Trust was insolvent and a receiver was appointed.[64]

On the same day, the Finance Committee of U.S. Steel elected William E. Corey to the post of Assistant to the President.[65] The reason offered was Schwab's continuing ill-health, but the timing makes that explanation questionable. Corey had been Schwab's unofficial, untitled assistant for several months. Corey's promotion on the day that the Court accused Schwab of "ruinous extortion" in the shipbuilding affair invites skepticism about U.S. Steel's official explanation.

A month later, on August 4, 1903, Schwab formally submitted his resignation as President of U.S. Steel. Once again, the announced reason was Schwab's ill-health. Yet no deterioration in Schwab's health had been noted in the preceding month. Schwab chose to announce his resignation directly to the press, instead of issuing a written statement. He explicitly denied that he was resigning because of his involvement in the shipbuilding merger and its subsequent collapse. Henry Clay Frick and J. P. Morgan, both of whom

63 *New York Herald*, June 12, 1903.

64 *New York Tribune*, July 1, 1903.

65 *New York Evening Post*, July 1, 1903, and *New York Journal of Commerce*, July 4, 1903.

customarily avoided press conferences, joined in to help Schwab save face. Frick claimed that months before Schwab had asked him to obtain his release from the presidency, and Morgan expressed regrets that Schwab's health made his resignation necessary.[66]

The statements of Schwab, Frick, and Morgan are open to question, however, in view of a letter which Schwab had written to the Board of Directors only four months earlier, on April 7: "I believe and hope that my health is sufficiently good to go on with the duties of the Presidency, which of course I am desirous of doing, if it is the Board's pleasure to have me continue."[67]

The immediate cause of Schwab's downfall was the fact that the shipbuilding merger collapse was front-page news. The controversial Steel Corporation could ill-afford to have its President accused of masterminding a conspiracy to fleece the investing public, and of being charged with fraud, misrepresentation, or extortion. Although there was no evidence to substantiate any of these charges against Schwab, U.S. Steel chose to sacrifice him in order to protect itself from unfavorable publicity.

In February, 1904, a negotiated settlement ended the bitter controversy surrounding the shipbuilding merger. A reorganization of the Bethlehem Steel Company was announced, the new entity including all properties of the steel company and all properties of the shipbuilding venture. By agreeing to a reduced percentage of ownership, Schwab ended the litigation against him and was once again free to pursue his career.[68]

Nevertheless, having been President of the world's two largest steel companies, Schwab's new domain, Bethlehem Steel, was clearly a demotion. It was like being deposed as the King of England or the Kaiser to become the ruler of Monaco or Liechtenstein. But to a man of Schwab's driving energy and ambition this setback was not an irreversible defeat. The challenge for the future was to restore himself to his former prominence. Within a decade he succeeded by transforming Bethlehem Steel into the foremost rival of the giant corporation from which he had been ousted.

Columbia University ROBERT HESSEN

66 *Pittsburgh Gazette*, Aug. 5, 1903, and *New York Journal of Commerce*, Aug. 5, 1903.

67 Schwab to Board of Directors of U.S. Steel, Apr. 7, 1903, Perkins Papers, Box 12, file 1.

68 *New York Times*, Feb. 6, 1904. For a fuller account of the shipbuilding merger controversy, see Hessen, "A Biography of Charles M. Schwab," 247–280.